AGTech
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AGTech Holdings Limited

(Incorporated in Bermuda with limited liability)
Stock Code: 8279

2019
ANNUAL REPORT

Fortune · Happiness · Health · Luck · Responsibility

CHARACTERISTICS OF GEM

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

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

Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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

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FORTUNE

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

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HEALTH

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

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Sun Ho *(Chairman & CEO)*
Hu Taoye *(Chief Financial Officer)*

Non-executive Directors

Yang Guang
Li Faguang
Ji Gang
Zou Liang

Independent Non-executive Directors

Monica Maria Nunes
Feng Qing
Gao Jack Qunyao

AUTHORISED REPRESENTATIVES

Sun Ho
Ng Lok Ming

COMPANY SECRETARY

Ng Lok Ming

COMPLIANCE OFFICER

Sun Ho

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE & PRINCIPAL PLACE OF BUSINESS

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

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

PRINCIPAL BANKERS

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

CORPORATE GOVERNANCE COMMITTEE

Sun Ho *(Chairman)*
Ng Lok Ming

RISK MANAGEMENT AND INTERNAL CONTROL COMMITTEE

Sun Ho *(Chairman)*
Hu Taoye
Ng Lok Ming
Gao Lei

AUDITOR

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

SHARE REGISTRAR IN BERMUDA

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

BRANCH SHARE REGISTRAR IN HONG KONG

Tricor Abacus Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

STOCK CODE

8279

WEBSITE

http://www.agtech.com

DEFINITIONS

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

"Adjusted Remaining Net Proceeds"	has the meaning given to it under the section headed "USE OF PROCEEDS FROM THE SUBSCRIPTION" in this report
"AGT"	Asia Gaming Technologies Limited, a company incorporated in Hong Kong owned as to 51% by the Company
"Ali Fortune" or "Subscriber"	Ali Fortune Investment Holding Limited, a company incorporated in the British Virgin Islands and the controlling shareholder of the Company
"Alibaba Group"	Alibaba Holding and its subsidiaries
"Alibaba Holding"	Alibaba Group Holding Limited, a company incorporated in the Cayman Islands, with its American depository shares, each representing eight ordinary shares, listed on the New York Stock Exchange (Stock Symbol: BABA) and its ordinary shares listed on the Main Board of the Stock Exchange (Stock Code: 9988)
"Alibaba Merchants"	merchants which are subsidiaries of or companies controlled by Alibaba Holding
"Alipay"	支付寶(中國)網絡技術有限公司 (Alipay.com Co., Ltd.*), a company incorporated in the PRC and a wholly-owned subsidiary of Ant Financial
"Alipay Group"	Alipay and its subsidiaries
"Ant Financial"	浙江螞蟻小微金融服務集團股份有限公司 (Ant Small and Micro Financial Services Group Co., Ltd.*), a company incorporated in the PRC
"Ant Financial Group"	Ant Financial and its subsidiaries
"Board"	the board of Directors
"Bye-law(s)"	the bye-law(s) of the Company
"Caixiaoer"	北京彩小二科技有限公司 (Beijing Caixiaoer Technology Co., Ltd.*), a company incorporated in the PRC with limited liability and is a consolidated subsidiary of the Company

DEFINITIONS

"CEO"	chief executive officer
"Company" or "AGTech"	AGTech Holdings Limited, a company incorporated in Bermuda as an exempted company with limited liability and its issued Shares are listed on GEM
"Conversion Shares"	new Shares to be issued upon the exercise of the conversion rights under the Convertible Bonds
"Convertible Bonds"	the convertible bonds of the Company issued to Ali Fortune under the Subscription
"Director(s)"	the director(s) of the Company
"GEM"	GEM operated by the Stock Exchange
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM of the Stock Exchange
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Macau"	the Macau Special Administrative Region of the PRC
"MOF"	the Ministry of Finance of China
"NSLAC"	the National Sports Lottery Administration Centre of the PRC
"PRC" or "China"	the People's Republic of China which, for the purpose of this report, excludes Hong Kong, Macau and Taiwan
"province(s)"	province(s), municipality(ies) and autonomous region(s) of the PRC unless otherwise specified, and "provincial" shall be construed accordingly
"Purchaser"	Silvercreek Technology Holdings Limited, a wholly-owned subsidiary of the Company, the purchaser in respect of the Score Value Transaction
"RMB"	Renminbi, the lawful currency of the PRC

DEFINITIONS

"Score Value"	Score Value Limited, an indirect wholly-owned subsidiary of the Company, the target in respect of the Score Value Transaction
"Score Value Agreement"	the sale and purchase agreement dated 17 November 2014 entered into between the Company, the Purchaser, Score Value and the Vendors in respect of the Score Value Transaction
"Score Value Circular"	the circular of the Company dated 8 December 2014 in respect of the Score Value Transaction
"Score Value Group"	Score Value Limited and its subsidiaries
"Score Value Transaction"	the acquisition of the entire equity interest in Score Value by the Company as contemplated under the Score Value Agreement
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) of HK$0.002 each in the share capital of the Company
"Share Award Scheme"	the share award scheme of the Company adopted on 17 March 2017
"Share Option Schemes"	the share option schemes of the Company adopted on 18 November 2004 and 23 December 2014 respectively
"Shareholder(s)"	holder(s) of the Share(s)
"Shenzhen Subsidiary"	深圳中林瑞德科技有限公司 (Shenzhen Zoom Read Tech Co., Ltd.*), a company incorporated in the PRC with limited liability and is an indirect wholly-owned subsidiary of Score Value
"Silvercreek"	深圳市銀溪數碼技術有限公司 (Shenzhen Silvercreek Digital Technology Co., Ltd.*), a company incorporated in the PRC with limited liability and is a consolidated subsidiary of the Company
"SLAC"	sports lottery administration centre
"Sports Lottery"	the national sports lottery of China

"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription"	the subscription for 4,817,399,245 new Shares and Convertible Bonds in the aggregate principal amount of HK$712,582,483 by Ali Fortune, which was completed on 10 August 2016
"Taobao"	淘寶(中國)軟件有限公司 (Taobao (China) Software Co., Ltd.*), a company incorporated in the PRC and a subsidiary of Alibaba Holding
"US$"	United States dollars, the lawful currency of the United States of America
"Vendors"	Immense Wisdom Limited and King Achieve Limited, the vendors in respect of the Score Value Transaction
"Welfare Lottery"	the national welfare lottery of China
"%"	per cent

Notes:

1. In this report, the exchange rate of HK$1.1346 to RMB1.00 has been used for reference only.

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

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

* *For identification purposes only*

CORPORATE PROFILE

ABOUT THE GROUP

AGTech was incorporated in Bermuda and its Shares are listed on GEM (Stock Code: 8279). AGTech is an integrated technology and services company engaged in the lottery and mobile games and entertainment markets with a focus on China and selected international markets. A member of the Alibaba Group with around 360 employees, AGTech is the exclusive lottery platform of Alibaba Group and Ant Financial Group.

AGTech's businesses are broadly divided into two categories:

- Lottery (including hardware, games and systems and provision of distribution and ancillary services); and

- Games and Entertainment.

AGTech is a Gold Contributor of the World Lottery Association (WLA), an associate member of the Asia Pacific Lottery Association (APLA), and an official partner of the International Mind Sports Association (IMSA).

CORPORATE STRATEGY AND OBJECTIVES

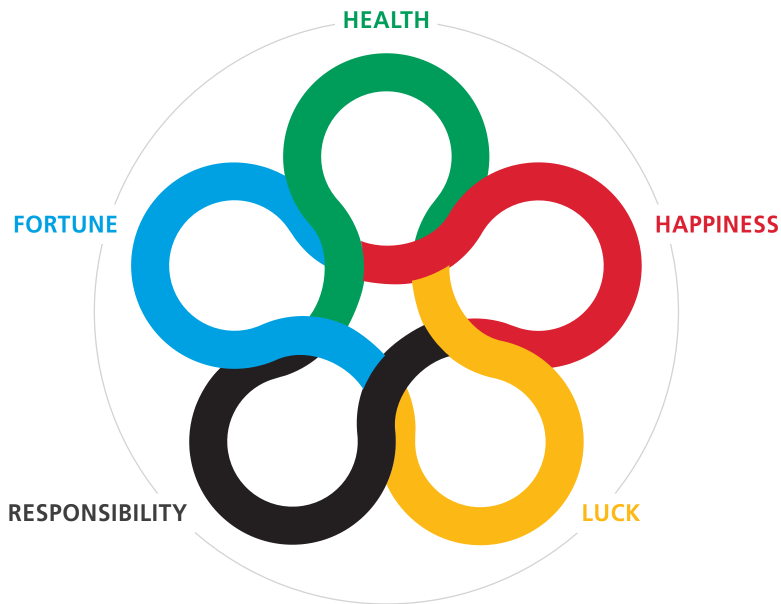
AGTech is committed to evolving its business into a comprehensive lottery, mobile games and entertainment content and technology provider to customers around the world.

As the exclusive lottery platform of Alibaba Group and Ant Financial Group, lottery technology and services will continue to be AGTech's domain expertise. The Group continues to leverage its lottery industry experience and innovation to support lottery authorities in areas including product development, physical channel expansion, innovative hardware, marketing services and promotions, all in assisting to broaden the reach of lottery products in China and to advance the industry as a whole.

The Group will continue to develop differentiated games and entertainment platforms with the goal of integrating unique social games and sports entertainment content, ultimately to create an innovative business model to increase the Group's commercial value.

Looking forward, AGTech will continue to pursue overseas opportunities and globalize our business through offering our proprietary systems and platforms, as well as operational and technical expertise, in addition to seeking strategic partnership with local partners in overseas markets such as India, South East Asia and beyond.

CORPORATE VALUES



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

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

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

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

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

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

CORPORATE PROFILE

CONTRIBUTING TO THE SOCIETY

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

EXCELLENT TEAM

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

Currently, AGTech has around 360 employees with qualifications in lottery, mobile games, information technology and other specialised fields. With such a strong team, it enables AGTech to build a solid business foundation and to achieve breakthroughs in the future.

HAPPINESS

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

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CHAIRMAN'S STATEMENT

Dear Shareholders,

As a new year begins, we reflect on our 2019 journey and I am proud of the AGTech team for all we've achieved. 2019 marked a significant milestone as our overall business continues to evolve and transform, both domestically and on the international front, to deliver a more sustainable and commercially viable business model.

In a year which saw sales in the Chinese lottery sector decrease by approximately 17.5% compared to last year, the group stands strong and continues to work responsibly according to regulatory requirements, and at the same time explore on innovative measures towards development of the industry. As witnessed by our blockchain application project and augmented reality (AR) driven marketing campaign throughout 2019, we continue to lay the necessary foundation for our team, systems, technology and infrastructure to be well positioned towards our digitalization initiatives.

As we start our fourth year of joining the Alibaba family, we stand true in promoting synergy by integrating our resources and identifying opportunities to complement Alibaba Group's network and initiatives. As the exclusive lottery platform of Alibaba Group and Ant Financial Group, we will continue to refine our cooperation model within the ecosystem for further opportunities. To be commercially viable and less policy dependent continues to be a common industry theme, and we are working towards that approach as well.

Our hardware division continues to bring innovative products to the market and maintain our position as a leading lottery hardware supplier in the PRC. We continue to see mass potential in our hardware and terminals, and as we enter the era of 5G and the Internet of Things, our goal to implement and utilize smart technology applications to more retail shops under the Alibaba Group's network will continue.

The Group would like to congratulate Jiangsu province's e-Ball Lottery in reaching RMB10 billion in total sales since its initial launch in 2013. This is a remarkable achievement, and we will continue to work closely with Jiangsu SLAC to ensure smooth operations and promote responsible lottery to the community.

Looking forward to 2020, I'm excited to continue our journey towards recognizing industry trends and adapting to fast-evolving consumer demands to accelerate growth at AGTech. We anticipate to roll out our full suite of lottery solutions, including our SaaS (Software-as-a-Service) lottery platform, a fully integrated digital platform that is tailored to serve both business and customers to refine or user experience on all fronts. Aligning to the Alibaba Group's overriding new retail initiative, our platform will further enhance synergy by integrating hardware, software, and data to open up distribution channels, in addition to a potential new commercial model.

Paytm First Games (formerly known as Gamepind), our mobile gaming joint venture in India, will remain to be a key focus and driver for AGTech on the international front. In view of the success of our fantasy sport products in 2019, we will continue to serve as technical service provider to Paytm First Games' sporting content. Supporting and grooming the platform to become a market leader in India has always been a mission of the Group. Our games and entertainment division will continue to develop and roll out engagement games for commercialization, and will also look for expansion opportunities in other selected international markets as well.

