



Loto Interactive Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 8198)

www.lotoie.com

ANNUAL REPORT

2018

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CORPORATE INFORMATION

BOARD OF DIRECTORS

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

Executive Director

* *Non-executive Director*

+ *Independent Non-executive Director*

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPLIANCE OFFICER

Mr. Wang Bingzhong

COMPANY SECRETARY

Ms. Chow Chiu Man, Mandy

AUTHORISED REPRESENTATIVES

Mr. Wang Bingzhong
Ms. Chow Chiu Man, Mandy

REGISTERED OFFICE

P.O. Box 31119
Grand Pavilion, Hibiscus Way
802 West Bay Road
Grand Cayman, KY1-1205
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

50th Floor, Bank of China Tower
1 Garden Road, Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited
Royal Bank House – 3rd Floor
24 Shedden Road, P.O. Box 1586
Grand Cayman, KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
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183 Queen's Road East
Wanchai
Hong Kong

AUDITORS

ZHONGHUI ANDA CPA Limited
Unit 701, 7th Floor, Citicorp Centre
18 Whitfield Road
Causeway Bay
Hong Kong

LEGAL ADVISORS

Lu & Partners LLP in Association with HAIWEN
Unit 1902, 19th Floor
New World Tower
16-18 Queen's Road Central
Central, Hong Kong

PRINCIPAL BANKERS

OCBC Wing Hang Bank Limited
Bank of Communications Co., Ltd.

STOCK CODE

The Stock Exchange of Hong Kong Limited: 8198

WEBSITE

www.lotoie.com

CHAIRMAN'S STATEMENT

TO OUR SHAREHOLDERS

On behalf of the board (the "Board") of directors (the "Directors") of Loto Interactive Limited (the "Company"), I hereby present the results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2018 (the "Year").

In 2018, the Group faced a number of the long-standing economic challenges as well as the backdrop of a reform of the regulatory regime, the Group's revenue decreased by 87.6% to HK\$6.0 million (2017: HK\$48.8 million). Loss attributable to owners of the Company for the Year amounted to HK\$34.1 million as compared with a loss of HK\$17.9 million for the last corresponding year. As at 31 December 2018, the Group had no debt and had cash and bank balances of HK\$198.2 million.

In spite of the uncertain trading and political conditions, we have been exploring ways to nurture innovation as a key to creating new growth momentum. In this regard, we are rigorously strengthening our competitiveness in relation to cutting-edge technology and applications. At the same time, under the highly skilled leadership and resources sharing of 500.com Limited strong and excellent management team, we take our great effort to involve in not only lottery business but also online game business, which was witnessed an obvious growth in the fourth quarter of 2018 and expected to further the growth in the upcoming year.

At the beginning of the year 2019, we have started building a "Big Data Center", set up for providing data analysis, storage services and ancillary administrative and consulting services in Sichuan, China, which was expected to generate more values for the Company. We will continue to pursue investment opportunities which will leverage our corporate expertise in the gaming and entertainment industry and diversity our business beyond our existing business and jurisdictions to support our goal in maximising long-term shareholders' value. We believe that in the near future, we will be able to open up a brand-new world.

IN APPRECIATION

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

Pan Zhengming
Chairman

Hong Kong, 22 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in distribution of mobile gaming and the provision of lottery-related technologies, systems and solutions to two state-run lottery operators in the PRC, namely the China Welfare Lottery Issuance Centre and China Sports Lottery Administration Centre (“CSLA”).

Trading of lottery terminals and parts

We are a distributor of high quality, versatile lottery terminals and parts for CSLA, which is the exclusive sports lottery operator in the PRC. The distribution business is our major revenue generator and contributed approximately 83.9% of the Group’s revenue for the Year (2017: 97.9%).

To get full appreciation of the China lottery market, it has been facing full of challenges since March 2015 when the government took action to strictly prohibit all internet lottery ticket sales activities. Considering changing regulatory environment will unavoidably bring short-term uncertainties, the Group is devoted to business restructure aiming to have a healthier and sustainable market in the long run.

Provision of services and solutions for distribution of lottery products

The Group is also providing system maintenance services and game upgrading technology for the rapid-draw game, “Shi Shi Cai” in the Chongqing Municipality. In response to the notice of prohibition of online lottery sales by the PRC government at the third quarter of 2018, the Group has suspended online sales of “Shi Shi Cai” accordingly, which led to a negative influence on the sales volume.

Distribution of mobile gaming

In line with the leisure and entertainment business layout of the Group’s development strategy, we engaged in the distribution of online mobile games and started to generate revenue from late August. As at the end of the Year, we witnessed a steady increase on a month-on-month basis. The distribution business was accounted for 9.5% of total revenues this current year (2017: Nil).

FINANCIAL REVIEW

The operating segments of the Group engaged are lottery business and online game business. During the Year, the Group recorded revenue of HK\$6.0 million, representing a year-on-year decrease of 87.6% (2017: HK\$48.8 million) and comprising:

(1) Trading of lottery terminals and parts

Revenue generated from trading of lottery terminals and parts for the sports lottery decreased by 89.4% to HK\$5.1 million (2017: HK\$47.8 million).

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

Revenue derived from provision of services and solutions for distribution of lottery products in the Year amounted to HK\$0.4 million, decreased by 60.4% compared to HK\$1.0 million in 2017.

(3) Distribution of mobile gaming

Revenues contributed by mobile gaming started in late August which was a new business for the Year amounted to HK\$0.6 million.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Results

The Group recorded a loss of HK\$34.8 million for the Year, compared to a loss of HK\$18.6 million in 2017, which was mainly attributable to the combined effect of:

- (i) decrease in sales of lottery terminals and parts by approximately 89.4% as compared to the corresponding year due to the sluggish demand from market in Mainland China;
- (ii) increase in share option expenses by HK\$12.4 million. The increase was primarily due to non-cash expenses arising from the share options granted in January 2018;
- (iii) increase in rental expense and decoration expenses of approximately HK\$5.4 million for new office;
- (iv) increase in expenses of HK\$0.7 million for exploring, preparing, setting up and operating new businesses of the Group; and
- (v) increase in interest income of loan receivable granted to a third party amounted to HK\$4.4 million.

MATERIAL ACQUISITION AND DISPOSAL OF INVESTMENTS

Investment in Financial Instruments

Equity investment at fair value through other comprehensive income

The Group's investment in financial instruments is mainly about a private equity fund through Sino Global Investment SPC namely NetGame Fund ("NetGame") with invested amount of HK\$10.0 million. The purpose of Investment in Financial Instruments, which is managed on a fair value basis, is for capital appreciation. Since the Group has adopted the HKFRS 9 effective for annual periods beginning since 1 January 2018, the Group's investments in financial instruments is classified as equity investment at fair value through other comprehensive income.

NetGame

This investment is principally committed to engage in investment of high-tech companies with great quality and potential growth. As of 31 December 2018, the total fair value of this equity investment was HK\$10.1 million and no impairment was detected.

MANAGEMENT DISCUSSION AND ANALYSIS

Investments in Associates

	2018 HK\$'000	2017 HK\$'000
Unlisted investments		
Share of net assets	5,813	–
Goodwill	7,146	–
	12,959	–

Particulars of new acquisitions of associates of the reporting period are as follows:

Company name	Place of incorporation/ registration	Percentage of equity interests attributable to the Company		Principal activities
		2018	2017	
Guangzhou Sentai Information Technology Co., Ltd. (“Guangzhou Sentai”)	PRC	20%	–	Self-media
Shenzhen BlueTech Network Technology Co., Ltd. (“BlueTech Network”)	PRC	19.11%	–	Developing mobile games

On August 2018, the Company, entered into an investment agreement with invested amount of RMB5.0 million in the registered capital of Guangzhou Sentai in exchange of 20% equity interests after completion of the subscription. Guangzhou Sentai is a company mainly engaged in operating a self-media called 世鏈財經 (www.shilian.com) providing updated blockchain information.

On May 2018, the Company acquired 19.11% of the share capital of BlueTech Network with invested amount of approximately RMB7.0 million. BlueTech Network mainly focused on the online gaming operation and development.

Other than as outlined above, the Group had no material acquisition and disposal of investment during the Year.

Loan Receivable

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

In the opinion of the directors, as at 31 December 2018, the fair value of the collateral approximated to HK\$142,170,000 (2017: HK\$185,505,000). The Group seeks to maintain strict monitoring over the loan receivable and the financial performance of the Borrower. Overdue balances will be regularly reviewed by senior management.

Structured Notes

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

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

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

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group continues to manage its balance sheet carefully and maintains conservative policies in cash and financial management. As at 31 December 2018, the Group's cash and bank balances (including bank deposits with original maturity over three months) amounted to HK\$198.2 million (2017: HK\$208.1 million), representing a decrease of HK\$9.9 million from last year. Of the cash and cash equivalents as at 31 December 2018, 91% (2017: 87%) was denominated in Hong Kong dollars, with the remaining balance in Renminbi and United States dollars.

The decrease in cash and bank balances was mainly due to: i) the investments in associates and equity investment amounted HK\$23.4 million; ii) purchase of property, plant and equipment approximately HK\$6.5 million; iii) research and development expense of mobile gaming amounted HK\$5.9 million; iv) rental expense of HK\$4.3 million; and v) the cash received by withdrawal of structured notes amounted HK\$50.0 million in the Year.

MANAGEMENT DISCUSSION AND ANALYSIS

As stated in 2018 interim report and 2018 third quarterly report of the Company, the Group continues to explore new business models in the lottery terminal markets, online game operating, technologies and applications which will leverage on our corporate expertise in the gaming and entertainment industry and diversify our business. If any of these potential projects materialises, the Company will make announcement(s) in accordance with the requirement under the GEM Listing Rules where necessary or appropriate.

The Group had no bank borrowings in 2018 (2017: Nil) and generally financed its operations with internal resources.

As at 31 December 2018, the Group's current assets exceeded its current liabilities by HK\$341.6 million (2017: HK\$248.7 million). The Group had a capital surplus of HK\$371.1 million as at 31 December 2018 (2017: HK\$395.0 million).

The gearing ratio of the Group (total borrowings divided by shareholders' funds) was nil as at 31 December 2018 (2017: Nil).

OUTLOOK

Our sales of lottery terminals and parts has decreased significantly due to the sluggish demand from market in Mainland China. We believe that the China lottery market is likely to demand new and more sophisticated hardware solutions over time and that those solutions will increasingly be deployed as a package service including the provision of lottery terminals as well as data maintenance and system support services. We have made an attempt to cooperate with 500.com Limited through a cooperation agreement entered into on 3 August 2018 as announced on the same day. This cooperation has not been fully utilized due to the uncertainties in the reform of the regulatory regime. Nevertheless, the Company will closely monitor the market condition and any development in the regulatory framework and will be proactive in seeking new opportunity to provide innovative services to the China lottery market participants while shift away from the existing low margin lottery terminals trading business. The Group cannot rule out the possibilities of ceasing to trade the approved lottery vending machines or the business related to CSLA in the future.

At the beginning of the year 2019, we have commenced building a "Big Data Center" for providing data analysis, storage services and ancillary administrative and consulting services in Sichuan, China, which is expected to start operation since late March in 2019. The Group is reviewing and assessing its internal resources and business network and will continue to explore new business opportunities for leveraging our core experience and corporate resources. We believe that it is in the interests of the Group and our shareholders to diversify into new business areas and jurisdictions within the ambit of gaming and entertainment so as to achieve our goal of maximising long-term shareholders' value.

CHARGES ON GROUP ASSETS

None of the Group's assets were pledged as of 31 December 2018 and 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

As at 31 December 2018, all assets and liabilities of the Group were denominated in Hong Kong dollars, Renminbi and United States dollars. For the year ended 31 December 2018, the business activities of the Group were mainly denominated in Hong Kong dollars and Renminbi. Since the impact to foreign exchange exposure has been insignificant, no hedging or other alternatives have been implemented.

STAFF AND REMUNERATION POLICY

As at 31 December 2018, the Group had a total of 27 full-time employees (2017: 11 full-time employees). For the year ended 31 December 2018, the Directors received total emoluments of approximately HK\$11.6 million (2017: HK\$11.1 million), including non-cash share-based payments to Directors of HK\$6.9 million in 2018 (2017: HK\$0.1 million). The Group continues to provide remuneration packages to employees that are in line with market practices and past performance. The Group also provides employee benefits such as mandatory provident fund, medical insurance, staff training programs and share option schemes.

CAPITAL COMMITMENT AND CONTINGENT LIABILITIES

As at 31 December 2018 and 2017, the Group's capital commitments are as follows:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Property, plant and equipment		
Contracted, but not provided for	22,060	–
Contracted contribution to subsidiaries	11,413	–
	33,473	–

As at 31 December 2018 and 2017, the Group did not have any significant contingent liabilities.

IMPORTANT EVENTS AFTER THE FINANCIAL YEAR

As disclosed in the announcement of the Company dated 5 March 2019, the Company, through Chengdu Keying Information Technology Co., Ltd ("Chengdu Keying"), a wholly-owned subsidiary of the Company, has started building the Big Data Centre in relation to the provision of data analysis and storage services and ancillary administrative and consulting services. Due to the demand for electricity resources by the Big Data Centre during its daily operation, Chengdu Keying intended to obtain a stable source of electricity supply at a reasonable cost from local utility service suppliers through qualified distributors. Revenue is expected to be generated in the first quarter of 2019 when the Big Data Centre functions effectively.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

Mr. Pan Zhengming

Chairman and Non-executive Director

Mr. Pan, aged 41, was appointed as the chairman of the Company and a non-executive Director on 10 July 2017. He is also the chairman of the nomination committee of the Company. Mr. Pan is currently the chief executive officer and a director of 500.com Limited (NYSE stock code: WBAL), a company listed on the New York Stock Exchange and the holding company of the Company. Mr. Pan was the president of 500.com Limited from September 2014 to May 2015 and the chief financial officer of 500.com Limited from April 2011 to August 2014. Prior to that, Mr. Pan served as vice president of Deutsche Bank AG, Hong Kong Branch from 2007 to April 2011 and an attorney at Simpson Thacher & Bartlett LLP from 2003 to 2007. Mr. Pan received a master of laws as well as a juris doctor degree from Columbia University in 2001 and 2003, respectively, and a master of laws from the University of Edinburgh in 1999.

Mr. Wang Bingzhong

Chief Executive Officer and Executive Director

Mr. Wang, aged 35, was appointed as an executive Director on 19 June 2017. He was subsequently appointed as chief executive officer, compliance officer and authorised representative of the Company on 10 July 2017. He is also a director of certain subsidiaries of the Company. Mr. Wang was a director of Dragon Investment Advisory Company Limited, a private equity fund, from September 2016 to March 2017. Mr. Wang served as an associate director of CCB International (Holdings) Limited, and a director of CCBI Overseas Holdings Limited in 2016. Prior to that, Mr. Wang was a director of A-TEST Compliance Services (Beijing) Co., Ltd. (奧測世紀(北京)技術股份有限公司) (NEEQ stock code: 830873), a company listed on the National Equities Exchange and Quotations Co. Ltd. (全國中小企業股份轉讓系統), from December 2013 to March 2015. Mr. Wang received a master of business administration from the Hong Kong University of Science and Technology in 2013 as well as a bachelor's degree in computer science and technology from Nanjing University in 2005.