Parallel to growing our lottery and games related business, AGTech continues to invest in strategic projects, as demonstrated by the operational launch of our indirect investment, Ant Bank (Macao) Limited. We will continue to seek out strategic opportunities and further explore on setting up of a dedicated investment team that will benefit the Company in the long run.

I would like to thank my colleagues, management team, board members and our Shareholders. Without your support and for believing in our journey to transform, our success would not be possible.

Wishing you all a successful and rewarding 2020, and towards a new decade of optimism.

Yours faithfully,

Sun Ho
Chairman & CEO

Hong Kong, 20 March 2020

LUCK

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

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

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

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

- the frequency and proper conduct of Board meetings;
- the well-balanced composition of the Board, with independent non-executive Directors representing not less than one-third of the total number of Directors;
- the proper procedures for appointment and re-election of Directors;
- the annual review of individual Directors' contributions to the Group and the years of service of each independent non-executive Director;
- the establishment of an audit committee to review the financial reporting, risk management and internal controls of the Group and the enhanced communications between the audit committee and the auditor of the Company twice a year through meetings held for the pre-audit planning and the annual results of the Group. The audit committee also met the external auditor once without the presence of the other Directors during the year;
- the establishment of a remuneration committee to review the remuneration policy and other remuneration-related matters for the Group;
- the establishment of a nomination committee to formulate a policy concerning diversity in the Board and a nomination policy, make recommendations to the Board on any proposed appointment of Directors and assess the independence of the independent non-executive Directors on a regular basis;
- the establishment of a corporate governance committee to assist the Board in performing the corporate governance duties as required under the Code;
- the establishment of a risk management and internal control committee to assist the Board in discharging its ongoing responsibility to oversee the Group's risk management and internal control systems;
- the provision of briefing or training (at the expense of the Company) on the relevant requirements of the GEM Listing Rules (including the Code) and the SFO to all newly appointed Directors and to the entire Board;
- the provision of insurance coverage for Directors' liabilities;

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

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

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

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

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

(d) under the Code provision A.6.6, each Director should disclose to the Company, among other things, an indication of the time involved by him/her in his/her offices held in other public companies or organisations and other significant commitments. During the year under review, no such disclosure was made by the Directors to the Company. As the Board had adopted a corporate governance practice that each Director's contributions to the Group were reviewed and discussed at the Board meeting annually (the "**Annual Contributions Review**"), the Board considered that assessing the time spent by each Director on his/her commitments outside the Group was not necessary for the purposes of the Annual Contributions Review and that the disclosure of the time spent by a Director in performing his/her duties did not necessarily indicate accurately the efficiency of such Director and the effectiveness of his/her work, and may therefore be misleading;

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

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

(g) under the Code provision E.1.5, the Company should have a policy on payment of dividends and should disclose it in its annual report. The Company did not have such policy and did not make such disclosure in its annual report as the Board considered that it would be premature to decide on its dividend policy as the Company did not have any distributable reserves calculated under the laws of Bermuda, and even if the Company will have sufficient distributable reserves to pay its dividends in the future, the Board has yet to assess the funding requirements of the Group (for instance, its working capital needs and capital expenditure) at that time before the Company could decide on the amount of dividends or proportion of net profits that it would be in a position to distribute to the Shareholders.

(The above deviations (a) to (g) were similarly disclosed on pages 29 and 30 of the Company's annual report for the year ended 31 December 2018, and on pages 47 to 50 of the Company's interim report for the six months ended 30 June 2019.)

DIRECTORS' SECURITIES TRANSACTIONS

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

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

THE BOARD

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

During the year under review and up to the date of this report, the members of the Board comprised:

Executive Directors:	Mr. Sun Ho *(Chairman)* Ms. Hu Taoye (appointed on 30 January 2019) Mr. Zhou Haijing (resigned on 30 January 2019)
Non-executive Directors:	Mr. Zhang Qin (resigned on 4 March 2019) Mr. Yang Guang Mr. Li Faguang (appointed on 4 March 2019) Mr. Ji Gang Mr. Zou Liang
Independent non-executive Directors:	Ms. Monica Maria Nunes Mr. Feng Qing Dr. Gao Jack Qunyao

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

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

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

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

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

Respective responsibilities of Directors and auditor

The Board has the ultimate responsibility for the preparation of financial statements of the Group. For the year under review, the Board was not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the Board continued to adopt the going concern approach in preparing the financial statements for the year under review. The reporting responsibilities of the auditor of the Company for such financial statements are stated in the independent auditor's report on pages 130 and 134.

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

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

Directors' work commitments outside of the Group

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

Directors' training

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

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

Directors	**Type of training received**
Executive Directors	
SUN Ho	A, B
HU Taoye	A, B
Non-executive Directors	
YANG Guang	A
LI Faguang	A, B
JI Gang	A
ZOU Liang	A
Independent non-executive Directors	
Monica Maria NUNES	A, B
FENG Qing	A
GAO Jack Qunyao	A

A: studying materials on topics related to corporate governance, GEM Listing Rules and/or regulations
B: attending or participating in in-house or outside training, industry-specific seminars and conferences

CHAIRMAN AND CHIEF EXECUTIVE

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

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

Furthermore, the chairman is responsible for ensuring that:

- other Directors are properly briefed on issues arising at Board meetings;
- Directors receive, in a timely manner, adequate information, which is accurate, clear, complete and reliable;
- the Board works effectively and performs its responsibilities;
- all key and appropriate issues are discussed by the Board in a timely manner;
- good corporate governance practices and procedures are established by the Group;
- Directors make a full and active contribution to the Board's affairs and act in the best interests of the Company;
- different views and concerns of Directors are discussed with sufficient time at Board meetings before reaching any Board decisions which fairly reflect the consensus of the Board; and
- he himself attends the annual general meeting (and if not possible, assigns another Director to chair such meeting on his behalf), and other Directors are invited to attend all general meetings of the Company to enhance communications with the Shareholders and answer any queries that they may have in respect of the financial performance and other affairs of the Group.

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

NON-EXECUTIVE DIRECTORS

Each of Mr. Zhang Qin (resigned on 4 March 2019), Mr. Yang Guang, Mr. Li Faguang, Mr. Ji Gang and Mr. Zou Liang was appointed as a non-executive Director by way of a letter of appointment for a fixed term of one year (with renewal option). Each of the other independent non-executive Directors was appointed by way of a service agreement on a two-year basis.

The Company has received from each of the existing independent non-executive Directors an annual confirmation of independence for himself/herself (together with his/her respective "immediate family members" as defined under Rule 20.10(1)(a) of the GEM Listing Rules) pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers that all of such independent non-executive Directors are independent. None of the independent non-executive Directors has served the Board for more than 9 years. All independent non-executive Directors are clearly identified in all corporate communications of the Company that disclose the names of Directors.

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

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

BOARD COMMITTEES

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

1. Remuneration committee

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

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

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

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

During the year under review, the remuneration committee held meetings to consider and recommend to the Board the remuneration package for the Directors, Mr. Sun Ho, Ms. Hu Taoye and Mr. Li Faguang, and the grant of award shares under the Share Award Scheme. The renewed service agreements of all the independent non-executive Directors were reviewed and recommended by the remuneration committee to the Board during the year under review.

2. Nomination committee

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

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

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

During the year under review, a meeting of the nomination committee was held whereby the number of years of service of the three independent non-executive Directors had been reviewed and none of them had served the Board for more than 9 years. The independence of all the independent non-executive Directors was also reviewed and confirmed during such meeting. Besides, the nomination policy and the Board diversity policy were reviewed on an annual basis and were considered to be relevant to the needs of the Company and able to reflect both the current regulatory requirements and good corporate governance practice. The nomination of the two new Directors, Ms. Hu Taoye and Mr. Li Faguang,was also considered and recommended by the nomination committee to the Board for approval during the year under review.

Nomination policy

(a) Objective

The nomination policy of the Company aims to set out the procedures for appointing new or re-electing Directors to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Group's business.

(b) Identification of candidates

Any member of the nomination committee is authorised to identify suitable candidates for the position of Director when there is a vacancy or an additional Director is considered necessary. Where necessary, the nomination committee can engage recruitment agencies to help search for suitable candidates. Once suitable candidates are identified, the member of the nomination committee will inform the company secretary of the Company to conduct background check on the candidates (including, but not limited to, obtaining copies of their identification documents, credentials to verify information and qualifications stated in their curriculum vitae, written confirmation of information required to be disclosed under Rule 17.50(2) of the GEM Listing Rules, and (for the appointment/re-election of independent non-executive Directors) written confirmation of independence for the candidates or the independent non-executive Directors to be re-elected (together with their respective "immediate family members" as defined under Rule 20.10(1)(a) of the GEM Listing Rules) pursuant to Rule 5.09 of the GEM Listing Rules). If the results of the background check are found to be satisfactory, the member of the nomination committee will propose the appointment of such candidates to the nomination committee.

(c) Criteria for determining suitability of candidates or Directors to be re-elected

The nomination committee will consider the following factors in determining the suitability of the candidates or Directors to be re-elected to the Group:

- the qualifications, skills, experience and background of the candidates or the Directors to be re-elected;
- (for the appointment of new Directors) potential time commitment that can be made by the candidates to the affairs of the Group;
- how the candidates or Directors to be re-elected will contribute to the diversity of the Board in accordance with the Board diversity policy of the Company (as set out below);
- (for the appointment/re-election of independent non-executive Directors) independence of the candidates or the independent non-executive Directors to be re-elected as required under the GEM Listing Rules;
- (for the re-election of independent non-executive Directors) tenure of services of the independent non-executive Directors to be re-elected, and in particular, whether they have served the Board for more than 9 years;
- (for the re-election of Directors) past contributions and time commitment to the affairs of the Group; and

- (for the re-election of Directors) those incumbent Directors who have been longest in office since their last re-election or appointment within the last three years will be selected for retirement by rotation and re-election with priority (for the purpose of compliance with the Code provision and Bye-law 87 of the Company).

(d) Approval of appointment and re-election

The candidates or Directors (to be re-elected) approved by the nomination committee will then be proposed to the entire Board for final approval and, where appropriate, for recommendation to the Shareholders for their approval at the general meeting of the Company.

Any member of the nomination committee shall abstain from voting at the nomination committee meeting when his/her own nomination for re-election as Director is being considered.

(e) Annual review and disclosure

The nomination committee will continuously monitor the implementation of its nomination policy and review it on an annual basis to ensure that it remains relevant to the needs of the Company and reflects both the current regulatory requirements and good corporate governance practice.

The Board will make the relevant disclosure in respect of the Company's nomination policy in the Corporate Governance Report contained in the annual report of the Company in compliance with the requirements of the GEM Listing Rules (in particular, Appendix 15 of the GEM Listing Rules).

Board diversity policy

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

Summary of the Diversity Policy

(a) Purpose

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

(b) Scope of application

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

(c) Policy statement

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

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

(d) Measureable objectives

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

(e) Monitoring and reporting

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

(f) Review of the Diversity Policy

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

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

Board composition of the Company
(composed of 9 Directors)

		Number of Directors	%	Measurable objectives	Achieved
Gender	Male	7	77.8%	**Both genders present**	✓
	Female	2	22.2%	to ensure different views from different genders are considered	
Age (Years)	40-49	5	55.6%	**Age spans over at least a decade**	✓
	50-69	4	44.4%	to ensure a balanced mix of conservative and ambitious experience from relatively sophisticated veteran and energetic young Directors	
Nationality	Chinese	8	88.9%	**More than a single nationality**	✓
	Portuguese	1	11.1%	to ensure the international perspectives and global view are considered	
Tenure (Number of years)	below 1	2	22.2%	**Different tenures of Directors' service contracts**	✓
	1 – 3	1	11.1%	to ensure the consistency of business strategies implemented by the veteran Directors being complemented by new ideas from relatively new Directors	
	above 3	6	66.7%		
Directorship Designation	Executive Directors	2	22.2%	**Presence of substantial percentage of non-executive Directors**	✓
	Non-executive Directors	4	44.5%	to ensure interests of minority Shareholders and the Company as a whole are considered and/or to exert checks and balances on the executive Directors	
	Independent non-executive Directors	3	33.3%		
Other Public Company Directorship Experience (Number of companies)	Nil	4	44.5%	**At least one Director having directorship experience with other public companies**	✓
	One	3	33.3%	to share directorship experience from other public companies and help the Board keep abreast of the current practices of other public companies	
	Two or above	2	22.2%		

3. Corporate governance committee

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

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

During the year under review, the corporate governance committee held a meeting to discuss certain amendments of the GEM Listing Rules which were to take effect from 1 March 2019 and their impact on the Group from the compliance perspective.