Ms. Huang Lilan

Executive Director/Chief Financial Officer

Ms. Huang, aged 36, was appointed as an executive Director on 23 March 2018 and the chief financial officer of the Company on 6 June 2017. She is also a director of certain subsidiaries of the Company. Ms. Huang has more than a decades' experience in accounting, auditing, taxation and financial management. Prior to joining the Company, Ms. Huang served as the financial director of a subsidiary of 500.com Limited since 2011. Ms. Huang also served as senior auditor at Ernst & Young from 2006 to 2011. She received a bachelor's degree in business and finance from the University of International Business and Economics in 2005 and has been professionally certified by the Institute of Management Accountants.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Yuan Qiang

Non-executive Director

Mr. Yuan, aged 45, was appointed as a non-executive Director on 2 January 2018. He is also a member of both the audit committee and remuneration committee of the Company. He is currently the chief financial officer of 500.com Limited. Mr. Yuan was the senior vice president of finance of 500.com Limited from July 2016 to December 2017, the vice president of finance of 500.com Limited from June 2014 to July 2016 and the financial director of 500.com Limited from March 2013 to June 2014. Mr. Yuan served as the financial manager of a subsidiary of 500.com Limited from January 2001 to March 2013. Mr. Yuan has more than 15 years of experience in accounting, financial control, corporate finance and mergers & acquisitions. Mr. Yuan obtained a bachelor's degree in financial management from Zhongnan University of Finance and Economics.

Dr. Lu Haitian

Independent Non-executive Director

Dr. Lu, aged 39, was appointed as an independent non-executive Director on 10 July 2017. He is also a member of both the audit committee and nomination committee of the Company. Dr. Lu is currently a professor in law and the associate dean of the Faculty of Business at the Hong Kong Polytechnic University. He served at the School of Accounting and Finance first as a visiting lecturer in law from September 2005 to June 2007 and later as an assistant professor and associate professor in law from June 2007 to June 2018. Dr. Lu obtained a bachelor of laws from Nanjing University in 2001, a master of laws from the University of Liverpool in 2002, and a Ph.D. in law from the National University of Singapore in 2007. Dr. Lu is currently an independent non-executive director of K. H. Group Holdings Limited (stock code: 1557), a company listed on the Main Board of The Stock Exchange of Hong Kong Limited.

Mr. Lin Sen

Independent Non-executive Director

Mr. Lin, aged 42, was appointed as an independent non-executive Director on 10 July 2017. He is also the chairman of the audit committee and a member of the remuneration committee of the Company. Mr. Lin is currently the chief financial officer of 7Road Holdings Limited (第七大道控股有限公司) (stock code: 797), a company listed on the Main Board of The Stock Exchange of Hong Kong Limited. From November 2006 to January 2017, Mr. Lin served as the chief financial officer of Palm Commerce Information Technology (China) Co., Ltd. (掌信彩通信息科技(中國)有限公司) ("Palm Commerce"), which is a lottery service provider in the PRC. Palm Commerce is currently a subsidiary of Telling Telecommunication Holding Co., Ltd. (天音通信控股股份有限公司) (SHE stock code: 000829), a company listed on the Shenzhen Stock Exchange. From February 2001 to July 2006, Mr. Lin served as manager of PricewaterhouseCoopers International Limited. Mr. Lin obtained a bachelor's degree in international business administration from Central University of Finance and Economics (中央財經大學) in 1998 and an executive MBA from China Europe International Business School (中歐國際工商管理學院) in 2011. In 2010, Mr. Lin became a registered accountant in the PRC.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Yan Hao

Independent Non-executive Director

Mr. Yan, aged 40, was appointed as an independent non-executive Director on 10 July 2017. He is also the chairman of the remuneration committee and a member of the nomination committee of the Company. Mr. Yan is currently a lawyer of Junzejun Law Offices. Mr. Yan currently serves as an arbitrator for the World Intellectual Property Organization, the Hong Kong International Arbitration Centre, the Shenzhen Court of International Arbitration, and the Guangzhou Arbitration Commission, respectively, as well as a panellist of the Asian Domain Name Dispute Resolution Centre. Mr. Yan obtained a bachelor of laws from Wuhan University in 2001, a master of laws from the University of Hong Kong in 2003 and a master of laws from Stanford University in 2016. Mr. Yan is qualified to practice law in the PRC and is also a registered foreign lawyer in Hong Kong.

SENIOR MANAGEMENT

Ms. Huang Lilan

Chief Financial Officer

(Please refer to the profile details in above section)

Ms. Chow Chiu Man, Mandy

Company Secretary

Ms. Chow, aged 42, joined the Group in September 2004. She was appointed as the company secretary and authorised representative of the Company on 10 July 2017. She has over 15 years of experience in company secretarial affairs. Ms. Chow is an associate member of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom. She holds a bachelor of business degree from Monash University and a master degree in corporate governance from The Hong Kong Polytechnic University.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Company recognises the importance of good corporate governance to safeguard the interest of the Company's shareholders (the "Shareholders") and achieved these by an effective board, segregation of duties with clear accountability, sound internal controls, appropriate risk assessment procedures and transparency to all the Shareholders. Throughout the year ended 31 December 2018 (the "Year"), the Company complied with all the Code Provisions of the Corporate Governance Code (the "CG Code") set out in Appendix 15 to the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"), save for the following:

The code provision C.1.2 of the CG Code requires that management should provide all members of the board of directors with monthly updates to enable the board as a whole and each director to discharge their duties. Although the management of the Company did not provide a regular monthly update to the members of the board of directors of the Company (the "Board"), the management provided to the Board quarterly updates on financial information and has based on business situation, provided updated business information to the Board as and when appropriate.

The Board will continue to review and monitor the corporate governance practices of the Company to ensure compliance with the CG Code and maintain high standard of corporate governance practices.

BOARD OF DIRECTORS

Composition of the Board

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

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

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

Executive Director

* *Non-executive Director*

+ *Independent non-executive Director*

The biographical details of the Directors are disclosed under the section headed "Biographical Details of Directors and Senior Management" of this annual report. An updated list of the Directors and their roles and functions is available on the websites of the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

CORPORATE GOVERNANCE REPORT

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

2 January 2018	Mr. Yu Min resigned as a non-executive Director and accordingly ceased to be a member of the Audit Committee and a member of the Remuneration Committee
2 January 2018	Mr. Yuan Qiang was appointed as a non-executive Director, a member of the Audit Committee and a member of the Remuneration Committee
23 March 2018	Mr. Wu Jian resigned as an executive Director
23 March 2018	Ms. Huang Lilan was appointed as an executive Director

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

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

Independent non-executive Directors are identified in all corporate communications containing the names of the Directors.

To the best knowledge of the Directors, there is no financial, business, family or other material or relevant relationships between each Board member. All of them are free to exercise their independent judgment.

Roles and Responsibilities of the Board

The Company is headed by the Board which is responsible for the leadership, control and promotion of success of the Group in the interest of the Shareholders by directing and supervising its affairs and by formulating strategic directions and monitoring the financial and management performance of the Group.

Chairman and Chief Executive Officer

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

CORPORATE GOVERNANCE REPORT

Appointments and Re-election of Directors

All Directors have formal letters of appointment with the Company, which set out the key terms of their appointment. Each executive Director was appointed for a term of three years while each non-executive Director and independent non-executive Director was appointed for a term of two years from the date of appointment. The term of appointment of each Director is subject to retirement by rotation and re-election at each annual general meeting in accordance with the articles of association of the Company (the "Articles") and the GEM Listing Rules.

According to the Articles, one-third of all Directors (whether Executive or Non-executive) is subject to retirement by rotation and re-election at each annual general meeting provided that every Director shall be subject to retirement at least once every three years. A retiring Director is eligible for re-election and continues to act as a Director throughout the meeting at which he/she retires. Any new director appointed by the Board to fill a casual vacancy shall submit himself/herself for re-election by shareholders at the first general meeting and any new director appointed by the Board as an addition to the Board shall submit himself/herself for re-election by shareholders at the following annual general meeting.

In accordance with the Articles, Mr. Pan Zhengming, Mr. Lin Sen and Mr. Yan Hao shall retire by rotation at the 2019 annual general meeting of the Company. The above retiring Directors, being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company. The Board and the Nomination Committee recommend their re-appointments. The biographies of the retiring Directors proposed to be re-elected at the annual general meeting are set out in the circular sent with this annual report to provide information to shareholders to decide on their re-elections.

Board Diversity Policy

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

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

Nomination policy

The Board adopted a nomination policy (the "Nomination Policy") to identify and evaluate a candidate for nomination to the Board for appointment or to the Shareholders for election as a Director. The nomination committee of the Company shall consider, among others, the following criteria in evaluating and selecting candidates for directorships:

- (a) diversity in all its aspects, including but not limited to skills, knowledge, gender, age, ethnicity, cultural and educational background, professional experience and other personal qualities of the candidate;
- (b) ability to exercise sound business judgment and possess proven achievement and experience in directorship including effective oversight of and guidance to management;

CORPORATE GOVERNANCE REPORT

- (c) commitment of the candidate to devote sufficient time for the proper discharge of the duties of a Director. In this regard, the number and nature of offices held by the candidate in public companies or organisations, and other executive appointments or significant commitments will be considered;
- (d) potential/actual conflicts of interest that may arise if the candidate is selected;
- (e) independence of the independent non-executive director candidates must satisfy the independence requirements under the GEM Listing Rules; and
- (f) in the case of a proposed re-appointment of an independent non-executive director, the number of years he/she has already served.

Each proposed new appointment, election or re-election of a director shall be assessed and/or considered against the criteria and qualifications set out in the Nomination Policy by the Nomination Committee which shall recommend its views to the Board and/or the Shareholders for consideration and determination.

The Board will from time to time review the Nomination Policy and monitor its implementation to ensure its continued effectiveness and compliance with regulatory requirements and good corporate governance practice.

Securities Dealings by Directors and Employees

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

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

Directors' Induction and Continuing Professional Development

Each newly appointed Director is provided with necessary induction and information to ensure that he/she has a proper understanding of the Company's operations and businesses as well as his/her responsibilities under relevant statutes, laws, rules and regulations. The company secretary of the Company (the "Company Secretary") from time to time provides the Directors with updates on latest development and changes in the GEM Listing Rules and other relevant legal and regulatory requirements.

The Company encourages all Directors to participate in continuous professional development to develop and refresh their knowledge and skill. During the Year and up to the date of this report, all Directors have provided their records of training they received to the Company for record and a summary of which is set out on page 20 of this report.

CORPORATE GOVERNANCE REPORT

Board Meetings

The Board met four times during the year ended 31 December 2018. In addition, the chairman of the Board met with the non-executive Directors once without the presence of the executive Directors during the Year.

The Board meets regularly over the Company's affairs and operations. At the Board meetings, the Directors considered and approved the financial results and budget, discussed the overall strategy as well as the operation and financial performance of the Group. The Directors either participated in the Board meetings in person, by phone or through other means of electronic communication in accordance with the Company's Articles. At least 14 days' notice of the meetings was given. Meeting agenda and accompanying Board papers were provided to all Directors in advance of every regular Board meeting. With the full support of the management of the Company, such Board papers and materials are provided in a timely manner and in a form and quality sufficient with appropriate explanation to enable the Board to prepare for the meetings and keep the Directors apprised of the latest developments and financial position of the Group.

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

The minutes of Board meetings record the matters discussed and decisions resolved at Board meetings. The minutes would be sent to all Directors within reasonable time after each meeting. The company secretary keeps full records of the meetings in accordance with applicable laws and regulations.

The Company has arranged appropriate insurance cover in respect of potential legal actions against its Directors and officers. The coverage and the amount insured are reviewed annually by the Company. In 2018, no claims under the insurance policy were made.

DELEGATION BY THE BOARD

Management Functions

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

Management, under the leadership of the Chief Executive Officer, is responsible for the day-to-day management of the Group's businesses and the implementation of the strategies and policies as determined by the Board.

Where the Board delegates aspects of its management and administrative functions to the management, it gives clear directions as to the powers of management and periodically reviews the delegations to the management to ensure that they are appropriate and continue to be beneficial to the Group as a whole.

CORPORATE GOVERNANCE REPORT

Board Committees and Corporate Governance Functions

The Board has established three Board Committees to oversee various aspects of the Group's affairs: the Audit Committee, the Nomination Committee and the Remuneration Committee. The Board Committees are governed by their respective terms of reference which clearly defined their authorities and duties and are provided with sufficient resources to discharge their duties. The chairmen of the Board Committees report regularly to the Board their work, findings and recommendations. The terms of reference of the Audit Committee, the Nomination Committee and the Remuneration Committee are available on the websites of the Company and the Stock Exchange. Chairmen and members of the committees are set out on page 2 of this annual report.

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

(1) Audit Committee

The Audit Committee currently comprises one non-executive Director, namely Mr. Yuan Qiang, two independent non-executive Directors, namely Dr. Lu Haitian and Mr. Lin Sen and is chaired by Mr. Lin Sen who has substantial accounting and related financial management expertise. The Audit Committee is responsible for (i) monitoring and reviewing the effectiveness of the Group's financial reporting system and, risk management and internal control systems; (ii) reviewing the Group's financial information; and (iii) overseeing the relationship with the auditor of the Company.

During the Year, the Audit Committee held four meetings and its major tasks performed were:

- Reviewed the Group's financial results and reports on a quarterly basis;
- Reviewed the approach and methodology applied with respect to the key audit matters included in the year end auditor's report;
- Reviewed the continuing connected transactions of the Group;
- Reviewed and approved the external auditors' audit services and non-audit services fees;
- Recommended to the Board on the re-appointment of former external auditor and the appointment of new external auditor;
- Reviewed the effectiveness of the risk management and internal control systems;
- Reviewed the adequacy of the resources, staff qualifications and experience, training programmes and budget of the Group's accounting, financial reporting and internal audit functions;
- Reviewed and approved the internal audit plans; and
- Reviewed the adequacy and effectiveness of the risk management and internal control systems.

None of the members of the Audit Committee is a former or existing partner of the Company's existing auditor. There was no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of the external auditors.

CORPORATE GOVERNANCE REPORT

(2) Remuneration Committee

The Remuneration Committee currently comprises one non-executive Director, namely Mr. Yuan Qiang and two independent non-executive Directors, namely Mr. Yan Hao and Mr. Lin Sen, and is chaired by Mr. Yan Hao. A majority of the members of the Remuneration Committee consists of independent non-executive Directors. The Remuneration Committee is responsible for (i) reviewing the remuneration packages of the executive Directors and senior management; (ii) making recommendations to the Board on the Directors' fee structure; and (iii) reviewing and approving compensation-related issues.

During the Year, the Remuneration Committee held one meeting and its major tasks performed were:

- Approved the proposal on discretionary bonus distribution to the management and employees of the Group; and
- Reviewed and approved the remuneration of Directors.

Details of remuneration of the Directors, chief executive and senior management are set out in notes 9 and 33(b) to the consolidated financial statements.

(3) Nomination Committee

The Nomination Committee currently comprises one non-executive Director, namely Mr. Pan Zhengming and two independent non-executive Directors, namely Dr. Lu Haitian and Mr. Yan Hao, and is chaired by Mr. Pan Zhengming. The Nomination Committee is responsible for (i) reviewing the structure, size and composition of the Board; (ii) assessing the suitability and qualification of any proposed director candidate; (iii) assessing the independence of the Independent Non-executive Directors; (iv) making recommendation to the Board on the appointment or re-appointment of Directors; and (v) monitoring and reviewing the implementation of the Board Diversity Policy.

During the Year, the Nomination Committee held one meeting and its major tasks performed were:

- Reviewed the structure, size, composition and diversity of the Board;
- Assessed and reviewed the independence of independent non-executive Directors;
- recommended to the Board on the re-election of retiring Directors at the annual general meeting; and
- Recommended to the Board on the appointment of Directors.