4. Audit committee

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

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

The Group's draft interim, quarterly and annual results were reviewed by the audit committee during the year under review, and the committee was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures had been made. The audit committee also attended two meetings during the year under review with the external auditor of the Company, PricewaterhouseCoopers ("**PwC**"), to discuss the audit for the financial statements of the Group for the year ended 31 December 2018 and the audit strategy of the Group for the year ended 31 December 2019 respectively.

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

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

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

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

The RMICC comprises at least three members as follows:

- the compliance officer of the Company (being Mr. Sun Ho) who shall act as the chairman of the RMICC;
- the chief financial officer/head of accounting department of the Group (being Ms. Hu Taoye), and/or the company secretary of the Company (being Mr. Ng Lok Ming), who (or who together) shall be responsible for monitoring the overall RM and IC functions of the Group on an ongoing basis; and

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

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

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

(a) RM functions

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

(b) IC functions

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

During the year under review, more than 10 internal control policies and procedures were formulated or modified to strengthen internal control and facilitate business operation, such as pricing and bidding management policy, new products and project approval policy, procurement and suppliers' management policy, production and quality control management process and computer terminal management policy, etc. All the new and revised policies and procedures have been published on the internal policy platform. The Company has provided necessary training and coaching to relevant business departments and key staffs.

(c) IA functions

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

During the year under review, the IA team has conducted certain internal control inspections covering all the important business processes and financial processes, including lottery hardware sales, procurement, production and quality control process, games and entertainment revenue and IT control process, cash management process, continuing connected transactions compliance and other important processes. The IA senior manager of the Group reported the work to the RMICC on a quarterly basis.

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

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

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

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

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

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

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

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

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

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

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

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

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

- the Company adopts an upward reporting approach for identifying and escalating any potential inside information to the Board;

- employees of the Company shall bring any potential inside information promptly to the attention of their immediate superiors or the heads of business units or departments as appropriate;

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

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

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

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

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

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

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

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

AUDITOR'S REMUNERATION

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

Remuneration to PwC in respect of its audit services amounted to HK$1,500,000 for the year ended 31 December 2019. No remuneration was paid to PwC by the Group for non-audit services during the year under review.

MEETING ATTENDANCE

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

	Board	Audit Committee	Remuneration Committee	Nomination Committee	Corporate Governance Committee	RMICC	Annual General Meeting
Executive Directors							
SUN Ho	11/11	N/A*	N/A*	3/3	1/1	4/4	1/1
HU Taoye[a]	10/10[b]	N/A*	N/A*	N/A*	N/A*	4/4	1/1
ZHOU Haijing[c]	1/1[d]	N/A*	N/A*	N/A*	N/A*	N/A[d]	N/A[d]
Non-executive Directors							
YANG Guang	9/11	N/A*	N/A*	N/A*	N/A*	N/A*	1/1
LI Faguang[e]	8/9[f]	N/A*	N/A*	N/A*	N/A*	N/A*	1/1
JI Gang	9/11	N/A*	N/A*	N/A*	N/A*	N/A*	1/1
ZOU Liang	9/11	N/A*	N/A*	N/A*	N/A*	N/A*	1/1
ZHANG Qin[g]	0/2[h]	N/A*	N/A*	N/A*	N/A*	N/A*	N/A[h]
Independent non-executive Directors							
Monica Maria NUNES	10/11	5/5	3/3	3/3	N/A*	N/A*	1/1
FENG Qing	11/11	5/5	3/3	3/3	N/A*	N/A*	1/1
GAO Jack Qunyao	11/11	5/5	3/3	3/3	N/A*	N/A*	1/1

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

Notes:

a. Ms. Hu Taoye was appointed as Director by the Company on 30 January 2019.

b. 10 Board meetings had been held during the year under review after Ms. Hu Taoye was appointed by the Company on 30 January 2019.

c. Mr. Zhou Haijing resigned as Director on 30 January 2019.

d. Only one Board meeting had been held during the year under review before Mr. Zhou Haijing resigned as Director on 30 January 2019.

e. Mr. Li Faguang was appointed as Director by the Company on 4 March 2019.

f. 9 Board meetings had been held during the year under review after Mr. Li Faguang was appointed by the Company on 4 March 2019.

g. Mr. Zhang Qin resigned as Director on 4 March 2019.

h. Only two Board meetings had been held during the year under review before Mr. Zhang Qin resigned as Director on 4 March 2019.

COMPANY SECRETARY

The company secretary is responsible for facilitating the Board's process and communications among Board members and with the Shareholders and the management, and advising the Board and its committees on all corporate governance matters. The company secretary reports to the chairman of the Board and/or the CEO and his selection, appointment or dismissal shall be a Board decision. During the year under review, Mr. Ng Lok Ming ("**Mr. Ng**") continued to be the company secretary, an authorised representative under Rule 5.24 of the GEM Listing Rules, an authorised representative to accept on behalf of the Company the service of process and notice in Hong Kong under the Companies Ordinance (Cap 622 of the laws of Hong Kong) and a member of each of the corporate governance committee and RMICC of the Company. Mr. Ng has joined the Group since 26 September 2016.

Mr. Ng has more than 12 years of experience working in senior legal positions and as company secretary of companies listed in Hong Kong. Mr. Ng graduated from the University of Hong Kong with an LL.B. and a P.C.LL. in 1995 and 1996, respectively. He later obtained an LL.M. in Comparative and PRC law from the City University of Hong Kong in 2002. Mr. Ng was admitted as a solicitor of the High Court of Hong Kong in 2001. He is also a member of the Law Society of Hong Kong.

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

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

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

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

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

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

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

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

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

The Company's principal share registrar and transfer agent in Bermuda is Conyers Corporate Services (Bermuda) Limited at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. Share registration matters shall be handled for the Shareholders by the Company's branch share registrar in Hong Kong, Tricor Abacus Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

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

SHAREHOLDERS' RIGHTS

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

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

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

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

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

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

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

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

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

(B) Shareholders sending enquiries to the Board

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

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

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

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

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

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

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

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

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

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

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

Required information of the candidate(s) nominated by Shareholders

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

a) full name and age;

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

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

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

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

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

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

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

i) contact details of the nominated candidate.

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

RESPONSIBILITY

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

www.agtech.com

SUSTAINABILITY REPORT

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

This Sustainability Report is organised into two ESG subject areas: "Environmental" and "Social". Corporate governance is addressed separately in the Corporate Governance Report on pages 22 to 49 of this annual report ("**CG Report**").

ABOUT OUR GROUP

Our Group is an integrated technology and services company engaged in the lottery and mobile games and entertainment markets with a focus on China and selected international markets. We are a member of the Alibaba Group, and are the exclusive lottery platform of Alibaba Group and Ant Financial Group. We have a team of around 360 employees, and the footprint of the Group's business now spans across China and selected international markets.

AGTech's businesses are broadly divided into two categories:

- Lottery (including hardware, games and systems and provision of distribution and ancillary services); and
- Games and Entertainment.

SUSTAINABILITY MANAGEMENT

Objectives

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

Stakeholder Engagement

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

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

Stakeholders	Channels of communications	Areas of common concerns
Shareholders	• annual and special general meetings • announcements, circulars, quarterly, interim and annual reports • the Company's official website	• business development and financial performance of the Group • information on environmental and social matters • corporate governance matters
Business partners	• meetings • conference calls • negotiations of business cooperation agreements • joint development and customisation of lottery and non-lottery games and systems • participation in trade fairs	• products' compliance with applicable law and regulations • responsible lottery and online games • customisation of products to meet local requirements and enhance attraction to the local players

SUSTAINABILITY REPORT

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

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

Management Approach and Monitoring Framework

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

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

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

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

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

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

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

Strategy

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

(i) Corporate social responsibilities:

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

(ii) Healthy market development:

We liaise closely with the PRC lottery authorities and strive to help them develop healthy lottery markets for the community. We not only introduce new lottery types to the PRC lottery markets (e.g. our MOF-approved lottery games, "**Lucky Racing**" and "**e-Ball Lottery**"), but also propose to the PRC lottery authorities to evaluate new forms of legal and regulated lottery distribution channels with a view to cracking down on the illegal gambling market in China. Such distribution channels include various retail channels of Alibaba Group to distribute lottery products (e.g. "Lingshoutong" (零售通)).

Outside of China, the Group has entered into a joint venture agreement with One97 Communications Limited, owner of Paytm, India's leading mobile payment platform, to offer a variety of entertainment products and services to Paytm's users in India. It is our plan to create an exceptional and unique mobile entertainment experience to Indian players by leveraging the Group's operating experience and technical capability and deep understanding of the local market that enable us to boost player engagement.

(iii) Environmental protection management:

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

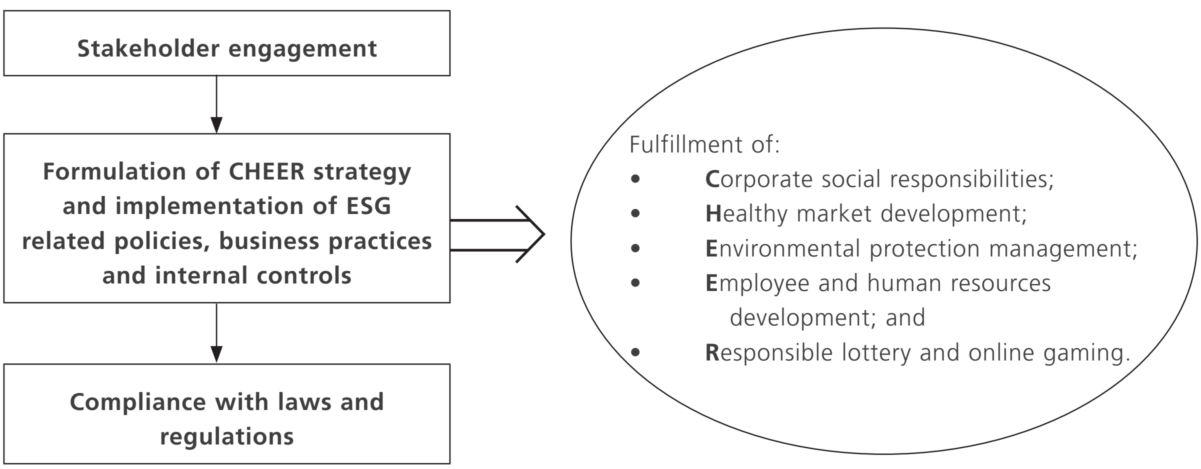
(iv) Employee and human resources development:

As a major part of our core business is founded on gaming technologies, our Group places great emphasis on research and development of our products with an aim to introducing more lottery products and/or mobile games to the PRC and selected overseas markets. Not only will this enhance the technical knowledge and skills of our professional team, but this will also help create job opportunities in the communities where the Group operates.

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

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

Sustainability management flowchart:



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

SUMMARY OF INFORMATION ON ENVIRONMENTAL AND SOCIAL MATTERS OF THE GROUP

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

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

SUSTAINABILITY REPORT

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

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

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

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

SUSTAINABILITY REPORT

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

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

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

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

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

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

SUSTAINABILITY REPORT

	Relevant policies, business practices or internal controls of the Group	Relevant laws and regulations that have a significant impact on the Group	Complied with relevant laws and regulations?
Operating Practices			
B6: Product responsibility (responsible lottery and online gaming practices)	Policies and/or business practices relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress: Unlike companies which supply consumer goods, food or beverages, our Group principally (i) provides lottery hardware (such as terminals and other lottery-related equipment); (ii) supplies lottery games, related software and underlying supporting systems; (iii) distributes lottery games and products and provides ancillary services; and (iv) provides non-lottery games and entertainment content. Accordingly, we do not anticipate any material risks of health and safety to the public arising from our products and services. Generally, the lottery authorities in the PRC (being our customers) will conduct the advertising or "branding" of the lottery products to promote their sales. However, where we are engaged by our customers to provide marketing consultancy services for our lottery games, we may participate in the marketing and advertising campaigns in order to promote the sales of our lottery games. Under such circumstance, we shall advise our customers as to how to educate lottery players in order to avoid problem gaming issues of the players, where appropriate. Our lottery hardware, games and systems are supplied only to governmental lottery authorities or operators authorised by such authorities in the PRC or overseas in order to preclude from involvement in any possible illegal gaming activities in any jurisdiction where the Group has business.	In respect of the Group's lottery business: Lottery Management Regulations (彩票管理條例)；The Detailed Rules for the Implementation of Lottery Management Regulations (彩票管理條例實施細則)；Measures for Lottery Issuance and Sales Management(彩票發行銷售管理辦法)；The Interim Measures for the Administration of Internet Sales of Lottery (互聯網銷售彩票管理暫行辦法)；The Interim Measures for the Administration of Telephone Sales of Lottery (電話銷售彩票管理暫行辦法) In respect of the Group's games and entertainment business: Interim Provisions on the Administration of Internet Culture (互聯網文化管理暫行規定); Notice on Comprehensive Prevention and Control of Children and Adolescents' Myopia Implementation Plan(綜合防控兒童青少年近視實施方案的通知)	✓

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

SUSTAINABILITY REPORT

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

	Relevant policies, business practices or internal controls of the Group	Relevant laws and regulations that have a significant impact on the Group	Complied with relevant laws and regulations?
Community			
B8: Community investment	Policies or business practices on community engagement to understand the needs of the communities where the Group operates and to ensure its activities take into consideration the communities' interests: (i) We collaborate closely with government bodies, charitable institutions and sports associations, and sponsor sports development and charity events organised by these parties. The Group has participated in a wide range of charity and sports development events such as Helping the Poor Children in Yunnan Province, Sponsoring Shanghai Youth Girls Soccer Team, AGTech Cup Olympic Photography Competition, Sponsoring Anhui Huangshan Martial Arts Competition Tournament, AGTech 15th He Long Cup Golf Celebrity Invitation, 2013 Shenzhen Charity Exhibition, 2015 Social Responsibility of China Lottery Forum as well as being the strategic partner of the Tennis Association for Central Government Agencies and sponsoring various tennis tournaments and tennis promotional campaign.	N/A	N/A

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

Notes:

N/A : Not applicable
✓ : Yes

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

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

SUSTAINABILITY REPORT

	KPIs	Details of KPIs/Remarks
b) Aspect A2: Use of Resources		
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	As mentioned above, the Group does not run any manufacturing factories and therefore material risks of wastage of resources such as electricity, water or raw materials are not applicable to its operations. Nevertheless, the Group continues to support low-carbon office and encourages its staff to save on the use of electricity and paper. For the year ended 31 December 2019: • Total electricity consumption of the Group: approximately 255,835 ('000 kilowatt hours) (i.e. approximately 2.5% increase over approximately 249,516 ('000 kilowatt hours) in 2018); • Total electricity expenses of the Group: approximately HK$314,985 (i.e. approximately 9.7% decrease over approximately HK$348,906 in 2018); and • Total expenses on paper consumption of the Group: approximately HK$6,435 (i.e. approximately 32.2% decrease over approximately HK$9,498 in 2018) The above year-on-year decrease in paper consumption reflects the continuous efforts of the use of soft copies and recycled paper among employees of the Group. The year-on-year increase in total electricity consumption by approximately 2.5% was a result of more overtime work carried out by employees of the Group, whereas the decrease in total electricity expenses in 2019 was due to the policy for electricity price reduction promulgated by the National Development and Reform Commission in the PRC.

	KPIs	Details of KPIs/Remarks
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	N/A ((i) The Group does not run any factories, (ii) office rental paid by the Group already covers water consumed by the Group and there are no separate billings of water usage by landlords (and hence records of water consumption) to various offices of the Group, and (iii) certain water facilities are provided in common areas of the office buildings and shared with other tenants located on the same floors of our various offices in China and Hong Kong, and therefore no data of water consumption can be available for individual tenants including the Group)
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	As mentioned in A2 above regarding the Group's policies on the use of resources, the energy use efficiency initiatives undertaken by the Group include: • switching off computers and lights when employees leave the office; • use of recycled paper; • increased use of soft copies; • adoption of a 5-day work week for the Group; • use of public transportations for errands; and • scientific design of the office has been adopted so that natural light could be made full use of, rather than electricity. During the year under review, the effects of the aforementioned energy use efficiency initiatives remained to be satisfactory. As mentioned in KPI A2.1 above, the year-on-year increase in total electricity consumption by approximately 2.5% was a result of more overtime work carried out by employees of the Group; whereas the decrease in total electricity expenses in 2019 was due to the policy for electricity price reduction promulgated by the National Development and Reform Commission in the PRC. In addition, the continuous effort of the Group's employees to save on paper consumption was found to be satisfactory.

	KPIs	Details of KPIs/Remarks
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	N/A *(Note 1)*
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	N/A *(Note 1)*
c) Aspect A3: The Environment and Natural Resources		
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	N/A *(Note 1)*

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

DISCUSSION AND ANALYSIS OF THE GROUP'S RESULTS AND BUSINESS

ABOUT THE GROUP

AGTech was incorporated in Bermuda and its Shares are listed on GEM (Stock Code: 8279). AGTech is an integrated technology and services company engaged in the lottery and mobile games and entertainment markets with a focus on China and selected international markets. A member of the Alibaba Group with around 360 employees, AGTech is the exclusive lottery platform of Alibaba Group and Ant Financial Group.

AGTech's businesses are broadly divided into two categories:

- Lottery (including hardware, games and systems and provision of distribution and ancillary services); and
- Games and Entertainment.

AGTech is a Gold Contributor of the World Lottery Association (WLA), an associate member of the Asia Pacific Lottery Association (APLA), and an official partner of the International Mind Sports Association (IMSA).

CORPORATE STRATEGY AND OBJECTIVES

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

As the exclusive lottery platform of Alibaba Group and Ant Financial Group, lottery technology and services will continue to be AGTech's domain expertise. The Group continues to leverage its lottery industry experience and innovation to support lottery authorities in areas including product development, physical channel expansion, innovative hardware, marketing services and promotions, all in assisting to broaden the reach of lottery products in China and to advance the industry as a whole.

The Group will continue to develop differentiated games and entertainment platforms with the goal of integrating unique social games and sports entertainment content, ultimately to create an innovative business model to increase the Group's commercial value.

Looking forward, AGTech will continue to pursue overseas opportunities and globalize our business through offering our proprietary systems and platforms, as well as operational and technical expertise, in addition to seeking strategic partnership with local partners in overseas markets such as India, South East Asia and beyond.

DISCUSSION AND ANALYSIS OF THE GROUP'S RESULTS AND BUSINESS

INDUSTRY OVERVIEW

Lottery*

PRC annual lottery sales in 2019 amounted to approximately RMB422.05 billion, representing a decrease of approximately 17.5% over 2018. Despite the significant size of today's China lottery market, the penetration rate of regulated lottery in China remains comparatively low by international standards. Given that lottery participation in China is well below that of developed markets such as Europe and the United States, there is enormous potential for future growth in China's legal lottery market.

There are two legal lottery operators in the PRC: the national welfare lottery (Welfare Lottery) and the national sports lottery (Sports Lottery). For 2019, the lottery sales of Welfare Lottery and Sports Lottery decreased by approximately 14.8% and approximately 19.6%, representing approximately 45.3% and approximately 54.7% of the total PRC lottery market respectively.

The Welfare Lottery and the Sports Lottery have five main product categories: lotto type lottery game products that are either traditional in nature with a daily or weekly draw pattern as well as modern high frequency games featuring multiple draws per hour ("Lotto"), sport betting ("Sports"), video lottery terminal ("VLT"), a keno product ("Keno") and instant scratch cards ("Scratch").

In 2019, the top three lottery products recorded year on year sales drop, with sports betting plunging most by approximately 26.3% over 2018. Overall, Lotto remains by far the largest category, representing approximately 53.8% of the overall market, followed by Sports, VLT, Scratch and Keno.

* *Source: Ministry of Finance of the PRC*

Games and Entertainment

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

In fact, China has become one of the largest mobile games markets in the world. However, over the course of 2018 and 2019, we noted that certain PRC government's directives were issued to closely regulate the administration of the online game industry and the PRC government had paid attention to the internet industry. This may cause uncertainties to China's overall games industry.

BUSINESS REVIEW

New Lottery Services

Following the success of the Sports Lottery marketing campaign in 2018, in which we delivered a new omni-channel experience to customers in promoting Sports Lottery's products by leveraging Alibaba Group and Ant Financial Group's vast resources, the Group continued to partner with lottery authorities throughout China to help reinvent the way they engage with existing and potential customers.

During 2019, the Group has secured cooperation by way of lottery services with the following PRC lottery authorities:

(a) cooperation with Guangdong SLAC to apply an enterprise intelligent office service platform to the Guangdong SLAC "network service platform" project, thus satisfying the demand on its digital management. We aim to spread the platform service to other provinces and regions in China in the future;

(b) collaboration with Tianjin SLAC to carry out corresponding marketing planning and implementation for the comprehensive range of sports lottery products according to Tianjin SLAC's timeline, and to achieve the objectives of assisting Tianjin SLAC in brand building, efficient dissemination, and expansion of new user groups, by means of multi-category media promotions of responsible lottery and public welfare;

(c) collaboration with 中國福利彩票發行管理中心 (China Welfare Lottery Issuance and Administration Center) on the research and application of notarizable electronic lottery draw technology based on blockchain smart contract technology. Ant Financial Group's blockchain technology was applied in this project; and

(d) collaboration with 國家體育總局體育彩票管理中心 (SLAC of General Administration of Sport of the PRC) to provide services on research, development and operation of AR (augmented reality) technology for China Sports Lottery's online promotion activities, to promote sports lottery products and expand its younger customer base.

The Group will continue to promote innovation and technology applications in collaboration with lottery authorities with the aim of further developing the lottery market.

Lottery Resources Channel

The Group successfully launched its dedicated lottery resources channel on mobile Taobao and mobile Alipay. While this lottery resources channel has not conducted any internet lottery sales, it serves as a one-stop platform for many lottery-related services and resources, providing lottery players and online users in China easy access to information and resources that address various lottery needs.

Tools on the lottery resources channel include displaying of certain historical and current lottery products results and other tools. Further, the channel compiles the locations of nearby lottery retail channels, paving the way for further integration of online and offline resources in the future. Through this channel, we hope to continue growing our online presence, and maximising the value of our business partnership with Alibaba Group and Ant Financial Group, in preparation for any potential approval and authorisation of online distribution of lottery products in the future.

DISCUSSION AND ANALYSIS OF THE GROUP'S RESULTS AND BUSINESS

The Group will continue to leverage on and explore opportunities for collaboration with Alibaba Group's retail ecosystem to enhance on lottery distribution models where appropriate. We believe that the integration of lottery services and products through Alibaba's physical retail distribution channel and networks under its new retail strategy will continue to create synergy and opportunities in the future.

Lottery Games and Systems

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

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

Lucky Racing and e-Ball Lottery

AGT, which is owned as to 51% by the Group and as to 49% by Ladbroke Group (a subsidiary of one of the world's largest sports betting companies), supplies China's only virtual sports lottery platform to Sports Lottery, and continues to operate the two virtual sports games in the country, after having launched its motor racing-themed virtual game "Lucky Racing" ("幸運賽車") in Hunan Province of the PRC in 2011, and its football themed game "e-Ball Lottery" ("e球彩") in Jiangsu Province of the PRC in 2013. "Lucky Racing" and "e-Ball Lottery" are virtual sports lottery games that are broadcasted to lottery shops via a central server and cable television, allowing customers to bet on computer generated car races or football matches respectively. To date, "Lucky Racing" and "e-Ball Lottery" have been successfully launched in traditional Sports Lottery shops in Hunan and Jiangsu provinces of the PRC respectively. During November of 2019, e-Ball Lottery has reached RMB10 billion in accumulated sales since its initial launch.

As announced by the Company on 14 November 2018, 亞博泰科科技(北京)有限公司 (Asia Gaming Technologies (Beijing) Co., Ltd.) ("AGT Beijing"), a subsidiary owned as to 51% by the Group, has been awarded the technical cooperation contract in respect of e-Ball Lottery for Jiangsu SLAC. Under such contract, AGT Beijing is responsible for setting up and developing the distribution and sales management system for e-Ball Lottery for a further five-year term, including its maintenance, installation, testing, ongoing development and system upgrade as requested by Jiangsu SLAC.

Lottery Hardware

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

AGTech's Hardware division primarily supplies both Sports Lottery and Welfare Lottery, and has lottery hardware deployed in multiple provinces, cities, municipalities and autonomous regions across China. The Group is one of the leading manufacturers and suppliers in China of traditional lottery terminals, and paper scratch card sales hardware (instant ticket verification terminals, "IVT(s)"). The Group's Hardware division continues to focus on research and development in order to broaden and improve its product spectrum and develop new hardware ranges.