Corporate Governance Functions

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

CORPORATE GOVERNANCE REPORT

2018 BOARD AND COMMITTEE ATTENDANCE AND TRAINING RECORDS

The attendance of the Directors at the annual general meeting, extraordinary general meeting, Board meetings, and Board Committee meetings of the Company and training for the Year was as follows:

	Attendance/Number of Meeting(s) held during the respective term of services (Note)						Type of Training
	Board	Audit Committee	Nomination Committee	Remuneration Committee	Annual General Meeting	Extraordinary General Meeting	
Directors							
Mr. Pan Zhengming*	4/4		1/1		1/1	1/1	(A)
Mr. Wang Bingzhong†	4/4				1/1	1/1	(A)
Ms. Huang Lilan#	3/3				1/1	1/1	(A)
Mr. Yuan Qiang*	4/4	4/4		1/1	1/1	1/1	(A)
Dr. Lu Haitian†	4/4	4/4	1/1		1/1	1/1	(A)
Mr. Lin Sen†	4/4	4/4		1/1	1/1	1/1	(A)
Mr. Yan Hao†	4/4		1/1	1/1	1/1	1/1	(A)
Directors resigned during the year							
Mr. Wu Jian	1/1				n/a	n/a	(A)
Mr. Yu Min	n/a	n/a		n/a	n/a	n/a	(A)
Number of meetings held in 2018							
	4	4	1	1	1	1	

Executive Director

* Non-executive Director

† Independent non-executive Director

Note: Directors may attend meetings in person, by phone or through other means of electronic communication in according with the Company's Articles.

(A) Attending seminar or briefings/perusal of materials in relation to business or Directors' duties.

COMPANY SECRETARY

The Company Secretary, Ms. Chow Chiu Man, Mandy, supports the Board and Board committees by ensuring good information flow within the Board and that the Board's policy and procedures and all applicable rules and regulations are followed. The Company Secretary is responsible for advising the Board on corporate governance matters and facilitating the induction and continuous professional development of Directors. During the Year, the Company Secretary undertook not less than 15 hours of relevant professional training to update her skills and knowledge. Her biography is set out in this annual report under the section headed "Biographical Details of Directors and Senior Management".

CORPORATE GOVERNANCE REPORT

ACCOUNTABILITY AND AUDIT

Financial Reporting

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

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

The statement of the auditors of the Company about its responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditor's Report on pages 53 to 55.

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

Risk Management and Internal Control

Responsibility

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

The Board acknowledges its responsibility for establishing and maintaining sound systems of internal control and risk management on an ongoing basis to safeguard the shareholders' investment and the Group's assets. The controls built into the risk management system are intended to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

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

The Board has, through the Audit Committee, conducted review of the effectiveness of the risk management and internal control systems of the Group for the Year with the assistance of an external independent consultant.

CORPORATE GOVERNANCE REPORT

Risk Management and Internal Control

Risk management

The risk management policy provides a risk assessment framework to identify and evaluate the material business risk, operational risk, financial risk and compliance risk. The Group is committed to the identification, evaluating, and management of risks associated with its business activities through ongoing assessment of a risk register, by considering the likelihood and impact of each identified risk. For any newly identified significant risks, the Group will evaluate its financial or operational impacts to the Group and adopt mitigation measures to manage such risks. A risk assessment report have been reported to the Audit Committee and reviewed by the Board, which facilitates the Board in considering the changes in the nature and extent of significant risks, the Group's ability respond to changes in its business and the external environment, as well as management's ongoing monitoring of risks.

Internal Control

The Group's internal control system is designed to safeguard assets against misappropriation and unauthorised disposition and to manage operational risks. Review of the Group's internal controls covers major financial, operational and compliance controls. An internal control review report including the examination results of the review works covering areas such as corporate governance, finance, operations and compliance, with recommendations on the control weaknesses of the Group was duly reported to the Audit Committee and the Board for their assessment of the internal control effectiveness of the Group. For any identified control weaknesses, appropriate actions will be taken in a timely manner. All remedial actions will be regularly followed up when necessary to ensure the material control weaknesses have been duly addressed.

The Board considers that the risk management and internal control systems are effective and adequate and that the Group has complied with the code provisions relating to risk management and internal control of the CG Code.

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

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

CORPORATE GOVERNANCE REPORT

Audit Committee Supervision

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

The Board, through the Audit Committee, has conducted a review of the effectiveness of the Group's risk management and internal control systems for 2018 covering all material financial, operational and compliance controls and risk management functions, and considers that the systems are adequate and effective. The Board, through the Audit Committee, has also reviewed the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and final reporting functions and considers that they are adequate.

Auditors' Remuneration

The Company appointed ZHONGHUI ANDA CPA Limited as auditors of the Company with effect from 1 February 2019. For the Year, the remuneration paid or payable to ZHONGHUI ANDA CPA Limited and its affiliate companies in respect of audit and non-audit services provided is set out below:

Services rendered	Remuneration paid/payable
	HK\$'000
Audit services	600
Non-audit services (Note)	130
	730

Note: The non-audit services included the internal control review, risk assessment and other services

Compliance Officer

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

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS

Procedures for Shareholders to Convene an Extraordinary General Meeting

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

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

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

Procedures for Putting Forward Proposal at General Meetings

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

Right to Put Enquiries to the Board

Shareholders have a right to put enquiries to the Board. All enquiries should be in writing and sent to the Company Secretary at 50th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong or by email to info@lotoie.com.

Procedures for Nomination of Directors for Election

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

CORPORATE GOVERNANCE REPORT

COMMUNICATION WITH SHAREHOLDERS

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

The Chairman, Board Committees’ chairmen (or their delegates) and the Company’s auditor attended the 2018 AGM and were on hand to answer questions.

The Company Secretary responds to letters, emails and telephone enquiries from shareholders/investors. Shareholders and investors may contact the Company by email to info@lotoie.com or by mail to the Company Secretary at 50th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong. The website of the Company at www.lotoie.com also provides a medium to make information of the Group available to shareholders.

DIVIDEND POLICY

The Company seeks to maintain a balance between meeting shareholders’ expectations and prudent capital management with a sustainable dividend policy. The Company’s dividend policy aims to allow shareholders to participate in the Company’s profit and for the Company to retain adequate reserves for future growth. In proposing any dividend payout, the Company would consider various factors including the Company and the Group’s actual and expected financial performance, general economic and financial conditions, business cycle of the Group and other internal or external factors that may have an impact on the business or financial performance and position of the Company; and the Company’s future expansion plan.

CONSTITUTIONAL DOCUMENTS

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

REPORT OF THE DIRECTORS

The directors (the “Directors”) of the Company present their report and the audited consolidated financial statements of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 December 2018 (the “Year”).

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company acts as an investment holding company. The activities of its principal subsidiaries, associates and joint ventures are set out in notes 15, 16 and 17 respectively to the consolidated financial statements.

Further discussion and analysis of these activities as required by Schedule 5 to the Companies Ordinance, including a fair review of the Group’s business, an indication of likely future development in the Group’s business as well as particulars of important events affecting the Group that have occurred since the end of the Year can be found in the “Chairman’s Statement” and the “Management Discussion and Analysis” set out on page 3 and pages 4 to 9 respectively of this annual report. An analysis of the Group’s performance during the Year using financial key performance indicators is set out in the Group’s Five-year Financial Summary on page 120 of this annual report. A description of the principal risks and uncertainties facing the Group, discussions on the Group’s environmental policies and performance, the compliance with the relevant laws and regulations that have a significant impact on the Group and the account of the Group’s key relationships with its employees, suppliers and customers are set out in the sections headed “Key Risks and Uncertainties”, “Environmental Policies and Performance”, “Compliance with the Relevant Laws and Regulations” and “Relationships with Employees, Suppliers and Customers” on pages 26 to 30. The above discussions form part of the business review as contained in this report of the Directors.

KEY RISKS AND UNCERTAINTIES

Risk relating to reliance on a major customer and major supplier

The Group’s largest supplier, namely Wu Sheng Computer Technology (Shanghai) Co., Ltd. (伍盛計算機科技(上海)有限公司) (“Wu Sheng”), accounted for 53% (2017: 100%) of the Group’s total purchases; and (ii) the Group’s largest customer, Intradak accounted for 84% (2017: 50%) of the Group’s total revenue. This gives rise to a risk that the Group is heavily reliant on a major customer and major suppliers. However, due to the particular characteristics of the lottery industry in the PRC, it may not be commercially practicable to switch the Group’s major suppliers and customer prior to the commencement of the next procurement cycle.

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

REPORT OF THE DIRECTORS

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

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

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

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

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

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

REPORT OF THE DIRECTORS

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

(i) *Customer*

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

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

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

(b) *Credit terms granted to the major customer*

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

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

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

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

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

The Board, supported by the audit committee, is directly responsible for risk management of the Group to oversee and assess the level of risk associated with the reliance on the major customer. The risk management policy provides a risk assessment framework to identify and evaluate significant business, operational, financial and compliance risks. During the Year, based on the reviews performed by the management, comments from the audit committee and recommendations from risk management advisor, certain identified risks cover areas such as finance, governance, operations and compliance as well as strategic and planning risks are considered to be in line with the Company’s overall risk appetite and business objectives.

REPORT OF THE DIRECTORS

(ii) Suppliers

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

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

(b) Credit terms granted by the major supplier

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

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

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

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

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

The Board, supported by the audit committee, is directly responsible for risk management of the Group and will oversee and assess the level of risk associated with the reliance on the major supplier. The risk management policy provides a risk assessment framework for the Group to identify and evaluate significant business, operational, financial and compliance risks. During the Year, based on the reviews performed by the management, comments from the audit committee and recommendations from risk management advisor, certain identified risks cover areas such as finance, governance, operations and compliance as well as strategic and planning risks are considered to be in line with the Company's overall risk appetite and business objectives.

The Group is reviewing and assessing its internal resources and business network and will continue to explore new business opportunities for leveraging our core experience and corporate resources. We believe that it is in the interests of the Group and our shareholders to diversify into new business areas and jurisdictions within the ambit of gaming and entertainment so as to achieve our goal of maximising long-term shareholders' value. The Group cannot rule out the possibilities of ceasing to trade Approved LVMs or the business related to CSLA in the future. At the beginning of the year 2019, the Group has commenced building a "Big Data Center" for providing data analysis, storage services and ancillary administrative and consulting services in Sichuan, China, which is expected to start operation since late March in 2019.

REPORT OF THE DIRECTORS

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group recognises the importance of environmental sustainability against modern ecological challenges. The Group strives to minimise its impact on the environment by saving electricity and encouraging recycling of office supplies and other materials. During the Year, the Group has not been the subject of any environmental claims, lawsuits, penalties or disciplinary actions.

More information are provided in the Environmental, Social and Governance Report on pages 43 to 52.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

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

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

RELATIONSHIPS WITH EMPLOYEES, SUPPLIERS AND CUSTOMERS

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

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

RESULTS AND DIVIDENDS

The results of the Group for the Year are set out in the consolidated statement of profit or loss and other comprehensive income on page 56 of this annual report.

The Directors do not recommend the payment of a final dividend for the Year (2017: Nil).

REPORT OF THE DIRECTORS

CLOSURE OF REGISTER OF MEMBERS FOR ANNUAL GENERAL MEETING

The annual general meeting of the Company is scheduled to be held on Tuesday, 7 May 2019. For determining the entitlement to attend and vote at the annual general meeting, the register of members of the Company will be closed from Thursday, 2 May 2019 to Tuesday, 7 May 2019 (both days inclusive), during which period no share transfers will be registered. In order to be eligible to attend and vote at the above annual general meeting, all transfer forms accompanied by relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Tuesday, 30 April 2019.

FIVE-YEAR FINANCIAL SUMMARY

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

FIXED ASSETS

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

SHARE CAPITAL

There were no movements in either the Company's authorised or issued share capital during the Year.

PRE-EMPTIVE RIGHTS

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

DISTRIBUTABLE RESERVES

As at 31 December 2018, the Company's reserves available for distribution to the shareholders of the Company are approximately HK\$335,729,000 (2017: HK\$347,937,000) as calculated in accordance with the provisions of the Companies Law of the Cayman Islands.

REPORT OF THE DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

In 2018, the Group's largest supplier accounted for 53% (2017: 100%) of total purchases. The five largest suppliers in 2018 comprised 100% (2017: 100%) of the Group's total purchases.

In 2018, the Group's largest customer accounted for 84% (2017: 50%) of the Group's total revenue. The five largest customers of the Group in 2018 comprised 100% (2017: 100%) of the Group's total revenue.

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

DIRECTORS

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

Mr. Pan Zhengming* (*Chairman*)

Mr. Wang Bingzhong# (*Chief Executive Officer*)

Mr. Wu Jian#

(resigned on 23 March 2018)

Ms. Huang Lilan#

(appointed on 23 March 2018)

Mr. Yu Min*

(resigned on 2 January 2018)

Mr. Yuan Qiang*

(appointed on 2 January 2018)

Dr. Lu Haitian+

Mr. Lin Sen+

Mr. Yan Hao+

Executive Director

* *Non-executive Director*

+ *Independent non-executive Director*

In accordance with Article 87 of the Articles, Mr. Pan Zhengming, Mr. Lin Sen and Mr. Yan Hao, will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

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

REPORT OF THE DIRECTORS

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Company are set out on pages 10 to 12 of this annual report.

DIRECTORS' SERVICE CONTRACTS

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

PERMITTED INDEMNITY PROVISION

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2018, the interests and short positions of each Director and chief executive of the Company and their respective associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the required standard of dealings by the Directors as referred to in Rule 5.46 of the GEM Listing Rules, were as follows:

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

Share options granted by the Company

Name of Director	Number of underlying shares held pursuant to share options	Approximate percentage of total issued shares of the Company
	(Notes 2 & 3)	(Note 1)
Mr. Pan Zhengming	6,000,000	0.19%
Mr. Wang Bingzhong	31,000,000	0.99%
Ms. Huang Lilan	10,000,000	0.32%
Mr. Yuan Qiang	31,000,000	0.99%
Dr. Lu Haitian	2,000,000	0.06%
Mr. Yan Hao	2,000,000	0.06%
Mr. Lin Sen	2,000,000	0.06%

Notes:

1. As at 31 December 2018, the total number of issued shares of the Company was 3,145,935,836.
2. This represents interests held by the relevant Director as beneficial owner.
3. Details of share options granted to the Directors pursuant to the share option scheme of the Company are set out in the "Share Option Scheme" section of this report and note 29 to the consolidated financial statements.

REPORT OF THE DIRECTORS

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

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

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

Name of Director	Number of ADS held	Approximate percentage of total issued and outstanding shares of 500.com
	(Note 2)	(Note 1)
Mr. Pan Zhengming	305,000	0.72%
Ms. Huang Lilan	5,922	0.01%
Mr. Yuan Qiang	28,073	0.07%

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

Name of Director	Number of underlying shares held pursuant to ADS Options	Number of awarded shares held	Total	Approximate percentage of total issued and outstanding shares of 500.com
	(Notes 2 & 3)	(Notes 2 & 4)		(Note 1)
Mr. Pan Zhengming	268,333	30,000	298,333	0.70%
Ms. Huang Lilan	15,500	2,334	17,834	0.04%
Mr. Yuan Qiang	26,667	6,666	33,333	0.08%

Notes:

- As at 31 December 2018, the total number of issued and outstanding shares of 500.com was 42,520,483.
- This represents interests held by the relevant Director as beneficial owner.