All in all, during the year under review, the Group won 12 lottery hardware tenders to supply lottery terminals to the SLACs in Tianjin, Hainan, Guangxi, Guizhou, Anhui, Beijing, Guangdong, Jiangsu, Heilongjiang, Zhejiang, Henan of the PRC, accounting for over 32% of the overall sports lottery terminal tenders in China during the same period, calculated by the number of terminals. We did especially well in new android sports lottery terminal tenders in China, winning over 43% of such tenders during the same period, calculated by the number of terminals. These winnings further strengthened the Group's top-tier position in China's lottery hardware market and demonstrated the continued competitiveness of the Group's lottery terminals. Looking forward, the Group will continue to pursue tenders to supply to the lottery hardware market as opportunities to bid for new contracts arise throughout the year.

Games and Entertainment

Online non-lottery games and entertainment content

The Group is dedicated to evolving our business into a comprehensive lottery, mobile games and entertainment content and technology provider to customers around the world. With this in mind, and in preparation for any potential approval and authorisation of online distribution of regulated lottery products, the Group has been active in building our online presence and customer-base through various online channels by offering various types of proprietary non-lottery games and entertainment content.

During the course of 2018 and 2019, we noted that certain PRC government's directives were issued to closely regulate the administration of the online games industry and the PRC government had paid attention to the internet industry. This may cause uncertainties to China's overall games industry. We will closely monitor any such latest government directives but believe that we are able to leverage our technical know-how and operating expertise in lottery to create various games and entertainment content and platforms, integrating different and unique resources and elements of e-commerce and e-payment platforms, to create a fun and healthy experience that aims to enrich online users' experience.

We continue to believe that our businesses in the Games and Entertainment division are complementary to our regulated lottery activities, and they are synergistic from a business model, market development, technical infrastructure and user experience perspective. The Group will continue to refine and improve the value proposition of this Games and Entertainment business in order to achieve sustainable scalability and growth over the long term.

International Market

Strategic expansion in selected markets overseas

A joint venture of the Group with One97 Communications Limited continued to develop its mobile games and entertainment platform in India, Paytm First Games (formerly known as "Gamepind"). Paytm First Games offers players a unique online experience with popular games content such as social games, card games and fantasy sports games. The platform has grown its user base significantly and will continue to benefit from Paytm and other well selected marketing channels. As the brand influence of the platform continues to grow, together with the addition of competitive games contents particularly in the sports category, as demonstrated by the launch of a dedicated cricket channel in March 2019 and fantasy cricket (known as "Paytm First Captains") in May 2019, the Group is hopeful that Paytm First Games will continue to grow its user base, paving the way to monetize this unique platform, thus capitalizing on the significant potential of the fast growing mobile games and entertainment market in India.

Sporting Events Entertainment Content

During March 2019, the Group collaborated with AliExpress, the global retail platform of Alibaba Group, on a new product of "e-commerce + sports interactive entertainment" in Europe. Through choosing the correct outcome of the European Cup qualifiers, this events-based product connected sporting events with entertainment element, linked with social media features and offered attractive rewards, thereby providing our partner with an effective way to engage with customers. The Group will continue to develop unique sports entertainment products and digital solutions according to the demands of the rapidly growing e-commerce market internationally.

DISCUSSION AND ANALYSIS OF THE GROUP'S RESULTS AND BUSINESS

BUSINESS OUTLOOK

The Group continues to proactively transform and build on our leading position within the Chinese lottery industry. As the exclusive lottery business platform of Alibaba Group and Ant Financial Group, we expect to further align and benefit from synergies created through cooperation with Alibaba Group and Ant Financial Group.

Our continuing efforts to partner with additional provincial lottery authorities of China in areas such as technology and business innovation, channel expansion and distribution, smart hardware terminals, data services, and other value added ancillary services are all part of our smart lottery initiative. We also anticipate a gradual rollout of our SaaS (Software-as-a-Service) lottery platform through our cloud services, aiming to serve and benefit users from all sectors within the lottery supply chain. Our platform is expected to be well equipped for applications within the Alibaba digital ecosystem, in addition to any potential change in distribution channels other than the current retail model. While the Group believes that the potential of internet and mobile distribution channels in the PRC lottery markets are promising, there is still uncertainty as to the timing of the potential re-opening of the online lottery distribution market under the applicable PRC laws and regulations. In this respect we will continue to closely monitor policy developments in that regard.

The Group continues to operate the lottery channel on mobile Taobao and mobile Alipay to serve as a one-stop platform on lottery related information for existing and potential customers. With the recent addition of sporting content to our lottery channel, we expect to roll out further features such as sports intelligence services to improve user experience and engagement.

From a lottery product's point of view, we have identified instant scratch cards to be an important product initiative for the coming year, as we will be dedicating resources to open up this market within the lottery sector.

Alibaba Group's new retail initiatives present a great opportunity for the further development of the Group's hardware business. Many of the hardware supplies required under such new retail initiatives share similar technology and components that underlie the lottery hardware products supplied by the Group throughout the years. We believe our Hardware division continues to be well positioned to take advantage of such opportunities in the foreseeable future.

The Group is also leveraging on our existing products and technology to innovate and improve on digitalization of sporting content. Building off the successful launch of our fantasy sports products on the Paytm First Games platform, we will continue to serve as the technical service provider to the joint venture. We believe that having a robust sports-oriented solution will help the Group to capture opportunities and gain an edge in the fast-evolving sports-entertainment sector, as well as popular international sporting events such as the Euro Cup going forward.

With respect to our international business, the Group is fully devoted and will continue to invest in and develop fast growing markets such as India through utilizing our experience on sports betting products, technology, and expertise on risk management. Our positioning as a 2B technical service provider within the sports betting sector will be a key initiative for the coming year.

Outside of India, the Group will continue to seek for strong suitable partners in selected international markets to leverage on our platforms of games and entertainment offerings and various user engagement activities, as well as technical and operation abilities, to further globalise our business.

With regards to our investment relating to the formation of Ant Bank (Macao) Limited (formerly known as "Xinghui Bank Limited") and the official launch of operations in 2019, the Group's increase in share capital contribution to Ant Bank (Macao) Limited demonstrates our commitment to grow the business and further capitalise on opportunities in Macau and overseas.

The Group has also been seeking expansion opportunities in overseas markets through acquisitions and investments. To this end, the Group has been in the process of identifying suitable acquisition targets and has been in discussion on various ongoing opportunities.

Lastly, the Group's continuing investment to enhance our technology infrastructure and develop our in-house capabilities through games and lottery entertainment as a medium continues to be a demonstration of our commitment to generate long term sustainable growth for our Shareholders.

REVIEW OF OPERATING RESULTS

Revenue and Profitability

Revenue of the Group for the year under review amounted to approximately HK$175.1 million (2018: approximately HK$168.6 million), representing an increase of approximately 3.9% over 2018. Revenue contributions were mainly derived from lottery hardware, lottery games and systems, provision of lottery distribution and ancillary services, games and entertainment business in the PRC. The increase in revenue for the year was primarily caused by the increase in revenue from the lottery games and systems of approximately HK$9.3 million and increase in sales from lottery hardware of approximately HK$2.7 million, partially offset by the decrease of approximately HK$6.3 million in revenue from the provision of lottery distribution and ancillary services. The increase in revenue from the lottery games and systems was caused by the increase in sales volume from the virtual sports lottery games in 2019. Sales of lottery hardware remained stable for the year under review.

Operating loss for the year was approximately HK$194.9 million (2018: approximately HK$262.0 million). The decrease was primarily due to the Group's various measures to optimize business strategy such as chasing better profit margins rather than maximising market share in the Group's lottery hardware business, as well as strengthening cost controls over operating costs and expenses to enhance our competitive position in the industry.

The loss for the year under review was approximately HK$113.6 million (2018: profit of approximately HK$317.1 million). The change from profit to loss for the year was mainly attributable to several non-cash and non-operating items relating to the fair value changes of the Convertible Bonds and the contingent consideration payables under the Score Value Transaction.

During the year under review, other operating expenses were approximately HK$77.5 million (2018: approximately HK$114.7 million). The decrease was primarily due to the decreases in share-based payments for other eligible participants of approximately HK$12.2 million, legal and professional fees of approximately HK$7.7 million, marketing expenses of approximately HK$6.6 million and operating expenses related to lottery distribution of approximately HK$5.2 million.

For the year ended 31 December 2019, depreciation expenses included depreciation charge of right-of-use assets of approximately HK$20.6 million (2018: Nil) upon the adoption of HKFRS 16 "Leases" by the Group for the first time for the financial year beginning on 1 January 2019. Prior to the adoption of the new lease standard, operating lease payments were recognized as an expense under "operating lease rental expenses" of approximately HK$25.8 million for the year ended 31 December 2018.

DISCUSSION AND ANALYSIS OF THE GROUP'S RESULTS AND BUSINESS

Liquidity and financial resources

Net cash (defined as total cash and cash equivalents less total debts, which include trade payables, accruals and other payables, contract liabilities, lease liabilities, contingent consideration payables and convertible bonds) as at 31 December 2019 were approximately HK$934.0 million (2018: approximately HK$1,714.2 million). The decrease in net cash was primarily due to the increase in fixed deposits held at bank with original maturity over three months of approximately HK$778.5 million. The total assets and net current assets of the Group as at 31 December 2019 were approximately HK$3,254.7 million and approximately HK$1,852.5 million respectively (2018: approximately HK$3,721.5 million and approximately HK$1,853.6 million respectively). Current liabilities of the Group as at 31 December 2019 were approximately HK$194.8 million (2018: approximately HK$652.9 million). As at 31 December 2019, the Group had no available banking facilities. There were no bank borrowings of the Group as at 31 December 2019 (2018: Nil). The liquidity ratio (defined as current assets divided by current liabilities) of the Group as at 31 December 2019 was approximately 10.5 (2018: 3.8) which continuously reflected adequacy of financial resources of the Group.

Capital structure and foreign exchange risk

During the year under review, the Group financed its capital requirements through its equity, its internally generated cash flows as well as the proceeds from the Subscription.

As at 31 December 2019, there were no bank borrowings of the Group (2018: Nil). The gearing ratio (defined as bank borrowings divided by equity) of the Group as at 31 December 2019 was therefore not applicable (2018: Not applicable).

As at 31 December 2019, majority of the Group's bank deposits were denominated in US$, HK$ and RMB. Since HK$ is pegged to US$, and substantially all of the revenue-generating operations, monetary assets and liabilities of the Group are conducted or transacted in functional currencies, the Group faced minimal foreign exchange risk during the year under review. The Group had neither foreign currency hedging activities nor any financial instruments for hedging purposes during the year under review.

Contingent liabilities and capital commitment

As at 31 December 2019, the Group did not have any material contingent liabilities and capital commitment that constituted "notifiable transactions" under Chapter 19 of the GEM Listing Rules.

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

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

Employees' information and remuneration policies

As at 31 December 2019, the Group had 363 (2018: 400) employees in Hong Kong and the PRC. Total staff costs (excluding Directors' emoluments) for the year ended 31 December 2019 amounted to approximately HK$189.8 million (2018: approximately HK$224.9 million).

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

Charges on Group's assets

As at 31 December 2019, bank deposits of approximately HK$2.5 million (as at 31 December 2018: approximately HK$5.2 million) were held in designated bank accounts to secure letters of guarantee granted to the Group. The pledged bank deposits will be released upon the release of the relevant letters of guarantee granted to the Group.

In addition, as at 31 December 2019, a sum of approximately HK$16.5 million (as at 31 December 2018: approximately HK$23.3 million) was held by trustees of the Company for purchases of award Shares under the Share Award Scheme. Such sum was not available for general use by the Group.

Save as disclosed above, as at 31 December 2019, there was no charge on the assets of the Group.

Future plans for material investments and acquisition of capital assets

As at 31 December 2019, there was no specific plan for material investments and acquisition of capital assets that is required to be disclosed pursuant to Rule 17.10 of the GEM Listing Rules and the inside information provisions under Part XIVA of the SFO.

Significant changes to financial position

Inventories of the Group amounted to approximately HK$11.9 million as at 31 December 2019 (as at 31 December 2018: approximately HK$17.0 million), with inventory turnover period increased from 86 days in 2018 to 91 days in 2019. Trade receivables of the Group amounted to approximately HK$26.6 million as at 31 December 2019 (as at 31 December 2018: approximately HK$24.4 million), with debtor turnover period decreased from 80 days in 2018 to 53 days in 2019. Debtor turnover period improved in 2019 and inventory turnover period remained stable as compared to that in 2018.

Goodwill of the Group decreased to approximately HK$1,067.6 million as at 31 December 2019 (as at 31 December 2018: approximately HK$1,081.5 million), primarily due to the currency translation difference of approximately HK$13.9 million in 2019 when translating the goodwill denominated in RMB into HK$.

As at 31 December 2019, there were no Convertible Bonds outstanding (as at 31 December 2018: HK$418.8 million). During the year under review, a gain of approximately HK$85.2 million (2018: HK$521.2 million) was recorded from the remeasurement of the fair value of embedded derivative of the Convertible Bonds. The significant inputs applied in the fair value measurement of the embedded derivative of Convertible Bonds primarily include the market price of the Shares of the Company listed on GEM of the Stock Exchange and the expected volatility of the share price. Please refer to Note 29 to the consolidated financial statements of the Group for details of the remeasurement of the fair values of the Convertible Bonds.

During the year under review, a gain of approximately HK$7.8 million (2018: approximately HK$50.1 million) was recorded from the remeasurement of the fair value of the outstanding contingent consideration payables under the Score Value Transaction. Please refer to Note 28 to the consolidated financial statements of the Group for details of the outstanding contingent consideration payables under the Score Value Transaction.

DISCUSSION AND ANALYSIS OF THE GROUP'S RESULTS AND BUSINESS

Investments accounted for using equity method decreased to approximately HK$14.3 million as at 31 December 2019 (as at 31 December 2018: approximately HK$53.1 million), primarily due to the share of loss of the Group's joint venture with One97 Communications Limited of approximately HK$38.1 million. The joint venture commenced operation in 2018 and is still in rapid growth and investment period. During the year, the joint venture invested in developing new games, strengthening mobile platform, extending the user base and capturing more market share in India. Please refer to Note 20 to the consolidated financial statements of the Group for the summarized financial information for the joint venture.

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

Details of the principal risks and uncertainties facing the Group, the risk management measures deployed by the Group to mitigate such risks and the Group's compliance with relevant laws and regulations can be found in the Directors' Report on pages 99 to 127 of this annual report.

Significant event after the reporting period

Since January 2020, the outbreak of Novel Coronavirus ("COVID-19") has had an impact on the global business environment and operation of many industries, including lottery in the PRC and sports and games in India. Subject to the development and spread of COVID-19 subsequent to the date of this report, further changes in economic conditions may have an impact on the financial results and the expected usage and timeline of Adjusted Remaining Net Proceeds of the Group, the extent of which could not be reasonably estimated as at the date of this report. The Group will continuously monitor the development of the COVID-19 and take the necessary measures for the benefit of the Group.

STATUS OF THE CONVERTIBLE BONDS

On 19 July 2019, the Company received a conversion notice from Ali Fortune in respect of the exercise of conversion rights attaching to the Convertible Bonds in an aggregate principal amount of HK$99,720,000. Accordingly, the Company allotted and issued an aggregate of 400,000,000 Conversion Shares to Ali Fortune at the conversion price of HK$0.2493 per Conversion Share on 22 July 2019. For details, please refer to the announcement of the Company dated 22 July 2019.

As no further conversion rights attaching to the Convertible Bonds were exercised by Ali Fortune on or before their maturity date on 10 August 2019 (the "**Maturity Date**"), the Company redeemed the remaining Convertible Bonds in an aggregate principal amount of HK$232,608,165 on the Maturity Date pursuant to the instrument of the Convertible Bonds. Further details can be found in the announcement of the Company dated 9 August 2019.

After the redemption of the Convertible Bonds on the Maturity Date, there were no more Convertible Bonds outstanding. For details of the key terms of the Convertible Bonds, please refer to pages 94 and 95 of the 2018 annual report of the Company.

NEW CONTINUING CONNECTED TRANSACTIONS

During the year under review, the Group entered into the following new continuing connected transactions ("**CCTs**") which shall be implemented from 2020 onwards:

(i) On 11 December 2019, Beijing GOT Technology Co., Ltd.* ("**Beijing GOT**", a wholly-owned subsidiary of the Company) entered into a cooperation framework agreement (the "**Alibaba Cooperation Framework Agreement**") with Alibaba (China) Technology Co. Ltd. ("**Alibaba China**", an indirect wholly-owned subsidiary of Alibaba Holding), subject to the annual cap amounts of HK$70,000,000 and HK$70,000,000 for the period commencing from 21 February 2020 (i.e. the effective date of the Alibaba Cooperation Framework Agreement) to 31 December 2020 and for the year ending 31 December 2021 respectively. Pursuant to the Alibaba Cooperation Framework Agreement, the Group may supply smart hardware and ancillary equipment (including, but are not limited to, point-of-sales (POS) terminals and face recognition payment equipment) and related aftersales maintenance services to Alibaba China and its affiliates (including Lingshoutong).

Ali Fortune, the controlling shareholder of the Company, is indirectly held as to 60% by Alibaba Holding. Accordingly, Alibaba China, being an indirect wholly owned subsidiary of Alibaba Holding, is an associate of Ali Fortune and hence a connected person of the Company. The Alibaba Cooperation Framework Agreement and the transactions contemplated thereunder thus constitute CCTs of the Company under Chapter 20 of the GEM Listing Rules.

Since at least one of the applicable percentage ratios as defined in the GEM Listing Rules calculated with reference to the annual caps in respect of the Alibaba Cooperation Framework Agreement exceeds 5%, the Alibaba Cooperation Framework Agreement and the transactions contemplated thereunder are subject to the annual review, reporting, announcement and independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules. The Alibaba Cooperation Framework Agreement, the transactions contemplated thereunder and the annual caps thereof had been duly approved by independent Shareholders at the special general meeting of the Company held on 21 February 2020. For details of these CCTs, please refer to the circular of the Company dated 5 February 2020.

(ii) On 20 December 2019, Beijing AGTech Co., Ltd.* ("**Beijing AGTech**"), being a wholly-owned subsidiary of the Company, entered into a technology services framework agreement (the "**2020 Technology Services Framework Agreement**") with Alibaba Cloud Computing Ltd. ("**Alibaba Cloud**"). Pursuant to the 2020 Technology Services Framework Agreement, Beijing AGTech will and will procure the Group to, where applicable, enter into specific agreements with Alibaba Cloud for the provision of technology services and resources, including authorisation for the use of cloud computing technologies and e-commerce technologies, and the provision of other technology services and support based on the business needs and operational requirements of the Group, including the provision of information technology infrastructure and hardware such as servers and data rooms, by Alibaba Cloud to the Group. The 2020 Technology Services Framework Agreement shall be for a term commencing on 1 January 2020 and ending on 31 December 2022. The Company expects that the maximum aggregate fees payable to Alibaba Cloud by the Group under the 2020 Technology Services Framework Agreement will not be more than HK$3,300,000 for the year ending 31 December 2020, HK$4,000,000 for the year ending 31 December 2021 and HK$4,800,000 for the year ending 31 December 2022.

Ali Fortune, the controlling shareholder of the Company, is indirectly held as to 60% by Alibaba Holding. Accordingly, Alibaba Cloud, being a consolidated entity of Alibaba Holding, is an associate of Ali Fortune and therefore a connected person of the Company. The transactions contemplated under the 2020 Technology Services Framework Agreement thus constitute CCTs of the Company under Chapter 20 of the GEM Listing Rules.

As each of the applicable percentage ratios (as defined in the GEM Listing Rules) in respect of the 2020 Technology Services Framework Agreement is less than 5%, the transactions contemplated under the 2020 Technology Services Framework Agreement are subject to the annual review, reporting and announcement requirements, but exempt from the circular and independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules. For details of these CCTs, please refer to the announcement of the Company dated 20 December 2019.

USE OF PROCEEDS FROM THE SUBSCRIPTION

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

As disclosed in the announcement of the Company dated 9 February 2018 (the "**Re-allocation Announcement**"), the Company has re-allocated the use of the Net Proceeds totalling approximately HK$2,032 million that remained as at 31 January 2018 (the "**Remaining Net Proceeds**") so as to redirect the resources towards the current business divisions of the Group and to improve the efficiency and effectiveness of the use of such Net Proceeds for the business development of the Group.

The amount of the Remaining Net Proceeds was calculated based on the assumption that the Convertible Bonds would be converted in full by Ali Fortune. However, in order to maintain a public float of not less than 25% of the Company's total number of issued Shares and to allow some buffer for the Company to grant and/or vest further award Shares under the Share Award Scheme to/in the directors of the Group who are regarded as "connected persons" of the Company under the GEM Listing Rules, not all the conversion rights attaching to the Convertible Bonds had been exercised by Ali Fortune on or before their Maturity Date, and the Company redeemed the remaining Convertible Bonds in an aggregate principal amount of HK$232,608,165 on the Maturity Date pursuant to the instrument of the Convertible Bonds (the "**CB Redemption**"). Accordingly, the Remaining Net Proceeds have been adjusted downwards to approximately HK$1,799 million (the "**Adjusted Remaining Net Proceeds**") to take into account the effect of the CB Redemption.

From 10 August 2016 (being the date of Completion) up to and including 31 January 2018, approximately HK$348 million in total was used by the Group (For breakdowns of the usage of such Net Proceeds up to and including 31 January 2018, please refer to pages 2 and 3 of the Re-allocation Announcement). From 1 February 2018 up to and including 31 December 2019, approximately HK$780.3 million in total was used by the Group in each of the business divisions of the Group and for investment, acquisition and general corporate purposes in the manner as set out in the table below. Net Proceeds in the sum of approximately HK$1,018.7 million remained as at 31 December 2019, which were placed in the bank accounts of the Group.

Business divisions of the Group, or investment, acquisition or general corporate purposes, to which the Adjusted Remaining Net Proceeds are intended to be allocated	Amount brought forward from 31 January 2018, re-allocated and intended to be used (as disclosed in the Re-allocation Announcement and adjusted for the CB Redemption, where applicable)	Amount actually used from 1 February 2018 up to and including 31 December 2019	Actual application of the Adjusted Remaining Net Proceeds (with expected timeline of usage of unused proceeds and explanations for material difference from intended usage, if any)
(i) Games and Entertainment:			
(a) development, operation and promotion of the Chinese card game, GuanDan, and Two-on-One Poker *(b) development, operation and promotion of the mind sports, leisure games and entertainment* *(c) research and development ("**R&D**") of games and entertainment content that are not subject to the applicable lottery laws and regulations in the PRC or other overseas markets* *(d) expansion and development of the Group's R&D capability in technology development for games and systems* *(e) payment of marketing fees to merchants to promote and boost online activities by online users*	approximately HK$513 million (or approximately 28.5% of Adjusted Remaining Net Proceeds) (Note)	approximately HK$97.7 million	The Adjusted Remaining Net Proceeds were used in items(i)(a) to (i)(e). Over the course of 2018 and 2019, we noted that certain PRC government's directives were issued to closely regulate the administration of the online games industry and the PRC government had paid attention to the internet industry, which raised uncertainties to the PRC's overall games industry and hence the Group's "Games and Entertainment" business in the PRC. As a result of the foregoing, the usage of the Adjusted Remaining Net Proceeds allocated to "Games and Entertainment" business has generally been slower than planned. The Adjusted Remaining Net Proceeds allocated to "Games and Entertainment" are expected to be used on or before 31 December 2020, subject to the continuous monitoring and measures of the Group in response to the potential impact of the COVID-19 on the expected usage and timeline of the Adjusted Remaining Net Proceeds as mentioned in the section headed "Significant event after the reporting period" above.
(ii) Lottery Hardware, Lottery Games & Systems:			
(a) operation and development of lottery hardware and terminal production *(b) operation and development of lottery software systems* *(c) development of ancillary parts for lottery hardware and terminal production* *(d) investment for lottery games* *(e) funding the remaining consideration for the Score Value Transaction contingent upon certain performance targets*	approximately HK$200 million (or approximately 11.1% of Adjusted Remaining Net Proceeds)	approximately HK$187.2 million	The Adjusted Remaining Net Proceeds were used in items (ii)(a) to (ii)(e). No material difference from intended usage noted. The Adjusted Remaining Net Proceeds allocated to "Lottery Hardware, Lottery Games & Systems" are expected to be used on or before 31 December 2020, subject to the continuous monitoring and measures of the Group in response to the potential impact of the COVID-19 on the expected usage and timeline of the Adjusted Remaining Net Proceeds as mentioned in the section headed "Significant event after the reporting period" above.