REPORT OF THE DIRECTORS

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

- 99,333 ADS Options granted on 19 June 2014 at exercise price of US\$10.00 may be exercised from 19 June 2016 to 19 June 2019
- 149,000 ADS Options granted on 19 June 2014 at exercise price of US\$10.00 may be exercised from 19 June 2017 to 19 June 2019
- 10,000 ADS Options granted on 6 January 2016 at exercise price of US\$18.51 may be exercised from 21 November 2016 to 22 November 2019
- 10,000 ADS Options granted on 16 December 2016 at exercise price of US\$13.50 may be exercised from 21 November 2017 to 22 November 2019

Details of the 15,500 ADS Options held by Ms. Huang Lilan are as follows:

- 167 ADS Options granted on 19 June 2014 at exercise price of US\$10.00 may be exercised from 19 June 2015 to 19 June 2019
- 2,000 ADS Options granted on 19 June 2014 at exercise price of US\$10.00 may be exercised from 19 June 2016 to 19 June 2019
- 8,333 ADS Options granted on 19 June 2014 at exercise price of US\$10.00 may be exercised from 19 June 2017 to 19 June 2019
- 5,000 ADS Options granted on 19 June 2014 at exercise price of US\$10.00 may be exercised from 19 June 2018 to 19 June 2020

Details of the 26,667 ADS Options held by Mr. Yuan Qiang are as follows:

- 1,667 ADS Options granted on 19 June 2014 at exercise price of US\$10.00 may be exercised from 19 June 2016 to 19 June 2019
- 25,000 ADS Options granted on 19 June 2014 at exercise price of US\$10.00 may be exercised from 19 June 2017 to 19 June 2019

4. Details of the 30,000 awarded shares held by Mr. Pan Zhengming are as follows:

- 30,000 awarded shares granted on 15 August 2017 will vest on 1 June 2019

Details of the 2,334 awarded shares held by Ms. Huang Lilan are as follows:

- 2,334 awarded shares granted on 15 August 2017 will vest on 1 June 2019

Details of the 6,666 awarded shares held by Mr. Yuan Qiang are as follows:

- 6,666 awarded shares granted on 15 August 2017 will vest on 1 June 2019

Save as disclosed above, none of the Directors or chief executive of the Company and their respective associates had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations as at 31 December 2018.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME

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

A summary of the principal terms of the 2012 Share Option Scheme are set out in note 29 to the consolidated financial statements.

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

Type of participants	Number of share options						As at 31 December 2018	Date of grant	Exercise price (HK\$)	Exercise period (Note)
	As at 1 January 2018	Granted during the year	Reclassified during the Year (Note 3)	Exercised during the year	Lapsed during the year	Cancelled during the year				
Directors										
Mr. Pan Zhengming	-	6,000,000	-	-	-	-	6,000,000	05.01.2018	0.20	1
Mr. Wang Bingzhong	-	31,000,000	-	-	-	-	31,000,000	05.01.2018	0.20	1
Ms. Huang Lilan	-	-	10,000,000	-	-	-	10,000,000	05.01.2018	0.20	1
Mr. Yuan Qiang	-	31,000,000	-	-	-	-	31,000,000	05.01.2018	0.20	1
Dr. Lu Haitian	-	2,000,000	-	-	-	-	2,000,000	05.01.2018	0.20	1
Mr. Yan Hao	-	2,000,000	-	-	-	-	2,000,000	05.01.2018	0.20	1
Mr. Lin Sen	-	2,000,000	-	-	-	-	2,000,000	05.01.2018	0.20	1
Mr. Wu Jian (note 2)	-	6,000,000	-	-	(6,000,000)	-	-	05.01.2018	0.20	1
Sub-total:	-	80,000,000	10,000,000	-	(6,000,000)	-	84,000,000			
Employees	-	10,500,000	(8,700,000)	-	-	-	1,800,000	05.01.2018	0.20	1
Others (Note 4)	-	68,900,000	(1,300,000)	-	-	-	67,600,000	05.01.2018	0.20	1
Total:	-	159,400,000	-	-	(6,000,000)	-	153,400,000			

Notes:

- The share options granted on 5 January 2018 are divided into 3 tranches exercisable from 5 January 2018, 5 January 2019 and 5 January 2020 respectively to 4 January 2028.
- Mr. Wu Jian resigned as Director with effect from 23 March 2018.
- To better reflect certain grantees’ position in relation to the Group, their type of participants have been reclassified from employees to Directors or from others to employees.
- The category “Others” represents the former directors or consultants of the Group. Consultants are individuals who rendered consultancy services in respect of the business development to the Group without receiving any compensation. The Group granted share options to them for recognising their services similar to those rendered by employees of the Group.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN COMPETING INTEREST

As at 31 December 2018, none of the Directors, the controlling shareholder of the Company and their respective close associates (as defined in the GEM Listing Rules) had interest in any business which competes or may compete with the business of the Group and any other conflicts of interest with the Group.

CONTINUING CONNECTED TRANSACTIONS

1. On 15 May 2017, Beijing Huancai, a subsidiary of the Company, entered into a purchase agreement (the "Purchase Agreement") with Wu Sheng, pursuant to which, Beijing Huancai agreed to purchase from Wu Sheng the lottery terminals and parts for a term of three years commencing from 15 May 2017 and ending on 14 May 2020.

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

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

2. On 3 August 2018, Loto Interactive Information Technology (Shenzhen) Limited ("Loto Shenzhen"), an wholly-owned subsidiary of the Company, entered into the cooperation agreement (the "Cooperation Agreement") pursuant to which, Loto Shenzhen conditionally agreed to provide the services to Shenzhen E-Sun Sky Network Technology Co., Ltd. (深圳市易訊天空網絡技術有限公司) ("E-Sun Sky") subject to the terms and conditions provided therein for the period from the 8 October 2018 to 5 March 2021.

E-Sun Sky is a wholly-owned subsidiary of 500.com Limited, which is interested in 1,278,714,329 shares of the Company, representing approximately 40.65% of the total issued share capital of the Company, and is a controlling shareholder of the Company. Accordingly, E-Sun Sky is a connected person of the Company pursuant to the GEM Listing Rules and the transactions contemplated under the Cooperation Agreement constituted continuing connected transactions of the Company.

Further details of the transactions were disclosed in the announcement dated 12 September 2018 and the circular dated 14 September 2018. The Cooperation Agreement, the transactions contemplated thereunder and the proposed annual caps had been duly passed by way of poll at the extraordinary general meeting held on 8 October 2018.

REPORT OF THE DIRECTORS

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

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

RELATED PARTY TRANSACTIONS

A summary of significant related party transactions is disclosed in note 33 to the consolidated financial statements. These transactions constitute the connected transactions of the Company but are exempt from any disclosure requirement under Chapter 20 of the GEM Listing Rules.

CONTROLLING SHAREHOLDER'S INTERESTS IN SIGNIFICANT CONTRACTS

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

REPORT OF THE DIRECTORS

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

As at 31 December 2018, the interests and short positions of the persons (other than the Directors and chief executive of the Company) in the shares and underlying shares of the Company which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO or required to be recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Long positions in the shares of the Company

Name	Capacity/Nature	Number of shares held/ interested in	Approximate percentage of total issued shares of the Company
			(Note 1)
500.com Limited ("500.com") (Note 2)	Beneficial owner	1,278,714,329	40.65%
Mr. Law Man San Vincent ("Mr. Law") (Note 2)	Interest in controlled corporation	1,278,714,329	40.65%
Ms. Yuan Ping ("Mrs. Law") (Note 3)	Interest of spouse	1,278,714,329	40.65%

Notes:

- As at 31 December 2018, the total number of issued shares of the Company was 3,145,935,836.
- The total voting power in the general meetings of 500.com is owned by (i) Delite Limited ("Delite"), a company incorporated in the British Virgin Islands ("BVI"); and (ii) Smart Mega Holdings Limited ("Smart Mega"), a company incorporated in the BVI, as to 24.4% and 19.04%, respectively. Delite is wholly owned by Jackpot International Limited, which is held by companies set up by Credit Suisse Trust Limited ("Credit Suisse") as trustee of The Jackpot Trust, an irrevocable discretionary trust established by Mr. Law who is the settlor, protector and one of the beneficiary subjects. Smart Mega is wholly owned by Vibrant Jade Limited, which is held by companies set up by Credit Suisse as trustee of The Vibrant Jade Trust, an irrevocable discretionary trust established by Mrs. Law as settlor and protector with Mr. Law being one of the beneficiary subjects. The total shares of 500.com held by The Jackpot Trust and the total shares of 500.com held by The Vibrant Jade Trust (together, the "500.com Shares") are held by Credit Suisse as trustee of both trusts. Accordingly, Mr. Law entitled to exercise approximately 43.44% voting rights in the general meetings of 500.com and thus, deemed to be interested in all the shares of the Company held by 500.com pursuant to the SFO.
- Mrs. Law is deemed to be interested in all shares of the Company held by Mr. Law pursuant to the SFO.

Save as disclosed above, the Company has not been notified of any other interests or short positions in the shares or underlying shares of the Company as at 31 December 2018.

REPORT OF THE DIRECTORS

EQUITY-LINKED AGREEMENTS

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

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

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

MANAGEMENT CONTRACTS

Save for employment contracts, no other contracts concerning the management and/or administration of the whole or any substantial part of the business of the Company were entered into or subsisted at any time during the Year.

SUFFICIENCY OF PUBLIC FLOAT

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

CORPORATE GOVERNANCE

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 13 to 25 of this annual report.

EMOLUMENT POLICY

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

The emoluments of the Directors and senior management of the Group are decided by the Remuneration Committee, having regard to the Group's operating results, individual performance and comparable market standards. Particulars of the emoluments of Directors on a named basis for the Year are set out in note 9 to the consolidated financial statements.

The Company has adopted the share option scheme as an incentive to Directors, employees and consultants. Details of the scheme are set out in note 29 to the consolidated financial statements.

REPORT OF THE DIRECTORS

AUDIT COMMITTEE

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

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

CHARITABLE DONATIONS

During the Year, the Group did not make any charitable and other donations (2017: Nil).

AUDITOR

Ernst & Young resigned as the auditors of the Company with effect from 10 January 2019 and ZHONGHUI ANDA CPA Limited, following the resignation of Ernst & Young, has appointed as the new auditors of the Company with effect from 1 February 2019. The appointment of the new auditors of the Company was approved by the shareholders of the Company at an extraordinary general meeting held on 1 February 2019.

The consolidated financial statements for the year ended 31 December 2018 have been audited by ZHONGHUI ANDA CPA Limited who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company. A resolution for the re-appointment of ZHONGHUI ANDA CPA Limited as the auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

On behalf of the Board

Wang Bingzhong

Chief Executive Officer and Executive Director

Hong Kong, 22 March 2019

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

Loto Interactive Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group” or “we”) is pleased to present its report on the environmental, social, and governance (the “ESG”) aspects, in accordance with the guidelines of Appendix 20 to the Rules Governing the Listing of Securities on GEM (the “GEM Listing Rules”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). This environmental, social and governance report (the “ESG Report”) covers the overall performance of the Group in ESG aspects during the period from 1 January 2018 to 31 December 2018 (the “Reporting Period”).

The Group highly values the importance of making appropriate disclosure of corporate information to all the investors and the shareholders of the Company and believes that high level of transparency is the key to building confidence with the investors. Therefore, in this ESG Report, it highlighted the sustainable achievements in the following areas to give the stakeholders a better understanding of what the Group has done to protect the environment and promote social harmony:

ESG Aspects	Issues
Environmental	<ul style="list-style-type: none">– Emissions– Use of Resources– The Environment and Natural Resources
Employment and Labour Practices	<ul style="list-style-type: none">– Employment– Employment Health and Safety– Development and Training– Labour Standards
Operating Practices	<ul style="list-style-type: none">– Supply Chain Management– Product Responsibility– Anti-corruption
Community Investment	<ul style="list-style-type: none">– Social Responsibility

For details of corporate governance, please refer to the “Corporate Governance Report” as set out on pages 13 to 25 of this Annual Report.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

OUR STAKEHOLDERS

We recognise the ESG Report as an important measure to showcase our efforts in sustainable development. In realising sustainable development, we are devoted to strike a balance of the interests among various stakeholders, such as investors and shareholders, suppliers, customers, employees, work partners as well as the community. The Company is searching for every opportunity to understand and engage our stakeholder to ensure improvement can be implemented to our products and services. We strongly believe our stakeholders play a crucial role in sustaining the success of our business.

The existing communication mechanism with stakeholders of the Group is set forth as below:

Stakeholders	Probable Points of Concern	Communication and Response
The Stock Exchange	Compliance with listing rules, and timely and accurate announcements	Meetings, training, workshops, programs, website updates, and announcements
Government	Compliance with laws and regulations, preventing tax evasion, and social welfare	Interaction and visits, government inspections, tax returns and other information
Suppliers	Payment schedule, supply stability	Site investigation
Investors	Corporate governance, business strategies and performance, and investment returns	Organising and participating in seminars, interviews, shareholders' meetings, issue of financial reports or operation reports for investors, media and analysts
Media and Public	Corporate governance, environmental protection, and human rights	Issue of newsletters on the Company's website
Customers	Service quality, service delivery schedule, reasonable prices, service value, and personal data protection	Quality products and services
Employees	Rights and benefits of employees, compensation, training and development, work hours, and working environment	Conducting union activities, training, interviews with employees, internal memos, and employee suggestion boxes
Community	Community environment, employment opportunities, community development, and social welfare	Developing community activities, employee voluntary activities, and community welfare subsidies and donations

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL

The operation of the Group has limited impact on the environment. The Group is principally engaged in distribution of mobile gaming and the provision of lottery-related technologies, systems and solutions to two state-run lottery operators in the People's Republic of China ("PRC"), which are not the main causes of environmental pollution. Moreover, the business of the Group does not involve industrial activities and thus the total amount of emission, water pollution and hazardous waste produced is low.

However, the Group understands that it is the responsibility of all corporations to ensure that emission of pollutants and consumption of resources are minimised and carbon footprints are produced. For such purpose, the Group has identified the following goals to reduce consumption of resources:

Goals

- Reducing emission of carbon dioxide
- Reducing consumption of resources
- Reducing production of waste

During the Reporting Period, we complied with all relevant environmental laws and regulations that have a significant impact on us, including but not limited to, Waste Disposal Ordinance (Cap.354) and Air Pollution Control Ordinance (Cap.311) in Hong Kong. No confirmed non-compliance incidents or grievances were noted by the Group in relation to environmental issues.

A1 Emissions

There were mainly two types of greenhouse gases emissions of the Group during the Reporting Period, including (but not limited to) direct emission from vehicles and direct emission from air conditioners in offices.

The Group own 2 vehicles for transporting our management team members, guests and clients. All of our vehicles are running on unleaded automotive fuel, which is, in comparison to other fuels, cleaner and emitting less pollutant into the air. All vehicles are under regular maintenance check to enhance fuel consumption efficiency, ensure road safety and keep carbon dioxide emission at a minimum. As at 31 December 2018, two vehicles travelled 35,460 km (2017: Nil) in total. Total Carbon dioxide emission amounted to 28.20 kg (2017: Nil).

For air conditioning in offices, the Group encourages its employees to set the air conditioners at the most comfortable temperature and switch them off when it is not necessary so as to reduce emission of greenhouse gases. The Group has also put notices at eye-catching areas in the offices to remind our employees about energy saving in the course of business. Air conditioners installed at the office are centrally controlled by the office building, and are automatically switched off from 8 pm until 8 am of the following day.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A2 Use of Resources

The Group attaches great importance to employees' environmental awareness, and thus has put forth a number of initiatives with the goal of "green office", educating employees about how to fully utilise the resources and save energy. The Group aims at maximising the efficiency of our resources in commercial aspect while eliminating waste and contributing to the society in social aspect.

The Group also embraces its responsibility in environmental protection throughout the course of office administration and daily operation. Apart from adhering to the principle of recycling and reducing use, the Group is committed to creating green offices to minimise the impact on the environment. In light of the nature of the business of the Group, the consumption of energy, electricity, water and other natural resources in the offices are limited. Electricity consumed by the Group for the Reporting Period amounted to 24.66 kWh (2017: 30.58 kWh) and total carbon dioxide emission amounted to 17.02 t (2017: 21.03 t), mainly due to daily consumption in the offices.

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

- Adopting double-sided printing and promoting use of recycled paper;
- Widespread adoption of multi-function photocopiers (with printing, scanning and fax functions);
- Switching off unused lights and electric appliances to reduce energy consumption;
- Keeping the room temperature at a comfortable level and switching off the air conditioners when not necessary;
- Requiring employees to turn their computers and other devices to the sleep mode or switch them off when leaving the office; and
- Conducting regular maintenance for office equipment (such as air conditioners, computers, lights, refrigerators and paper shredders) to ensure normal operation.