DISCUSSION AND ANALYSIS OF THE GROUP'S RESULTS AND BUSINESS

Business divisions of the Group, or investment, acquisition or general corporate purposes, to which the Adjusted Remaining Net Proceeds are intended to be allocated		Amount brought forward from 31 January 2018, re-allocated and intended to be used (as disclosed in the Re-allocation Announcement and adjusted for the CB Redemption, where applicable)	Amount actually used from 1 February 2018 up to and including 31 December 2019	Actual application of the Adjusted Remaining Net Proceeds (with expected timeline of usage of unused proceeds and explanations for material difference from intended usage, if any)
(iii)	**Lottery Distribution:**			
(a)	*sales, marketing and distribution of virtual lottery games*	approximately HK$300 million (or approximately 16.7% of Adjusted Remaining Net Proceeds)	approximately HK$133.9 million	The Adjusted Remaining Net Proceeds were primarily used in items (iii)(a) to (iii)(d).
(b)	*sales, marketing and distribution of instant scratch lottery games*			No material difference from intended usage noted.
(c)	*sales, marketing and distribution of other categories of lottery games*			The Adjusted Remaining Net Proceeds allocated to "Lottery Distribution" are expected to be used on or before 31 December 2020, subject to the continuous monitoring and measures of the Group in response to the potential impact of the COVID-19 on the expected usage and timeline of the Adjusted Remaining Net Proceeds as mentioned in the section headed "Significant event after the reporting period" above.
(d)	*online sales, marketing and distribution of lottery products (including but not limited to the future cooperation with Taobao (China) Software Co., Ltd. and Alipay.com Co., Ltd.)*			
(iv)	**Investment project(s) and acquisition(s):**			
(a)	*potential investment project(s) in overseas markets in areas of lottery business and games and entertainment business*	approximately HK$450 million (or approximately 25.0% of Adjusted Remaining Net Proceeds)	approximately HK$123.6 million	The Adjusted Remaining Net Proceeds were used in items (iv)(a) to (iv)(d).
(b)	*potential acquisition(s) of businesses engaged in lottery business and games and entertainment business*			The Group has been continuing its efforts in identifying suitable acquisition targets and has been in discussion with potential acquisition targets. It was found that such targets may not be able to achieve the level of strategic synergy and growth value expected by the Group. As a result, the progress of such potential acquisitions has been slowed down. Therefore, the usage of the Adjusted Remaining Net Proceeds allocated to "Investment project(s) and acquisition(s)" has generally been slower than planned.
(c)	*capital investments in the Group's joint venture company established with One 97 Communications Limited in India*			
(d)	*funding provided by the Group to support business expansion and ongoing operation in overseas markets*			The Adjusted Remaining Net Proceeds allocated to "Investment project(s) and acquisition(s)" are expected to be used on or before 31 December 2020, subject to the continuous monitoring and measures of the Group in response to the potential impact of the COVID-19 on the expected usage and timeline of the Adjusted Remaining Net Proceeds as mentioned in the section headed "Significant event after the reporting period" above.
(v)	**General corporate purposes:**			

Business divisions of the Group, or investment, acquisition or general corporate purposes, to which the Adjusted Remaining Net Proceeds are intended to be allocated	Amount brought forward from 31 January 2018, re-allocated and intended to be used (as disclosed in the Re-allocation Announcement and adjusted for the CB Redemption, where applicable)	Amount actually used from 1 February 2018 up to and including 31 December 2019	Actual application of the Adjusted Remaining Net Proceeds (with expected timeline of usage of unused proceeds and explanations for material difference from intended usage, if any)
(a) staff costs and other administrative expenses of the Group (including the costs relating to the Share Award Scheme) *(b) general working capital of the Group*	approximately HK$336 million (or approximately 18.7% of Adjusted Remaining Net Proceeds)	approximately HK$237.9 million	The Adjusted Remaining Net Proceeds were used in items (v)(a) to (v)(b). No material difference from intended usage noted. The Adjusted Remaining Net Proceeds allocated to "General corporate purposes" are expected to be used on or before 31 December 2020, subject to the continuous monitoring and measures of the Group in response to the potential impact of the COVID-19 on the expected usage and timeline of the Adjusted Remaining Net Proceeds as mentioned in the section headed "Significant event after the reporting period" above.
Grand total:	**approximately HK$1,799 million**	**approximately HK$780.3 million**	

Note: This amount has been adjusted downwards from approximately HK$746 million as stated in the Re-allocation Announcement to approximately HK$513 million as a result of the CB Redemption in the sum of approximately HK$233 million.

UPDATE ON SCORE VALUE TRANSACTION

Status of outstanding deferred consideration for the Score Value Transaction

Pursuant to the Score Value Agreement in respect of the Score Value Transaction, the Company or the Purchaser shall be required to pay deferred consideration in a maximum amount of HK$300 million to the vendors of Score Value upon fulfilment of certain pre-conditions at a later stage, including obtaining the approval of the relevant PRC government authority for the lottery game to be supplied by a subsidiary of Score Value ("**Game Approval Pre-condition**") and meeting the profit guarantees of an average of RMB20.0 million (equivalent to approximately HK$25.2 million, according to the then exchange rate of HK$1.26 to RMB1.00) per year provided by such vendors in respect of the Shenzhen Subsidiary of Score Value for each of the three financial years ended 31 December 2015, 2016 and 2017 as described in the paragraph headed "Deferred Consideration" on pages 9 and 10 of the Score Value Circular.

As of the date hereof, the Game Approval Pre-condition has not yet been fulfilled but the parties to the Score Value Agreement have mutually agreed to further extend the deadline for fulfilment of such pre-condition to 31 December 2020. Accordingly, the First Deferred Consideration, Second Deferred Consideration and Third Deferred Consideration as described under the paragraph headed "Deferred Consideration" on page 9 of the Score Value Circular have not been paid to the vendors of Score Value.

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Mr. Sun Ho – Executive Director, Chairman & CEO

Mr. Sun Ho, aged 51, founded the Company in 2006 and serves as its Executive Director, Chairman and CEO, leading the Company in overall strategic direction, business development and corporate management. He is also an authorised representative, compliance officer, member of the nomination committee, and chairman of the corporate governance committee and risk management and internal control committee of the Company. Mr. Sun has been appointed as director of Ant Bank (Macao) Limited, and serves as a director of various subsidiaries of the Company. Through his extensive experience in the China lottery and related industries, Mr. Sun continues to uphold the highest responsible business standards and ethics while striving for excellence and innovation as a leader in the regulated lottery and other markets.

As the President of the Federation of Card Games, and Vice President of the International Mind Sports Association Executive Committee, Mr. Sun is dedicated to the healthy development of mind sports in China and around the world, with the goal of promoting the many social and intellectual benefits of the discipline and practice of mind sports globally.

Prior to founding the Company, Mr. Sun held various senior leadership positions in other listed companies, and had extensive experience in strategy, management, auditing and financial management of Chinese and international enterprises. He holds a bachelor degree in Economics from the University of Sydney in Australia and a master degree in Corporate Finance from the Hong Kong Polytechnic University. Mr. Sun is a member of CPA Australia and a fellow member of the Hong Kong Institute of Certified Public Accountants.

Ms. Hu Taoye – Executive Director and Chief Financial Officer

Ms. Hu, aged 40, is executive Director, chief financial officer of the Group and a member of the risk management and internal control committee of the Company. Ms. Hu has been appointed as Director since 30 January 2019. She obtained a bachelor degree in Economics from Renmin University of China in the PRC in July 2001. She was admitted as a practising member of the Chinese Institute of Certified Public Accountants in July 2003 and a non-practising member of such institute since March 2008. In addition, Ms. Hu was also admitted as a member and a fellow member of The Association of Chartered Certified Accountants (ACCA) in November 2005 and November 2010 respectively. From 2001 to early 2008, she worked for KPMG and her last position with KPMG was audit manager.

Ms. Hu joined Alibaba Group in February 2008. During February 2008 to May 2014, Ms. Hu served as an internal control director and a financial controller of the B2B and Alibaba Cloud divisions of Alibaba Group. After that, she served as a financial controller of Autonavi and UC Web, under Alibaba Mobile Internet Division of Alibaba Group until June 2016. Prior to joining the Group, Ms. Hu was a financial controller of the digital media and entertainment division of Alibaba Group.

Mr. Yang Guang – Non-executive Director

Mr. Yang, aged 42, has been a non-executive Director since 10 August 2016. He joined Alibaba Group in September 2007. He is currently the general manager of Tmall Consumer Electronics Business Department, Tmall Home Decoration Business Department, Tmall Virtual Business Department and is responsible for innovative product and business in supply chain and logistics services in Taobao.com.

Mr. Yang has extensive experience in the internet industry and the lottery industry. Before the current position, Mr. Yang led the operation team of consumer electronics product in Taobao.com. Mr. Yang was one of the core members of the team responsible for the establishment of Tmall.com and Taobao Travel. From 2012 to 2015, Mr. Yang was responsible for Taobao.com's innovative business including Taobao Lottery. He graduated from Jilin University, China, majoring in biological pharmacy. He is a non-executive director of Haier Electronics Group Co., Ltd.（stock code: 1169) listed on the Stock Exchange and a director of Suning.com Co., Ltd.（蘇寧易購集團股份有限公司）(stock code: 002024）which is listed on the Shenzhen Stock Exchange.

Mr. Li Faguang – Non-executive Director

Mr. Li, aged 43, is a non-executive Director. Mr. Li has been appointed on 4 March 2019. He obtained a bachelor's degree in Finance from Nankai University in the PRC in June 1998 and a master's degree in Finance and Management from Loughborough University in the United Kingdom in December 2005.

Mr. Li joined Alibaba Group in February 2016 and is currently a senior financial controller of Alibaba Holding. Mr. Li has extensive experience in financial management. Prior to joining Alibaba Holding, Mr. Li worked at 奧的斯機電電梯有限公司(Otis Electric Elevator Co., Ltd.*) (formerly known as 西子奧的斯電梯有限公司(Xizi Otis Elevator Co., Ltd.*)) as director of financial analysis and a regional financial controller from May 2012 to February 2016. Prior to that, he worked at Dell (China) Company Limited for approximately seven years and his last position was senior financial manager.

Mr. Ji Gang – Non-executive Director

Mr. Ji, aged 45, has been a non-executive Director since 10 August 2016. He joined Ant Financial in January 2016. He is currently the Vice President and Head of Strategic Investment of Ant Financial. He is responsible for the global strategic investments for Ant Financial and has many years of experience in investment and the internet industry. Before joining Ant Financial, he served as a Vice President of Alibaba Group and was responsible for strategic investment. He is currently a director of Phoenix Tree Holdings Limited (the American depositary shares ("**ADSs**") of which are listed on the New York Stock Exchange (under the symbol: DNK). He holds a bachelor degree in international business management from University of International Business and Economics, China.

Mr. Zou Liang – Non-executive Director

Mr. Zou, aged 47, has been a non-executive Director since 10 November 2017. He obtained a bachelor's degree in economics technology from Hunan University in the PRC, a master's degree in Administration Management from Zhongnan University of Economics and Law in the PRC and also an Executive Master of Business Administration degree from China Europe International Business School in China. Mr. Zou is currently the general manager of the Innovation Division of Intelligent Technology Business Department of Ant Financial Group (formerly a general manager of Strategic Development Department of Alibaba Group). Prior to joining Ant Financial Group in 2015, Mr. Zou was a general manager at Hunan Yuanchen Investment Group* (湖南遠晨投資集團) from February 2010 to March 2015.

Ms. Monica Maria Nunes – Independent Non-executive Director

Ms. Monica Maria Nunes, aged 51, has been appointed since 20 June 2013 as the independent non-executive Director as well as the chairperson of each of the audit, remuneration and nomination committees of the Company. She was first appointed as an executive director of Vodatel Networks Holdings Limited ("**Vodatel**"), the shares of which are listed on GEM (stock code: 8033), on 13 December 1999. She is currently the managing director, finance director and the compliance officer of Vodatel. She graduated from the University of Calgary, Canada with a bachelor degree in commerce and from the University of Hong Kong, with a master degree in social sciences. She has over 25 years of management, accounting and finance experience. She is a Canadian Chartered Professional Accountant, Certified Management Accountant, and is a member of the Chartered Professional Accountants of Alberta, Canada. She is an associate of the Chartered Institute of Management Accountants and a designee of the Chartered Global Management Accountant.

Mr. Feng Qing – Independent Non-executive Director

Mr. Feng Qing, aged 66, was appointed as the independent non-executive Director and a member of each of the audit, remuneration and nomination committees of the Company on 4 May 2015. Mr. Feng Qing is the chairman of Beijing Yi Xin Tech Corporation. Mr. Feng was the author of the marketing economics book titled"Practical Market Theory (實用市場理論)" which was well received by the market, and became an instrumental reading in learning western economics. In 1983, Mr. Feng commenced study of macroeconomics in Switzerland.