Water Consumption

As per the business nature of the Group, water consumption is very limited, mainly daily water consumption by the employees in offices during business hours. The domestic sewage of the Group does not include hazardous wastewater and is directly discharged to the municipal sewer pipeline. As we operate in office premises of which both of the water supply and discharge are solely controlled by the building management of the office premises, it is considered that provision of water withdrawal and discharge data or sub-meter for individual occupant not feasible. However, in order to build the awareness on water conservation, our Group promotes water saving practices in the workplace. We encourage employees to use resources properly in order to save water resource.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Data on Greenhouse Gas Emission

Year ended 31 December 2018			Consumption (in 1,000 kg)	Consumption Intensity (in 1,000 kg per Full Time Employee)
Scope 2	(i)	Total direct energy consumption from vehicles	28.20	2.17
	(ii)	Total indirect energy consumption from the use of electricity	17.02	1.31
Total:			45.22	3.48

Generation of Waste

Solid waste of the Group is mainly produced in the daily operation of the offices, including daily paper consumption, office paper waste and food waste made by employees. All domestic waste is collected and disposed by the property management office of the office building on a regular basis.

The Group is committed to reducing waste production. The Group encourages the employees to recycle stationery and reduce waste with an aim to prevent waste production at the initial stage. Moreover, the Group has adopted a digital operation method to centralise all documents and regularly educates its employees about environmental protection. For example, the employees are encouraged to go paperless as much as possible by liming print outs communicating via e-mail as opposed to fax, required to print double-sided, reuse paper printed single-sided and set up recycling bins to minimise the disposal of wastes in order to save and reduce the use of paper and other natural resources.

The Group has established appropriate measures for disposal of computers and related products such as printers and toner cartridges. In case it is necessary to dispose of an item, the Group encourages our employees to collect and classify the waste before disposing so as to reduce the negative impact on the environment.

During the Reporting Period, we complied with all relevant laws and regulations that have a significant impact on us, including, but not limited to, Waste Disposal Ordinance in Hong Kong. No confirmed material non-compliance incidents or grievances were noted by us.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A3 The Environment and Natural Resources

Environmental Risk Management

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

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

SOCIAL ASPECT

EMPLOYMENT AND LABOUR PRACTICES

B1 Employment

Human Resources Practices

Employees are regarded as the greatest and valuable assets and core competitive advantage of the Company and also provide driving force for the continuous innovation of the Company. We strive to attract and retain talent. We have developed a written human resources policy and staff manual to govern the recruitment, promotion, discipline, working hours, leaves and other benefits of our employees, in accordance with the relevant laws and regulations.

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

During the Reporting Period, the Group strictly complied with all relevant laws and regulations in relation to employment that have a significant impact on us, including, but not limited to, the Employment Ordinance, the Minimum Wage Ordinance, and the Employees' Compensation Ordinance.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Employee Structure

As at 31 December 2018, the Group had a total of 27 employees (2017: 11 employees), with the employee structure as follows:

Age Group	Male Employee	Female Employee	Total
20-30	5	3	8
30-40	6	4	10
40-50	3	4	7
50-60	1	1	2
Total	15	12	27

- All employees are full-time employees

Equal Opportunity

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

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

B2 Employment Health and Safety

Workplace Safety

We are committed to providing and maintaining a safe, healthy, and hygienic workplace for all employees. Due to the nature of the business of the Group, the employees mainly work in the office and their possibilities of sustaining work injuries are limited. To foster and maintain a good, comfortable and healthy working environment, the Group has implemented a series of policies:

- Maintain obstruction-free emergency exits in the workplace;
- Provide sufficient light at the workplace;
- Provide a workplace with moderate temperature; and
- Conduct regular safety inspection and training of fire prevention.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In addition, as employees spend most of the time on computer work. The Company installed protective screens on monitors to reduce eye damage that may be caused by computer screens. Employees also constantly reminds each other to maintain appropriate viewing distance between eyes and computer screens, maintain good posture when working and do stretching exercises during rest breaks.

No serious work injury incident occurred in the Group during the Reporting Period. The Company is in compliance with the Occupational Safety and Health Ordinance, Chapter 509 of the Laws of Hong Kong.

B3 Development and Training

Employee Development

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

B4 Labour Standards

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

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

OPERATING PRACTICES

B5 Supply Chain Management

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

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B6 Product Responsibility

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

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

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

Data Privacy Policy

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

B7 Anti-corruption

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

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

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

COMMUNITY INVESTMENT

B8 Social Responsibility

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

INDEPENDENT AUDITOR'S REPORT



TO THE SHAREHOLDERS OF LOTO INTERACTIVE LIMITED

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Loto Interactive Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 56 to 119, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, 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 (the “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 (“HKSA”) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA’s Code of Ethics for Professional Accountants (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional 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.

Loan receivable

Refer to Note 19 to the consolidated financial statements.

The Group tested the amount of loan receivable for impairment. This impairment test is significant to our audit because the balance of loan receivable of approximately HK\$94,221,000 as at 31 December 2018 is material to the consolidated financial statements. In addition, the Group’s impairment test involves application of judgement and is based on estimates.

INDEPENDENT AUDITOR'S REPORT

Our audit procedures included, among others:

- Assessing the Group's relationship and transaction history with the borrower;
- Evaluating the Group's impairment assessment;
- Assessing ageing of the debts;
- Assessing the value of the collateral for the debts; and
- Assessing the disclosure of the Group's exposure to credit risk in the consolidated financial statements.

We consider that the Group's impairment test for loan receivable is supported by the available evidence.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises all the information in the Company's annual report, but does not include 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 FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors 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.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITY 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, 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.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the HKICPA's website at: <http://www.hkicpa.org.hk/en/standards-and-regulations/standards/auditing-assurance/auditre/>

This description forms part of our auditor's report.

ZHONGHUI ANDA CPA Limited

Certified Public Accountants

Wan Ho Yuen

Audit Engagement Director

Practising Certificate Number P04309

Hong Kong, 22 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 HK\$'000	2017 HK\$'000
REVENUE	7	6,034	48,827
Cost of sales		(5,312)	(46,485)
Gross profit		722	2,342
Interest income		9,665	4,963
Other income and gains	8	1,262	622
Selling expenses		(1,786)	(1,829)
Administrative expenses		(43,329)	(24,432)
Other expenses		(617)	(58)
Share of loss of associates		(698)	–
LOSS BEFORE TAX		(34,781)	(18,392)
Income tax expense	10	–	(181)
LOSS FOR THE YEAR	11	(34,781)	(18,573)
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) for the year, net of tax:			
Items that will not be reclassified to profit or loss:			
Fair value changes of equity investments at fair value through other comprehensive income		126	–
		126	–
Items that may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations		(1,986)	600
		(1,986)	600
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX		(1,860)	600
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(36,641)	(17,973)
LOSS FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Company		(34,087)	(17,929)
Non-controlling interests		(694)	(644)
		(34,781)	(18,573)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Company		(36,323)	(16,670)
Non-controlling interests		(318)	(1,303)
		(36,641)	(17,973)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY (HK\$ cents)			
– Basic and diluted	13	(1.084)	(0.569)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 HK\$'000	2017 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	6,486	355
Investments in associates	16	12,959	–
Investments in joint ventures	17	–	–
Equity investments at fair value through other comprehensive income	18	10,126	–
Loan receivable	19	–	94,214
Prepayments for long-term assets		–	1,695
Structured notes	20	–	50,086
		29,571	146,350
CURRENT ASSETS			
Loan receivable	19	94,221	–
Structured notes	20	50,371	50,116
Trade receivables	21	9,273	19,698
Prepayments, deposits and other receivables	22	8,283	5,284
Cash and cash equivalents	23	198,221	208,138
		360,369	283,236
CURRENT LIABILITIES			
Trade payables	24	7,557	18,155
Accruals and other payables	25	7,914	11,514
Amount due to the holding company	26	39	1,447
Tax payable		3,278	3,469
		18,788	34,585
NET CURRENT ASSETS		341,581	248,651
TOTAL ASSETS LESS CURRENT LIABILITIES		371,152	395,001
NET ASSETS		371,152	395,001

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 HK\$'000	2017 HK\$'000
EQUITY			
Equity attributable to owners of the Company			
Share capital	27	31,459	31,459
Reserves	28	333,414	356,945
		364,873	388,404
Non-controlling interests		6,279	6,597
TOTAL EQUITY		371,152	395,001

The consolidated financial statements on pages 56 to 119 were approved and authorised for issue by the board of directors on 22 March 2019 and are signed on its behalf by:

Approved by:

Pan Zhengming
Director

Wang Bingzhong
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to owners of the Company									
	Issued capital	Share premium [#]	Share-based payment reserve [#]	Other reserve**	Exchange reserve [#]	Equity investment revaluation reserve [#]	(Accumulated losses)/ earnings [#]	Total	Non-controlling interests	Total equity
	HK\$'000 (Note 27)	HK\$'000	HK\$'000 (Note 29)	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2017	31,456	327,878	91,987	(5,255)	3,159	-	(44,576)	404,649	7,900	412,549
Loss for the year	-	-	-	-	-	-	(17,929)	(17,929)	(644)	(18,573)
Other comprehensive income/(loss) for the year	-	-	-	-	1,259	-	-	1,259	(659)	600
Total comprehensive income/(loss) for the year	-	-	-	-	1,259	-	(17,929)	(16,670)	(1,303)	(17,973)
Equity-settled share-based payment expense	-	-	394	-	-	-	-	394	-	394
Issue of ordinary shares upon exercise of share options	3	50	(22)	-	-	-	-	31	-	31
Transfer of share-based payment reserve upon share options cancellation	-	-	(92,359)	-	-	-	92,359	-	-	-
At 31 December 2017	31,459	327,928	-	(5,255)	4,418	-	29,854	388,404	6,597	395,001
At 1 January 2018	31,459	327,928	-	(5,255)	4,418	-	29,854	388,404	6,597	395,001
Loss for the year	-	-	-	-	-	-	(34,087)	(34,087)	(694)	(34,781)
Other comprehensive (loss)/income for the year	-	-	-	-	(2,362)	126	-	(2,236)	376	(1,860)
Total comprehensive (loss)/income for the year	-	-	-	-	(2,362)	126	(34,087)	(36,323)	(318)	(36,641)
Equity-settled share-based payment expense	-	-	12,792	-	-	-	-	12,792	-	12,792
Lapsed of share option scheme	-	-	(194)	-	-	-	194	-	-	-
At 31 December 2018	31,459	327,928	12,598	(5,255)	2,056	126	(4,039)	364,873	6,279	371,152

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

These reserve accounts comprise the consolidated reserves in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 HK\$'000	2017 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	(34,781)	(18,392)
Adjustments for:		
Equity-settled share-based payment expense	12,792	394
Depreciation	2,078	106
Share of losses of associates	698	–
Interest income	(9,665)	(4,963)
Loss on disposal of items of property, plant and equipment	53	7
Gain on disposal of a joint venture	–	(16)
Gain on deregistration of a subsidiary	(1,034)	–
Exchange difference, net	317	(414)
Operating cash flows before working capital changes	(29,542)	(23,278)
Change in trade receivables	10,425	(18,808)
Change in prepayments, deposits and other receivables	(2,999)	(702)
Change in trade payables	(10,598)	8,368
Change in accruals and other payables	(5,883)	(514)
Change in amount due to a fellow subsidiary	–	(2,051)
Cash used in operating activities	(38,597)	(36,985)
Income taxes paid	(191)	(121)
Net cash flows used in operating activities	(38,788)	(37,106)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of structured notes	–	(50,000)
Withdrawal of structured notes	50,116	50,000
Purchase of property, plant and equipment	(6,582)	(231)
Proceeds from disposal of items of property, plant and equipment	8	–
Prepayments for long-term assets	–	(1,695)
Withdrawal of bank deposits with original maturity over three months	–	245,664
Advance of loan to an independent third party	–	(93,060)
Purchase of equity investments at fair value through other comprehensive income	(10,000)	–
Acquisition of associates	(11,374)	–
Interest received	9,373	3,717
Net cash flows generated from investing activities	31,541	154,395

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 HK\$'000	2017 HK\$'000
CASH FLOWS FROM FINANCING ACTIVITIES		
(Repayment to)/advance from the holding company	(1,408)	1,447
Repayment to a related party	–	(62)
Proceeds from exercise of share options	–	30
Net cash flows (used in)/generated from financing activities	(1,408)	1,415
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		
Cash and cash equivalents at beginning of year	208,138	118,704
Net foreign exchange difference	(1,262)	1,951
Cash and cash equivalents at end of year	198,221	208,138
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	198,221	208,138

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. GENERAL INFORMATION

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

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 15 to the consolidated financial statements.

In the opinion of the directors of the Company, as at 31 December 2018, the substantial shareholder of the Company is 500.com Limited (the “Holding Company”), which is listed on the New York Stock Exchange (stock code: WBAI).

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) that are relevant to its operations and effective for its accounting year beginning on 1 January 2018. HKFRSs comprise Hong Kong Financial Reporting Standards (“HKFRS”); Hong Kong Accounting Standards (“HKAS”); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group’s accounting policies, presentation of the Group’s financial statements and amounts reported for the current year and prior years.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of The Stock Exchange and by the Hong Kong Companies Ordinance.

These consolidated financial statements have been prepared under the historical cost convention, as modified by investments which are carried at their fair values.

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise its judgments in the process of applying the accounting policies. The areas involving critical judgments and areas where assumptions and estimates are significant to these consolidated financial statements, are disclosed in note 4 to the consolidated financial statements.

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below.

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, 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. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has control. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of subsidiaries that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiaries and (ii) the Company's share of the net assets of that subsidiaries plus any remaining goodwill relating to that subsidiaries and any related accumulated exchange reserve.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(a) Consolidation *(continued)*

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of profit or loss and other comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

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

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

(b) Associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether the Group has significant influence. In assessing whether a potential voting right contributes to significant influence, the holder's intention and financial ability to exercise or convert that right is not considered.

Investment in an associate is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the associate's identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Associates *(continued)*

The Group's share of an associate's post-acquisition profits or losses is recognised in consolidated profit or loss, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against 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 obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The gain or loss on the disposal of an associate that results in a loss of significant influence represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that associate and (ii) the Group's share of the net assets of that associate plus any remaining goodwill relating to that associate and any related accumulated exchange reserve. If an investment in an associate becomes an investment in a joint venture, the Group continues to apply the equity method and does not remeasure the retained interest.

Unrealised profits on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Foreign currency translation

(i) *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 dollars, which is the Company's presentation currency and functional currency.

(ii) *Transactions and balances in each entity's financial statements*

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

(iii) *Translation on consolidation*

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's 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 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 exchange rates on the transaction dates); and
- All resulting exchange differences are recognised in the exchange reserve.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Foreign currency translation (continued)

(iii) Translation on consolidation (continued)

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the exchange reserve. When a foreign operation is sold, such exchange differences are recognised in consolidated profit or loss as part of the gain or loss on disposal.

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.

(d) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses.

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. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal annual rate are as follows:

Leasehold improvement	40%
Machinery and equipment	25% – 33.33%
Furniture, fixtures and equipment	25% – 33.33%
Motor vehicles	10% – 20%

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Leases

The Group as lessee

Operating leases

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

(f) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

(g) Financial assets

Financial assets are recognised and derecognised on a trade date basis where the purchase or sale of an asset is under a contract whose terms require delivery of the asset within the timeframe established by the market concerned, and are initially recognised at fair value, plus directly attributable transaction costs except in the case of investments at fair value through profit or loss. Transaction costs directly attributable to the acquisition of investments at fair value through profit or loss are recognised immediately in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Financial assets *(continued)*

Financial assets of the Group are classified under the following categories:

- Financial assets at amortised cost; and
- Equity investments at fair value through other comprehensive income

(i) *Financial assets at amortised cost*

Financial assets (including trade and other receivables) are classified under this category if they satisfy both of the following conditions:

- the assets are held within a business model whose objective is to hold assets in order to collect contractual cash; and
- the contractual terms of the assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

They are subsequently measured at amortised cost using the effective interest method less loss allowance for expected credit losses.

(ii) *Equity investments at fair value through other comprehensive income*

On initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments that are not held for trading as at fair value through other comprehensive income.

Equity investments at fair value through other comprehensive income are subsequently measured at fair value with gains and losses arising from changes in fair values recognised in other comprehensive income and accumulated in the equity investment revaluation reserve. On derecognition of an investment, the cumulative gains or losses previously accumulated in the equity investment revaluation reserve are not reclassified to profit or loss.

Dividends on these investments are recognised in profit or loss, unless the dividends clearly represent a recovery of part of the cost of the investment.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Loss allowances for expected credit losses

The Group recognises loss allowances for expected credit losses on financial assets at amortised cost. Expected credit losses are the weighted average of credit losses with the respective risks of a default occurring as the weights.

At the end of each reporting period, the Group measures the loss allowance for a financial instrument at an amount equal to the expected credit losses that result from all possible default events over the expected life of that financial instrument (“lifetime expected credit losses”) for trade receivables, or if the credit risk on that financial instrument has increased significantly since initial recognition.

If, at the end of the reporting period, the credit risk on a financial instrument (other than trade receivables) has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to the portion of lifetime expected credit losses that represents the expected credit losses that result from default events on that financial instrument that are possible within 12 months after the reporting period.

The amount of expected credit losses or reversal to adjust the loss allowance at the end of the reporting period to the required amount is recognised in profit or loss as an impairment gain or loss.

(i) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group’s cash management are also included as a component of cash and cash equivalents.

(j) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(l) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(m) Revenue from contracts with customers

Revenue is measured based on the consideration specified in a contract with a customer with reference to the customary business practices and excludes amounts collected on behalf of third parties. For a contract where the period between the payment by the customer and the transfer of the promised product or service exceeds one year, the consideration is adjusted for the effect of a significant financing component.

The Group recognises revenue when it satisfies a performance obligation by transferring control over a product or service to a customer. Depending on the terms of a contract and the laws that apply to that contract, a performance obligation can be satisfied over time or at a point in time. A performance obligation is satisfied over time if:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance;
- the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If a performance obligation is satisfied over time, revenue is recognised by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the product or service.

(n) Other revenue

Interest income is recognised using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(o) Employee benefits

(i) *Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) *Pension obligations*

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

(iii) *Termination benefits*

Termination benefits are recognised at the earlier of the dates when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs and involves the payment of termination benefits.

(p) Share-based payments

The Group issues equity-settled share-based payments to certain directors, employees and consultants.

Equity-settled share-based payments to directors and employees are measured at the fair value (excluding the effect of non market-based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Equity-settled share-based payments to consultants are measured at the fair value of the services rendered or if the fair value of the services rendered cannot be reliably measured, at the fair value of the equity instruments granted. The fair value is measured at the date the Group receives the services and is recognised as an expense.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(q) Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(r) Related parties

A related party is a person or entity that is related to the Group.

- (a) A person or a close member of that person's family is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Company or of a parent of the Company.
- (b) An entity is related to the Group (reporting entity) if any of the following conditions applies:
 - (i) The entity and the Company are members of the same group (which means that each parent, subsidiaries and fellow subsidiaries is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to a parent of the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Impairment of assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets except investments and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(t) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(u) Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the financial statements when material.

4. KEY ESTIMATES

Key sources of estimation uncertainty

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

(a) *Impairment of loan receivable*

Loan receivable is reviewed periodically to assess whether impairment losses exist. The Group make judgments as to whether there is any objective evidence that loan receivable is impaired. Historical loss experience is adjusted on the basis of the current observable data. Management reviews the methodology and assumptions used in estimating impairment losses regularly to reduce any difference between loss estimates and actual loss experience.

(b) *Recoverability of associates*

The Group assesses whether investments in associates have suffered any impairment in accordance with the accounting policy. The recoverable amounts of investments in associates have been determined based on value in use calculations or market valuations. These calculations require the use of judgement and estimates, in particular of future revenue or cash flow. Management believes that any reasonable possible deviation from any of these assumptions would not cause the aggregate carrying amounts to exceed their recoverable amounts.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

5. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk, interest rate risk and price 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) Foreign currency risk

The Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in the functional currencies of the Group companies. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

(b) Credit risk

At 31 December 2018, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to the perform an obligation by the counterparties arise from the carrying amounts of the respective recognised financial assets as stated in the consolidated statement of financial position.

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

The Group has concentration of credit risk as 82.0% (2017: 96.1%) of the Group's trade receivables are due from the Group's two customers which operate in the PRC. The principal activities of the Group are mainly including the trading of lottery terminals and distribution of lottery products. In respect of these customers, given their good repayment history, the directors of the Company consider that the credit risk associated with the balances of the customers is low.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

5. FINANCIAL RISK MANAGEMENT *(continued)*

(b) Credit risk *(continued)*

The Group also has concentration of credit risk as 100% (2017: 100%) of the Group's loan receivable is a loan granted to an independent third party which is secured by a personal guarantee and a collateral of 95% of the entire equity interests in another company. In view of the fair value of the collateral exceeds the principal amount of the loan, the directors of the Company consider that the credit risk associated with the balance of loan receivable is low.

The Group considers whether there has been a significant increase in credit risk of financial assets on an ongoing basis throughout each reporting period by comparing the risk of a default occurring as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following information is used:

- internal credit rating;
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;
- significant changes in the value of the collateral or in the quality of guarantees or credit enhancements; and
- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers.

A significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment. A default on a financial asset is when the counterparty fails to make contractual payments within 60 days of when they fall due.

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. The Group normally categorises a loan or receivable for write off when a debtor fails to make contractual payments greater than 360 days past due. Where loans or receivables have been written off, the Group, if practicable and economical, continues to engage in enforcement activity to attempt to recover the receivable due.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

5. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

The Group uses two categories for non-trade loan receivable which reflect their credit risk and how the loan loss provision is determined for each of the categories. In calculating the expected credit loss rates, the Group considers historical loss rates for each category and adjusts for forward looking data.

Category	Definition	Loss provision
Performing	Low risk of default and strong capacity to pay	12 month expected losses
Non-performing	Significant increase in credit risk	Lifetime expected losses

The Group's loan receivable is considered to have low risk and under the "Performing" category because the debtor has a low risk of default and has strong ability to meet his obligations.

(c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The maturity analysis of the Group's financial liabilities is as follows:

	Less than 1 year HK\$'000	Total HK\$'000
<i>At 31 December 2018</i>		
Trade payables	7,557	7,557
Accruals and other payables	7,914	7,914
Amount due to the holding company	39	39
	15,510	15,510
	Less than 1 year HK\$'000	Total HK\$'000
<i>At 31 December 2017</i>		
Trade payables	18,155	18,155
Accruals and other payables	11,514	11,514
Amount due to the holding company	1,447	1,447
	31,116	31,116

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

5. FINANCIAL RISK MANAGEMENT (continued)

(d) Interest rate risk

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

(e) Price risk

The Group's equity investments at fair value through other comprehensive income are measured at fair value at the end of each reporting period. Therefore, the Group is exposed to equity security price risk. The directors manage this exposure by maintaining a portfolio of investments with difference risk profiles.

At 31 December 2018, if the share prices of the investments increase/decrease by 10%, the equity investment revaluation reserve would have been approximately HK\$1,012,000 higher/lower, arising as a result of the fair value gain/loss of the investments.

(f) Categories of financial instruments at 31 December 2018

	2018 HK\$'000	2017 HK\$'000
<i>Financial assets:</i>		
Equity investments at fair value through other comprehensive income	10,126	–
<u>Financial assets at amortised cost:</u>		
Loan receivable	94,221	94,214
Structured notes	50,371	100,202
Trade receivables	9,273	19,698
Financial assets included in prepayments, deposits and other receivables	5,958	4,289
Cash and cash equivalents	198,221	208,138
Total	368,170	426,541
<i>Financial liabilities:</i>		
<u>Financial liabilities at amortised cost:</u>		
Trade payables	7,557	18,155
Financial liabilities included in accruals and other payables	7,914	11,514
Amount due to the holding company	39	1,447
Total	15,510	31,116

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

5. FINANCIAL RISK MANAGEMENT (continued)

(g) Fair value

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

6. FAIR VALUE MEASUREMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

(a) Disclosures of level in fair value hierarchy at 31 December 2018:

Description	Fair value measurements using:	2018
	Level 3 HK\$'000	Total HK\$'000
Recurring fair value measurements:		
<i>Equity investments at fair value through other comprehensive income</i>		
Private equity investments	10,126	10,126
Total recurring fair value measurements	10,126	10,126

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

6. FAIR VALUE MEASUREMENTS (continued)

(b) Reconciliation of assets measured at fair value based on Level 3:

Description	Equity investments at fair value through other comprehensive income	
	Equity investments HK\$'000	2018 Total HK\$'000
At 1 January	–	–
Purchases	10,000	10,000
Total gains recognised in other comprehensive income	126	126
At 31 December	10,126	10,126

The total gains recognised in other comprehensive income are presented in investment valuation gain in the statement of profit or loss and other comprehensive income.

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 31 December 2018:

The Group's financial controller is responsible for the fair value measurements of assets and liabilities required for financial reporting purposes, including level 3 fair value measurements. The financial controller reports directly to the Board of Directors for these fair value measurements. Discussions of valuation processes and results are held between the financial controller and the Board of Directors at least twice a year.

For level 3 fair value measurements, the Group will normally engage external valuation experts with the recognised professional qualifications and recent experience to perform the valuations.

Key unobservable inputs used in level 3 fair value measurements are mainly:

- New active user rate (estimated based on the number of users using the particular mobile application and the number of devices used).

Level 3 fair value measurements

Description	Valuation technique	Unobservable inputs	Range	Effect on fair value for increase of inputs	Fair value 2018 HK\$'000
Equity investments at fair value through other comprehensive income	Leading price to sales approach	New active user rate	24%	Increase	10,126

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

7. REVENUE AND OPERATING SEGMENT INFORMATION

(a) Reportable segments

The chief operating decision-maker has been identified as the Board of Directors. The Board of Directors reviews the Group's internal reporting in order to assess performance and allocate resources. The Group determines its operating segments based on the reports reviewed by the chief operating decision-maker that are used to make strategic decisions.

The Group has two (2017: one) reportable segments. The segments are managed separately as each business segment offers different products and requires different business strategies. The following summary describes the operations in each of the Group's reportable segments:

- Trading of lottery terminals and parts and provision of services and solutions for the distribution of lottery products ("Lottery business")
- Distribution of mobile gaming ("Online game business")

(i) Information about reportable segment profit or loss, assets and liabilities:

Year ended 31 December 2018	Lottery business HK\$'000	Online game business HK\$'000	Total HK\$'000
Revenue from external customers	5,457	577	6,034
Segment loss	(1,671)	(10,716)	(12,387)
Depreciation	39	44	83
Additions to segment non-current assets	55	188	243
As at 31 December 2018			
Segment assets	8,208	8,445	16,653
Segment liabilities	(3,765)	(857)	(4,622)
Year ended 31 December 2017			
		Lottery business HK\$'000	Total HK\$'000
Revenue from external customers		48,827	48,827
Segment loss		(1,359)	(1,359)
Depreciation		51	51
Income tax expense		181	181
Additions to segment non-current assets		115	115
As at 31 December 2017			
Segment assets		36,110	36,110
Segment liabilities		(20,743)	(20,743)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

7. REVENUE AND OPERATING SEGMENT INFORMATION (continued)

(a) Reportable segments (continued)

(ii) Reconciliations of reportable segment revenue, profit or loss, assets and liabilities:

	2018 HK\$'000	2017 HK\$'000
Revenue		
Total revenue of reportable segments	6,034	48,827
Consolidated revenue	6,034	48,827
Profit or loss		
Total profit or loss of reportable segment	(12,387)	(1,359)
Other profit or loss	(9,602)	(16,655)
Unallocated amounts:		
Gain on disposal of a joint venture	–	16
Equity-settled share option expense	(12,792)	(394)
Consolidated loss before tax for the year	(34,781)	(18,392)
Assets		
Total assets of reportable segments	16,653	36,110
Other assets	9,413	4,367
Unallocated amounts:		
Investments	23,085	–
Cash and cash equivalents	196,197	194,693
Loan receivable	94,221	94,214
Structured notes	50,371	100,202
Consolidated total assets	389,940	429,586
Liabilities		
Total liabilities of reportable segments	(4,622)	(20,743)
Other liabilities	(14,166)	(13,842)
Consolidated total liabilities	(18,788)	(34,585)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

7. REVENUE AND OPERATING SEGMENT INFORMATION (continued)

(b) Geographical information

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

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

	2018 HK\$'000	2017 HK\$'000
Non-current assets, excluding financial assets		
The PRC	263	215
Hong Kong	6,197	1,835
British Virgin Island ("BVI")	26	–
	6,486	2,050

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

(c) Information about major customers

Revenue from major customers, each of whom amounted to 10% or more of the total revenue, is set out below:

	2018 HK\$'000	2017 HK\$'000
Customer A (Note)	5,059	24,374
Customer B (Note)	–	23,449
	5,059	47,823

Note: Revenue from the trading of lottery terminals and parts.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

7. REVENUE AND OPERATING SEGMENT INFORMATION (continued)

(d) Disaggregation of revenue from contracts with customers:

Segments

	Lottery business HK\$'000	Online game business HK\$'000	2018 Total HK\$'000
<i>Geographical markets</i>			
The PRC	5,457	577	6,034
<i>Major products/service</i>			
Trading of lottery terminals and parts	5,059	–	5,059
Provision of services and solutions for the distribution of lottery products	398	–	398
Distribution of mobile gaming	–	577	577
	5,457	577	6,034
<i>Timing of revenue recognition</i>			
At a point in time	5,457	577	6,034
Over time	–	–	–
	5,457	577	6,034

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

7. REVENUE AND OPERATING SEGMENT INFORMATION *(continued)*

(d) Disaggregation of revenue from contracts with customers: *(continued)*

Segments

	Lottery business HK\$'000	2017 Total HK\$'000
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Geographical markets

The PRC	48,827	48,827
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Major products/service

Trading of lottery terminals and parts	47,823	47,823
Provision of services and solutions for the distribution of lottery products	1,004	1,004
	48,827	48,827

Timing of revenue recognition

At a point in time	48,827	48,827
Over time	–	–
	48,827	48,827

The Group mainly sells lottery terminals and parts to the customers. Sales are recognised when control of the products has transferred, being when the products are delivered to a customer, there is no unfulfilled obligation that could affect the customer's acceptance of the products and the customer has obtained legal titles to the products.

Sales to customers are normally made with credit terms of 60 days. For new customers, deposits or cash on delivery may be required. Deposits received are recognised as a contract liability.

A receivable is recognised when the products are delivered to the customers as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

8. OTHER INCOME AND GAINS

	2018 HK\$'000	2017 HK\$'000
Foreign exchange gains, net	–	414
Gain on deregistration of a subsidiary	1,034	–
Gain on disposal of a joint venture	–	16
Others	228	192
	1,262	622

9. DIRECTORS', CHIEF EXECUTIVE'S AND FIVE HIGHEST PAID INDIVIDUAL EMOLUMENTS

(a) DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

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

	2018 HK\$'000	2017 HK\$'000
Fees	1,750	1,108
Other emoluments		
Salaries, allowances and benefits in kind	2,650	3,531
Bonus	250	6,319
Pension scheme contributions	31	24
Equity-settled share option expense	6,872	134
	11,553	11,116

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

9. DIRECTORS', CHIEF EXECUTIVE'S AND FIVE HIGHEST PAID INDIVIDUAL EMOLUMENTS (continued)

(a) DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (continued)

The emoluments of each director and the chief executive, on a named basis, are set out below:

	For the year ended 31 December 2018					
		Salaries, allowances and benefits		Pension scheme contributions	Equity- settled share-based payment expense	Total
	Fees HK\$'000	in kind HK\$'000	Bonus [#] HK\$'000	HK\$'000	HK\$'000	emoluments HK\$'000
<i>Independent non-executive directors:</i>						
Dr. Lu Haitian ¹	250	–	–	–	164	414
Mr. Yan Hao ¹	250	–	–	–	164	414
Mr. Lin Sen ¹	250	–	–	–	164	414
	750	–	–	–	492	1,242
<i>Executive directors:</i>						
Mr. Wu Jian ²	56	–	–	–	194	250
Ms. Huang Lilan ³	194	250	50	13	601	1,108
	250	250	50	13	795	1,358
<i>Non-executive directors:</i>						
Mr. Yu Min ⁴	–	–	–	–	–	–
Mr. Pan Zhengming ¹	250	–	–	–	493	743
Mr. Yuan Qiang ⁵	250	–	–	–	2,546	2,796
	500	–	–	–	3,039	3,539
<i>Chief executives:</i>						
Mr. Wang Bingzhong ⁶	250	2,400	200	18	2,546	5,414
	250	2,400	200	18	2,546	5,414
	1,750	2,650	250	31	6,872	11,553

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

9. DIRECTORS', CHIEF EXECUTIVE'S AND FIVE HIGHEST PAID INDIVIDUAL EMOLUMENTS (continued)

(a) DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (continued)

	For the year ended 31 December 2017					
	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Bonus [#] HK\$'000	Pension scheme contributions HK\$'000	Equity- settled share-based payment expense HK\$'000	Total emoluments HK\$'000
<i>Independent non-executive directors:</i>						
Mr. Tsoi, David ⁷	89	-	-	-	6	95
Mr. Pang Hing Chung, Alfred ⁷	76	-	-	-	6	82
Ms. Chan Po Yi, Patsy ⁷	82	-	-	-	6	88
Dr. Lu Haitian ¹	119	-	-	-	-	119
Mr. Yan Hao ¹	119	-	-	-	-	119
Mr. Lin Sen ¹	119	-	-	-	-	119
	604	-	-	-	18	622
<i>Executive directors:</i>						
Mr. Tsang Yuen Wai, Samuel ⁷	-	-	650	-	29	679
Mr. Tam Chi Wai, Dennis ⁷	-	-	1,250	-	29	1,279
Mr. Wu Jian ²	133	-	-	-	-	133
	133	-	1,900	-	58	2,091
<i>Non-executive directors:</i>						
Mr. Tsui Che Yin, Frank ⁷	-	-	400	-	29	429
Mr. Yu Min ⁴	119	-	-	-	-	119
Mr. Pan Zhengming ¹	119	-	-	-	-	119
	238	-	400	-	29	667
<i>Chief executives:</i>						
Mr. Ko Chun Fung, Henry ⁷	-	2,389	3,819	18	29	6,255
Mr. Wang Bingzhong ⁶	133	1,142	200	6	-	1,481
	133	3,531	4,019	24	29	7,736
	1,108	3,531	6,319	24	134	11,116

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

9. DIRECTORS', CHIEF EXECUTIVE'S AND FIVE HIGHEST PAID INDIVIDUAL EMOLUMENTS *(continued)*

(a) DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(continued)*

There were no other emoluments payable to the independent non-executive directors during the year (2017: Nil).

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

Notes:

1. Appointed on 10 July 2017.
2. Appointed on 19 June 2017 and resigned on 23 March 2018.
3. Appointed on 23 March 2018.
4. Appointed on 10 July 2017 and resigned on 2 January 2018.
5. Appointed on 2 January 2018.
6. Appointed on 19 June 2017.
7. Resigned on 10 July 2017.

(b) FIVE HIGHEST PAID INDIVIDUAL EMOLUMENTS

The five highest paid employees of the Group during the year included three directors and the chief executive (2017: three directors and the chief executive), details of whose remuneration are included in note 9(a) above. Details of the remuneration for the year of the remaining one (2017: one) highest paid employees who is neither a director nor chief executive of the Company is as follows:

	2018 HK\$'000	2017 HK\$'000
Salaries, allowances and benefits in kind	600	594
Bonus	50	200
Pension scheme contributions	18	18
Equity-settled share-based payment expense	–	2
	668	814

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

9. DIRECTORS', CHIEF EXECUTIVE'S AND FIVE HIGHEST PAID INDIVIDUAL EMOLUMENTS (continued)

(b) FIVE HIGHEST PAID INDIVIDUAL EMOLUMENTS (continued)

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

	Number of employees	
	2018	2017
Nil – HK\$1,000,000	1	1

10. INCOME TAX EXPENSE

No provision for Hong Kong Profits Tax has been made as the Hong Kong subsidiaries did not generate any assessable profits arising in Hong Kong during the year (2017: Nil).

Pursuant to the PRC Corporate Income Tax Law effective on 1 January 2008, the PRC subsidiaries are subject to corporate income tax ("CIT") at a statutory rate of 25% (2017: 25%) on their respective taxable income for the year ended 31 December 2018. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates.

	2018 HK\$'000	2017 HK\$'000
Current – Mainland China		
Charge for the year	–	165
Underprovision in prior years	–	16
Total tax charge for the year	–	181

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

10. INCOME TAX EXPENSE (continued)

The reconciliation between the income tax expense and the product of profit before tax multiplied by the Hong Kong Profits Tax rate is as follows:

	2018 HK\$'000	2017 HK\$'000
Loss before tax	(34,781)	(18,392)
Tax at the weighted average tax rate of 16.5% to 25% (2017: 16.5% to 25%)	(6,812)	(3,135)
Underprovision in prior years	–	16
Loss attributable to a joint venture and associates	(175)	(4)
Tax effect of income that is not taxable	(1,605)	(796)
Tax effect of expenses that are not deductible	1,869	486
Tax effect of tax losses not recognised	6,723	3,614
Income tax expense	–	181

At 31 December 2018, the Group had unused tax losses of approximately HK\$231,367,000 (2017: HK\$199,169,000) available to offset against future taxable profits. No deferred tax asset has been recognised in respect of unused tax losses due to the unpredictability of future profit streams.

Included in unrecognised tax losses are losses of approximately HK\$52,794,000 (2017: HK\$51,916,000) that are allowed to be carried forward and utilised against the taxable income of subsequent years. The loss carryforward period cannot exceed 5 years and expires between 2019 and 2023. Other losses of approximately HK\$178,573,000 (2017: HK\$147,253,000) may be carried forward indefinitely.

At 31 December 2018, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiary established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

11. LOSS FOR THE YEAR

The Group's loss for the year is arrived at after charging/(crediting):

	2018	2017
	HK\$'000	HK\$'000
Auditors' remuneration	600	720
Cost of inventories sold	5,312	46,485
Minimum lease payments under operating leases	6,033	2,812
Staff costs (including directors' remuneration):		
Salaries and other benefits	8,657	7,394
Bonus	504	8,190
Pension scheme contributions	465	760
Equity-settled share option expense	12,792	394
	22,418	16,738
Depreciation	2,078	106
Loss on disposal of items of property, plant and equipment	53	7
Net exchange losses/(gains)	317	(414)
Gain on disposal of a joint venture	–	(16)
Gain or deregistration of a subsidiary	(1,034)	–

12. DIVIDEND

The Directors do not recommend the payment of any dividend for each of the years ended 31 December 2018 and 2017.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

13. LOSS PER SHARE

The calculation of the basic earnings per share amount is based on the loss for the year attributable to ordinary equity holders of the Company and the weighted average number of ordinary shares of 3,145,936,000 (2017: 3,145,768,000 in issue during the year).

No adjustment has been made to the basic loss per share amounts presented for the year ended 31 December 2018 and 2017 in respect of a dilution as the impact of the share options outstanding had an anti-dilutive effect on the basic loss per share amounts presented.

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

	2018 HK\$'000	2017 HK\$'000
<i>Loss</i>		
Loss for the purpose of calculating basic and diluted earnings per share	(34,087)	(17,929)

	2018 '000	2017 '000
<i>Number of shares</i>		
Weighted average number of ordinary shares in issue during the year for the purposes of the basic and diluted loss per share	3,145,936	3,145,768

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK\$'000	Machinery and equipment HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
As at 31 December 2018					
<i>COST:</i>					
At 1 January 2018	-	5,218	165	706	6,089
Additions	4,155	278	165	1,984	6,582
Transfer from prepayment for long-term assets	1,695	-	-	-	1,695
Disposal	-	(974)	(9)	(706)	(1,689)
Exchange realignment	-	(8)	(3)	-	(11)
At 31 December 2018	5,850	4,514	318	1,984	12,666
<i>ACCUMULATED DEPRECIATION:</i>					
At 1 January 2018	-	4,934	127	673	5,734
Provided during the year	1,709	191	24	154	2,078
Disposal	-	(946)	(9)	(673)	(1,628)
Exchange realignment	-	(3)	(1)	-	(4)
At 31 December 2018	1,709	4,176	141	154	6,180
<i>CARRYING AMOUNT:</i>					
At 31 December 2018	4,141	338	177	1,830	6,486

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

14. PROPERTY, PLANT AND EQUIPMENT (continued)

	Machinery and equipment HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
As at 31 December 2017				
<i>COST:</i>				
At 1 January 2017	4,957	180	657	5,794
Additions	222	9	–	231
Disposal	–	(30)	–	(30)
Exchange realignment	39	6	49	94
At 31 December 2017	5,218	165	706	6,089
<i>ACCUMULATED DEPRECIATION:</i>				
At 1 January 2017	4,809	129	627	5,565
Provided during the year	90	16	–	106
Disposal	–	(23)	–	(23)
Exchange realignment	35	5	46	86
At 31 December 2017	4,934	127	673	5,734
<i>CARRYING AMOUNT:</i>				
At 31 December 2017	284	38	33	355

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

15. SUBSIDIARIES

Particulars of the subsidiaries at the end of the reporting period are as follows:

Company name	Place of incorporation/ registration	Issued ordinary/ registered share capital	Percentage of equity interests attributable to the Company	Principal activities
Directly held:				
Brighten Express Limited	Hong Kong	HK\$1	100%	Investment holding
Rising Move International Limited	BVI	US\$100	100%	Investment holding
Interactive Lab Limited (formerly known as Power Mighty Global Limited)	BVI	US\$100	100%	Exploring cutting-edge technologies and applications
Indirectly held:				
Precious Success Holdings Limited ("Precious Success")	BVI	US\$200	51%	Investment holding
PAL Development Limited	Hong Kong	HK\$250,000,000	51%	Investment holding
Global Score Asia Limited	BVI	US\$20,000	100%	Investment holding
Trade Express Services Inc.	BVI	US\$20,000	100%	Investment holding
Rise Accord Holdings Limited	BVI	US\$100	100%	Investment holding
China Excellent Net Technology Investment Limited	Hong Kong	HK\$200,000	95%	Provision of services for distribution of mobile lottery products

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

15. SUBSIDIARIES (continued)

Company name	Place of incorporation/ registration	Issued ordinary/ registered share capital	Percentage of equity interests attributable to the Company	Principal activities
Indirectly held: (continued)				
PAL (Beijing) Information Technology Limited*	PRC	HK\$150,000,000	51%	Provision of management services for distribution of lottery products
Beijing Hua Ying Feng Cai Technology Limited*	PRC	RMB18,000,000	51%	Provision of management services for distribution of lottery products
Beijing Huancai Information Technology Limited* ("Beijing Huancai")	PRC	RMB10,000,000	52.5%	Provision of services for distribution of mobile lottery products
Hong Kong Interactive Lab Limited	Hong Kong	HK\$1	100%	Exploring cutting-edge technologies and applications
Virtual Asset Ratings Limited	BVI	HK\$18,360,000	51%	Exploring cutting-edge technologies and applications
Loto Interactive Information Technology (Shenzhen) Limited*^ ("Loto Shenzhen")	PRC	RMB10,000,000	100%	Investment holding

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

15. SUBSIDIARIES (continued)

Company name	Place of incorporation/ registration	Issued ordinary/ registered share capital	Percentage of equity interests attributable to the Company	Principal activities
Indirectly held: (continued)				
Shenzhen Lewanwuxian Information Technology Co., Ltd.* ("Shenzhen Lewanwuxian")	PRC	RMB10,000,000	51%	Operating online games
Beijing Lewanwuxian Information Technology Co., Ltd.*	PRC	RMB10,000,000	51%	Distribution of online games
Zhejiang Keyinghuancai Information Technology Co., Ltd.*	PRC	RMB10,000,000	100%	Developing online games

* Companies registered as limited liability companies under PRC law and the English name is for identification only.

^ Loto Shenzhen was established in the PRC with limited liability on 14 December 2017. The registered capital of Loto Shenzhen is RMB10,000,000 of which none has been paid by the Group as at 31 December 2018.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

15. SUBSIDIARIES (continued)

The following table shows information of subsidiaries that have non-controlling interests ("NCI") material to the Group. The summarised financial information represents amounts before inter-company eliminations.

Name	Precious Success and its subsidiaries ("PS Group")		Beijing Huancai	
	2018	2017	2018	2017
Principal place of business/country of incorporation	HK and PRC/BVI, HK and PRC		PRC/PRC	
% of ownership interests/voting rights held by NCI	49%/49%		47.5%/47.5%	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December:				
Non-current assets	4	80	113	135
Current assets	3,508	3,048	15,995	32,847
Current liabilities	(4,238)	(3,675)	(3,178)	(18,950)
Net (liabilities)/assets	(726)	(547)	12,930	14,032
Accumulated NCI	(356)	(268)	6,142	6,665
Year ended 31 December:				
Revenue	398	1,004	5,059	47,823
Total expenses	(1,598)	(2,734)	(5,529)	(47,395)
(Loss)/profit for the year	(1,200)	(1,730)	(470)	428
Other comprehensive gain/(loss)	1,099	(273)	(632)	(1,086)
Total comprehensive loss	(101)	(2,003)	(1,102)	(658)
(Loss)/profit allocated to NCI	(588)	(848)	(223)	203
Net cash (used in)/generated from operating activities	(1,051)	(1,744)	699	(7,274)
Net cash (used in)/generated from investing activities	(3)	2	8	(153)
Effect of foreign exchange rate changes, net	313	(333)	(863)	(942)
Net decrease in cash and cash equivalents	(741)	(2,075)	(156)	(8,369)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

16. INVESTMENTS IN ASSOCIATES

	2018 HK\$'000	2017 HK\$'000
Unlisted investments		
Share of net assets	5,813	–
Goodwill	7,146	–
	12,959	–

Particulars of the associates at the end of the reporting period are as follows:

Company name	Place of incorporation/ registration	Percentage of equity interests attributable to the Company		Principal activities
		2018	2017	
ChariLot Company Limited ("ChariLot")	Hong Kong	40%	40%	Investment holding and provision of services for the distribution of lottery products
Guangzhou Sentai Information Technology Co., Ltd.* ("Guangzhou Sentai")	PRC	20%	–	Self-media
Shenzhen BlueTech Network Technology Co., Ltd.* ("BlueTech Network")	PRC	19.11%	–	Developing mobile games

* Companies registered as limited liability companies under PRC law and the English name is for identification only.

NOTES TO THE FINANCIAL STATEMENTS

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16. INVESTMENTS IN ASSOCIATES (continued)

The following table shows information of associates that are material to the Group. These associates are accounted for in the consolidated financial statements using the equity method. The summarised financial information presented is based on the HKFRS financial statements of the associates.

Name	Guangzhou Sentai 2018	BlueTech Network 2018
Principal place of business/country of incorporation	PRC/PRC	PRC/PRC
Principal activities	Self-media	Developing mobile games
% ownership interests/voting rights held by the Group	20%/20%	19.11%/19.11%
	HK\$'000	HK\$'000
At 31 December:		
Non-current assets	20,762	4,622
Current assets	6,359	4,161
Current liabilities	(5,349)	(1,153)
Net assets	21,772	7,630
Group's share of net assets	4,355	1,458
Goodwill	1,230	5,916
Group's share of carrying amount of interest	5,585	7,374
Year ended 31 December (post-acquisition):		
Revenue	688	551
Loss from continuing operations	(609)	(3,015)
Total comprehensive loss	(609)	(3,015)

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

	2018 HK\$'000	2017 HK\$'000
Unrecognised share of losses of an associate for the year	–	–
Accumulated unrecognised share of losses of an associate	(290)	(290)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

17. INVESTMENTS IN JOINT VENTURES

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

Company name	Place of incorporation and operation	Class of shares held	Proportion of ownership interest held by the Group		Proportion of voting rights held by the Group		Principal activities
			2018	2017	2018	2017	
PALTECH Company Limited	Hong Kong	Ordinary	60%	60%	60%	60%	Inactive
BCN Integrated Resorts 2, S.A.U.	Spain	Ordinary	N/A	–	N/A	–	Installation and exploitation of casinos in Spain

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

	2018 HK\$'000	2017 HK\$'000
Cumulative unrecognised share of total comprehensive loss of joint ventures	(210)	(210)

18. EQUITY INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2018 HK\$'000	2017 HK\$'000
Equity security, at fair value		
Unlisted equity securities	10,126	–
Analysed as:		
Current assets	–	–
Non-current assets	10,126	–
	10,126	–

The above investments are intended to be held for the medium to long-term. Designation of these investments as equity investments at fair value through other comprehensive income can avoid the volatility of the fair value changes of these investments to the profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

19. LOAN RECEIVABLE

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

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

In the opinion of the directors, as at 31 December 2018, the fair value of the collateral approximated to HK\$142,170,000 (2017: HK\$185,505,000). The Group seeks to maintain strict monitoring over the loan receivable and the financial performance of the Borrower. Overdue balances will be regularly reviewed by senior management.

20. STRUCTURED NOTES

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

21. TRADE RECEIVABLES

	2018	2017
	HK\$'000	HK\$'000
Trade receivables	9,273	19,698

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

	2018	2017
	HK\$'000	HK\$'000
Within 30 days	556	10,457
31 days to 90 days	258	–
91 days to 180 days	4,144	5,809
181 days to 365 days	915	3,432
Over 1 year	3,400	–
	9,273	19,698

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

21. TRADE RECEIVABLES (continued)

The Group applies the simplified approach under HKFRS 9 to provide for expected credit losses using the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit losses also incorporate forward looking information.

	Current HK\$'000	Less than 1 month past due HK\$'000	1-3 months past due HK\$'000	3-6 months past due HK\$'000	Over 1 year past due HK\$'000	Total HK\$'000
At 31 December 2018						
Weighted average expected loss rate	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Receivable amount	27	787	4,144	915	3,400	9,273
Loss allowance	–	–	–	–	–	–
At 31 December 2017						
Weighted average expected loss rate	0.00%	0.00%	0.00%	–	–	0.00%
Receivable amount	9,285	1,172	9,241	–	–	19,698
Loss allowance	–	–	–	–	–	–

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2018 HK\$'000	2017 HK\$'000
Other receivables	2,270	1,370
Interest receivables	3,649	248
Deposits	39	2,671
Prepayments	2,325	995
	8,283	5,284

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

23. CASH AND CASH EQUIVALENTS

	2018 HK\$'000	2017 HK\$'000
Cash and cash equivalents	198,221	208,138
Cash and cash equivalents denominated in:		
USD	8,781	21,003
RMB (Note)	9,312	11,141
HK\$	180,128	175,994
	198,221	208,138

Note: Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations.

24. TRADE PAYABLES

The aging analysis of trade payables, based on the date of receipt of goods, is as follows:

	2018 HK\$'000	2017 HK\$'000
Within 30 days	–	10,256
31 to 90 days	303	–
91 to 180 days	–	5,518
181 to 365 days	3,007	2,381
Over 1 year	4,247	–
	7,557	18,155

The average credit period on purchases of goods is 60 days.

25. ACCRUALS AND OTHER PAYABLES

	2018 HK\$'000	2017 HK\$'000
Other payables	2,443	7,672
Consideration payables	2,283	–
Amount due to a shareholder of a joint venture	2,334	2,334
Accruals	854	1,508
	7,914	11,514

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

26. AMOUNT DUE TO THE HOLDING COMPANY

The advance is unsecured, interest-free and repayable on demand.

27. SHARE CAPITAL

	2018 HK\$'000	2017 HK\$'000
Authorised:		
5,500,000,000 ordinary shares of HK\$0.01 each	55,000	55,000

	2018 HK\$'000	2017 HK\$'000
Issued and fully paid:		
3,145,935,836 (2017: 3,145,935,836) ordinary shares of HK\$0.01 each	31,459	31,459

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

	Number of shares in issue	Share Capital HK\$'000
At 1 January 2017	3,145,656,900	31,456
Share options exercised	278,936	3
At 31 December 2017, 1 January 2018 and 31 December 2018	3,145,935,836	31,459

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

28. RESERVES

(a) Group

The amounts of the Group's reserves and movements therein are presented in the consolidated statement of profit or loss and other comprehensive income and consolidated statement of changes in equity.

(b) Company

	Share premium HK\$'000	Share-based payment reserve HK\$'000	(Accumulated losses)/ retained earnings HK\$'000	Total HK\$'000
At 1 January 2017	327,878	91,987	(55,154)	364,711
Loss for the year	–	–	(17,196)	(17,196)
Equity-settled share-based payment expense	–	394	–	394
Issue of ordinary shares upon exercise of share options	50	(22)	–	28
Transfer of share-based payment reserve upon share options cancellation	–	(92,359)	92,359	–
At 31 December 2017 and 1 January 2018	327,928	–	20,009	347,937
Loss for the year	–	–	(25,000)	(25,000)
Equity-settled share-based payment expense	–	12,792	–	12,792
Lapsed of share option scheme	–	(194)	194	–
At 31 December 2018	327,928	12,598	(4,797)	335,729

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

28. RESERVES (continued)

(c) Nature and purpose of reserves

(i) Share premium account

Under the Companies Law of the Cayman Islands, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) Share-based payment reserve

The share-based payment reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees and consultants of the Group recognised in accordance with the accounting policy adopted for equity-settled share-based payments in note 3(p) to the financial statements.

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 3(c) to the financial statements.

29. SHARE-BASED PAYMENTS

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

29. SHARE-BASED PAYMENTS *(continued)*

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

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

(a) Purpose of the schemes

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

(b) Participants of the schemes

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

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

The total number of shares which may be issued upon exercise of all share options to be granted under the Old Share Option Scheme, the 2012 Share Option Scheme and any other schemes of the Company must not in aggregate exceed 10% of the shares in issue on the respective dates of approval of each of the schemes. The 10% limit may be refreshed with the approval by ordinary resolution of the Company’s shareholders.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

29. SHARE-BASED PAYMENTS *(continued)*

(d) Maximum entitlement of each participant under the schemes

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

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

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

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

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

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

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

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

(h) The basis of determining the exercise price

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

29. SHARE-BASED PAYMENTS (continued)

The 2012 Share Option Scheme

Movements of the share options under the 2012 Share Option Scheme during the year ended 31 December 2018 are set out below:

Category of participants	Outstanding at 1.1.2017	Reclassified during the year	Cancelled during the year	Outstanding at 31.12.2017 and 1.1.2018	Granted during the year	Reclassified during the year	Lapsed during the year	Outstanding at 31.12.2018	Date of grant of share options	Share price at date of grant of share options HK\$	Exercise price of share options HK\$
Director ¹	22,352,400	-	(22,352,400)	-	-	-	-	-	02.07.2013	0.54	0.511
Director ²	61,724,000	-	(61,724,000)	-	-	-	-	-	09.10.2015	0.465	0.465
Director ³	-	-	-	-	80,000,000	10,000,000	(6,000,000)	84,000,000	05.01.2018	0.187	0.20
Sub-total:	84,076,400	-	(84,076,400)	-	80,000,000	10,000,000	(6,000,000)	84,000,000			
Substantial shareholder* ¹	7,385,871	(7,385,871)	-	-	-	-	-	-	02.07.2013	0.54	0.511
Substantial shareholder* ²	10,752,000	(10,752,000)	-	-	-	-	-	-	09.10.2015	0.465	0.465
Sub-total:	18,137,871	(18,137,871)	-	-	-	-	-	-			
Employees ²	868,000	-	(868,000)	-	-	-	-	-	09.10.2015	0.465	0.465
Employees ³	-	-	-	-	10,500,000	(8,700,000)	-	1,800,000	05.01.2018	0.187	0.20
Sub-total:	868,000	-	(868,000)	-	10,500,000	(8,700,000)	-	1,800,000			
Others ^{1,4}	1,596,600	7,385,871	(8,982,471)	-	-	-	-	-	02.07.2013	0.54	0.511
Others ^{1,4}	8,364,000	10,752,000	(19,116,000)	-	-	-	-	-	09.10.2015	0.47	0.465
Others ^{3,4}	-	-	-	-	68,900,000	(1,300,000)	-	67,600,000	05.01.2018	0.187	0.20
Sub-total:	9,960,600	18,137,871	(28,098,471)	-	68,900,000	(1,300,000)	-	67,600,000			
Total:	113,042,871	-	(113,042,871)	-	159,400,000	-	(6,000,000)	153,400,000			
Weighted average exercise price (HK\$)	0.48	0.48			0.20		0.20	0.20			
Share options exercisable	92,615,871			-				51,108,000			

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

29. SHARE-BASED PAYMENTS (continued)

The 2012 Share Option Scheme (continued)

The fair values of share options granted in 2018 were calculated using the Binomial Tree model. The inputs into the model are as follows:

	2018
Weighted average share price (HK\$)	0.20
Weighted average exercise price (HK\$)	0.20
Expected volatility	63.61%
Risk free rate	1.82%
Expected dividend yield	0.00%

The total fair values of the share options granted in 2018 were at amount of approximately HK\$15,993,000. During the year, an amount of approximately HK\$12,792,000 was recognised as equity-settled share option expense.

Notes:

1. The share options granted on 2 July 2013 are divided into 4 tranches exercisable from 2 July 2013, 2 July 2014, 2 July 2015 and 2 July 2016 respectively to 1 July 2023.
2. The share options granted on 9 October 2015 are divided into 3 tranches exercisable from 9 October 2015, 9 October 2016 and 9 October 2017 respectively to 8 October 2025.
3. The share options granted on 5 January 2018 are divided into 3 tranches exercisable from 5 January 2018, 5 January 2019 and 5 January 2020 respectively to 4 January 2028.
4. The category "Others" represents the former directors, consultants or the substantial shareholder of the Group. Consultants are individuals who rendered consultancy services in respect of the business development to the Group without receiving any compensation. The Group granted share options to them for recognising their services similar to those rendered by employees of the Group.

The Group recognised equity-settled share-based payment expenses at a total of approximately HK\$12,792,000 (2017: HK\$394,000), included in which of HK\$Nil (2017: HK\$140,000) was recognised immediately as accelerated vesting due to the cancellation of share options for the year ended 31 December 2018 in relation to share options granted by the Company in the prior years.

During the year ended 31 December 2018, 6,000,000 (2017: Nil) of the share options were lapsed and none (2017: 113,042,871) of the share options were cancelled under the 2012 Share Option Scheme.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

30. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

The following table shows the Group's changes in liabilities arising from financing activities during the year:

	Amount due to the holding company HK\$'000	Accruals and other payables HK\$'000	Total liabilities from financing activities HK\$'000
At 1 January 2017	–	62	62
Change in cash flows	1,447	(62)	1,385
At 31 December 2017 and 1 January 2018	1,447	–	1,447
Change in cash flows	(1,408)	–	(1,408)
At 31 December 2018	39	–	39

31. CAPITAL COMMITMENTS

The Group's capital commitments at the end of the reporting period are as follows:

	2018 HK\$'000	2017 HK\$'000
Property, plant and equipment – Contracted, but not provided for	22,060	–
Contracted contribution to subsidiaries (Note 15)	11,413	–
	33,473	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

32. LEASE COMMITMENTS

Commitments under operating leases

As lessee

At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2018	2017
	HK\$'000	HK\$'000
Within one year	10,683	10,683
In the second to fifth years inclusive	8,012	18,695
	18,695	29,378

Note:

The lease agreements were jointly signed by the Group and a substantial shareholder. Under the clause of lease agreements, both the Group and substantial shareholder are under obligation to pay the whole rental expenses. The lease commitments were calculated under the clauses of lease agreements. Half of the amount is agreed to be shared by the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

33. RELATED PARTY TRANSACTIONS

- (a) In addition to those related party transactions and balances disclosed elsewhere in the consolidated financial statements, the Group had the following transactions with its related parties during the year:

	2018	2017
	HK\$'000	HK\$'000
Service expense paid to a fellow subsidiary (Note)	–	1,014

Note:

Operating service expense accrued to Melco Services Limited, a wholly subsidiary of the Group of Melco International Development Limited which was the former holding company of the Group, the service contract was terminated on 6 June 2017.

- (b) Compensation of key management personnel of the Group:

	2018	2017
	HK\$'000	HK\$'000
Short-term benefits	4,650	10,958
Post-employment benefits	31	24
Equity-settled share-based payment expense	6,872	134
	11,553	11,116

Further details of directors' and chief executive's emoluments are included in note 9 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2018 HK\$'000	2017 HK\$'000
NON-CURRENT ASSETS		
Property, plant and equipment	2,057	140
Investments in subsidiaries	2	21,741
Loan receivable	–	94,214
Structured notes	–	50,086
	2,059	166,181
CURRENT ASSETS		
Loan receivable	94,221	–
Structured notes	50,371	50,116
Prepayments, deposits and other receivables	6,893	5,546
Amount due from subsidiaries	67,938	1,735
Cash and cash equivalents	151,053	185,712
	370,476	243,109
CURRENT LIABILITIES		
Accruals and other payables	5,300	6,739
Amount due to subsidiaries	8	21,708
Amount due to the holding company	39	1,447
	5,347	29,894
NET CURRENT ASSETS	365,129	213,215
NET ASSETS	367,188	379,396
EQUITY		
Share capital	31,459	31,459
Reserves	335,729	347,937
TOTAL EQUITY	367,188	379,396

35. APPROVAL OF FINANCIAL STATEMENTS

These consolidated financial statements were approved and authorised for issue by the board of directors of the company on 22 March 2019.

Five-Year Financial Summary

The following is a summary of the audited results and of the assets and liabilities of the Group for the five years ended 31 December 2018.

RESULTS

	Year ended 31 December				
	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000	2015 HK\$'000	2014 HK\$'000
Revenue	6,034	48,827	60,281	57,163	45,284
Loss for the year	(34,781)	(18,573)	(2,912)	(34,504)	(66,549)
Attributable to:					
Owners of the Company	(34,087)	(17,929)	(2,303)	(35,934)	(65,403)
Non-controlling interests	(694)	(644)	(609)	1,430	(1,146)
	(34,781)	(18,573)	(2,912)	(34,504)	(66,549)

ASSETS AND LIABILITIES

	At 31 December				
	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000	2015 HK\$'000	2014 HK\$'000
Total assets	389,940	429,586	439,949	526,783	525,769
Total liabilities	(18,788)	(34,585)	(27,400)	(118,236)	(104,778)
Non-controlling interests	(6,279)	(6,597)	(7,900)	(8,796)	(5,101)
Total equity attributable to owners of the Company	364,873	388,404	404,649	399,751	415,890