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

Dr. Gao Jack Qunyao – Independent Non-executive Director

Dr. Gao Jack Qunyao, aged 61, was appointed as the independent non-executive Director and a member of each of the audit, remuneration and nomination committees of the Company on 6 May 2015.

Dr. Gao has extensive experience in information technology ("**IT**"), media and entertainment, and venture capital. He is currently the adjunct professor of the Business School of The Chinese University of Hong Kong, the founding partner and CEO of Beijing Times Digiwork Films Technology Co., Ltd. (Smart Cinema), and the independent non-executive director of AsiaInfo Technologies Limited (a company listed on the Stock Exchange under stock code: 1675). During 2015-2017, Dr. Gao was the Group Senior Vice President and CEO of International Investments and Business Operation Department of 北京萬達文化產業集團有限公司 (Beijing Wanda Culture Industry Group Co., Ltd.*) and in 2017, Interim CEO of Legendary Entertainment LLC; a director of several Wanda Group companies including Legendary Entertainment LLC, AMC Entertainment Holdings, Inc. (listed on the New York Stock Exchange, NYSE: AMC) and Sunseeker International Limited, and the director for the EuropaCity (巴黎歐洲城) project. Dr. Gao was previously the founder and president of Gao Entertainment LLC; an independent director of AirMedia Group Inc. (the ADSs) of which are listed on NASDAQ under the symbol: AMCN); and an independent director of 萬通投資控股股份有限公司 (Vantone Holdings Co., Ltd.*); a director of Infront Sports & Media AG, Bona Film Group Limited (the ADSs of which are listed on NASDAQ under the symbol: BONA); and an alternate director of Phoenix Satellite Television Holdings Limited (a company listed on the Stock Exchange under stock code: 2008).

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

For the information of the Directors' and chief executive's emoluments, please refer to Note 36 to the consolidated financial statements contained in this report.

SENIOR MANAGEMENT (OTHER THAN EXECUTIVE DIRECTORS)

Mr. Bai Jinmin – Chief Strategy Officer

Mr. Bai Jinmin is the Chief Strategy Officer of the Group. He is presently responsible for executing the Group's lottery development initiatives and oversees all lottery operations. Mr. Bai has joined the Group since 19 September 2007.

Mr. Bai has over 22 years of extensive experience in business development, investment, corporate management and strategic planning. Prior to joining the Group, Mr. Bai was the director of Louis DreFus Energy (SPEC) Pte Ltd., managing director of SPEC Overseas (Holdings) Pte Ltd., vice president of Shenzhen Petrochemical Industry (Holdings) Co., Ltd., chairman of Shenzhen GETOS Fine Silicons Co., Ltd., director of Sinoying Logistics Pte Ltd. and executive director of STAR Pharmaceutical Limited, the issued shares of which are listed on Singapore Exchange Limited.

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

Ms. Han Yi – Chief Personnel Officer

Ms. Han Yi is the Chief Personnel Officer of human resources and administration of the Company. She joined the Company in August 2016 and is responsible for the planning and execution of the Company's human resources and administration matters. She is also the director of various subsidiaries of the Company in the PRC. Ms. Han worked for Alibaba Group from 2004 to 2016 and her last position with Alibaba Group was senior human resources manager. She has profound experience as senior management in human resources.

Mr. Wei Guangqin – General Counsel

Mr. Wei Guangqin is the General Counsel of the Group. Mr. Wei has over 15 years of experience in the legal industry. Prior to joining the Group in October 2017, he was a Partner at Dentons Hong Kong and an Associate and subsequently Special Counsel at the Hong Kong and New York offices of Fried, Frank, Harris, Shriver & Jacobson LLP. Mr. Wei is qualified to practice law in the State of New York and is a solicitor of the High Court of Hong Kong. He holds a bachelor's degree in nuclear physics and a bachelor's degree in intellectual property law from Peking University and a juris doctor degree from the University of Pennsylvania Law School.

Mr. Zhang Yan – Vice President

Mr. Zhang Yan is a Vice President of the Company, with over 14 years of domestic and international lottery and sports industry experience. Mr. Zhang joined the Group in November 2016 and is presently responsible for executing the Group's sports data related strategy as well as leading the Company's ongoing international expansion including spearheading the Group's entry into the Indian market.

Prior to joining the Company, Mr. Zhang held various senior management roles in the design and commission of lottery and sports entertainment products with extensive expertise in managing top-tier multi-channel operators in regulated markets. Mr. Zhang graduated from King's College London of University of London with Honors degree in Electronic Engineering.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Ms. Wu Xiao – Vice President

Ms. Wu Xiao is a Vice President of the Company, presently responsible for the development of interactive social offerings for the Group. She joined the Group in April 2018. She has more than 11 years' experience in the media and entertainment industry. Ms. Wu joined Alibaba Group in 2014 and has served as the director of Alibaba Digital Entertainment Group, TV Taobao and Original Producer, Youku Open Platform Director and 2017 Tmall Double 11 Carnival Night Producer. She has profound experience in integrated software-and-hardware operation, content commercialization, and data-driven interactive marketing commercialization.

Mr. Wong Gilbert Chun Chin – Vice President

Mr. Wong is a Vice President of the Company, presently responsible for planning, public relations and investor relations for the Group. Mr. Wong has been serving in the gaming and lottery industry for over 15 years, in addition to consultancy collaborations with major operators and regulators throughout Asia. Prior to joining the Group in 2018, he was with the Hong Kong Jockey Club, and has extensive experience in trading operations & risk management, commercial development and project management. Mr. Wong graduated from the University of Toronto, Canada.

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

DIRECTORS' REPORT

The Directors present the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

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

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2019 are set out in the consolidated statement of profit or loss and other comprehensive income on page 135.

The Board does not recommend the payment of a final dividend for the year under review (2018: Nil).

PROPERTY, PLANT AND EQUIPMENT

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

SHARES ISSUED IN THE YEAR

Details of the Company's Shares issued in the year ended 31 December 2019 are set out in note 31 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

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

REDEMPTION, PURCHASE OR CANCELLATION OF REDEEMABLE SECURITIES

Save as disclosed above, in the section headed "STATUS OF THE CONVERTIBLE BONDS" in the "Discussion and Analysis of the Group's Results and Business" section of this annual report, during the year under review, neither the Company nor any of its subsidiaries redeemed, purchased or cancelled any of its redeemable securities.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

FINANCIAL SUMMARY

A summary of the results of the Group and of the assets and liabilities of the Group for the past 5 years ended 31 December 2019 is set out on page 128.

DIRECTORS

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

Executive Directors:

Mr. Sun Ho
Ms. Hu Taoye (appointed on 30 January 2019)
Mr. Zhou Haijing (resigned on 30 January 2019 due to position re-arrangement and the needs to devote more time on his new position in Alibaba Group)

Non-executive Directors:

Mr. Zhang Qin (resigned on 4 March 2019 due to his other business engagement which requires more time and dedication)
Mr. Yang Guang
Mr. Li Faguang (appointed on 4 March 2019)
Mr. Ji Gang
Mr. Zou Liang

Independent non-executive Directors:

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

In accordance with Bye-law 87 of the Company, certain Directors (namely, Mr. Yang Guang, Mr. Ji Gang and Ms. Monica Maria Nunes) will retire by rotation, but being eligible, shall offer themselves for re-election, at the forthcoming annual general meeting of the Company to be held on 22 May 2020.

DIRECTORS' SERVICE AGREEMENTS

Mr. Sun Ho was appointed as an executive Director and CEO of the Company under a renewed service contract for a term of two years as from 10 August 2018, unless terminated earlier by the Company for cause.

Mr. Zhou Haijing (resigned on 30 January 2019) was appointed as an executive Director and the chief financial officer of the Company under a service contract with effect from 10 August 2016. There is no specific term or proposed length of services for Mr. Zhou's appointment. The service contract with Mr. Zhou may be terminated by either party thereto giving the other party not less than one month's notice in writing.

Ms. Hu Taoye was appointed as an executive Director and the chief financial officer of the Company under a service agreement with effect from 30 January 2019 for an initial term of 1 year, and either party thereto may terminate such agreement by giving the other party not less than three months' written notice. Such agreement has been renewed until 1 April 2022.

Each of Mr. Zhang Qin (resigned on 4 March 2019), Mr. Yang Guang and Mr. Ji Gang was appointed by the Company as a non-executive Director under a letter of appointment for a fixed term of one year commencing on 10 August 2018 (with renewal option for another year until 9 August 2020), unless terminated earlier by either party. Mr. Zou Liang was appointed by the Company as a non-executive Director under a letter of appointment for a fixed term of one year commencing on 10 November 2017 (with renewal option for another year until 9 November 2019), unless terminated earlier by either party. Mr. Li Faguang was appointed by the Company as a non-executive Director under a letter of appointment for a fixed term of one year commencing on 4 March 2019, unless terminated by the parties pursuant to the letter of appointment. Each of the letters of appointment for Mr. Zou Liang and Mr. Li Faguang has been renewed for a further term of 1 year until 9 November 2020 and 3 March 2021 respectively.

Each of Ms. Monica Maria Nunes, Mr. Feng Qing and Dr. Gao Jack Qunyao was appointed as an independent non-executive Director under a renewed service agreement for a term of two years commencing from 12 May 2019, 4 May 2019 and 6 May 2019 respectively.

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

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

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

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

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

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

Ms. Hu Taoye and Mr. Li Faguang are both employees of the Alibaba Group. Although they were not Directors at the time of entering into the relevant agreement(s) by the Group in respect of the aforesaid continuing connected transactions and hence did not vote on any resolutions passed by the Board at that time for such transactions, they are deemed or may be perceived to have a material interest in such continuing connected transactions between the Group and Alibaba Group by virtue of the fact that they are employees of Alibaba Group.

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

PERMITTED INDEMNITY PROVISIONS

Pursuant to the Company's Bye-laws, every Director shall be indemnified out of the assets and profits of the Company against all actions, costs, charges, losses, damages and expenses which he/she may incur or sustain in or about the execution of his/her duty, or supposed duty, in his/her office or otherwise in relation thereto, PROVIDED THAT such indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to such Director. The relevant provision of the Company's Bye-laws was in force during the year under review and as of the date of this report. 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.

CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2019, the Group continued the following continuing connected transactions ("**CCTs**"), details of which had been disclosed in compliance with the requirements of Chapter 20 of the GEM Listing Rules:

CCTs with Alibaba Group

1. As disclosed in the circular of the Company dated 20 February 2017, the Company entered into a framework agreement (the "**Framework Agreement**") with Alibaba Holding on 25 January 2017, pursuant to which the Group shall (i) utilise certain channels and networks of Alibaba Group for the sales and distribution of lottery products and other services on a 50:50 revenue-sharing basis (after deduction of taxes or expenses payable to third party service providers or partners); and (ii) purchase technology services from Alibaba Group to strengthen the Group's online presence and its online customer-base, and to develop technology that will enable the Group to prepare for the potential re-opening of the online lottery distribution market in the PRC (collectively, the "**Channel Transactions**"), subject to the original annual cap amounts of RMB41,500,000, RMB63,500,000 and RMB69,850,000 for a term commencing from 8 March 2017 (i.e. the effective date of the Framework Agreement) and ending on 31 December 2019. Ali Fortune, the controlling shareholder of the Company, is indirectly held as to 60% by Alibaba Holding. Accordingly, Alibaba Holding is an associate of Ali Fortune and hence a connected person of the Company. The transactions contemplated under the Framework Agreement constituted CCTs under Chapter 20 of the GEM Listing Rules and such agreement (together with the annual cap amounts in respect of such transactions for the period from 8 March 2017 to 31 December 2017 and for the two years ended 31 December 2018 and 2019 respectively) had been approved by the Shareholders at the special general meeting of the Company held on 8 March 2017.

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

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

During the year ended 31 December 2019, the Group entered into the following transactions with Alibaba Group:

Nature of transactions	**Total amount** (RMB'000)
(i) In respect of the Framework Agreement:	
The Group's utilisation of certain channels and networks of Alibaba Group for sales and distribution of lottery products and other services on a 50:50 revenue-sharing basis and the Group's purchase of technology services from Alibaba Group	2,816 Note a
(ii) In respect of the Procurement Framework Agreement:	
The Group's payment of marketing fees to Alibaba Merchants for supply of products or services offered to individual users on certain online platforms operated by the Group at a discounted price	666 Note b

Notes:

a. The aggregate amount of these transactions amounted to approximately RMB2,816,000 for the year ended 31 December 2019, which fell within the Revised Channel Cap of RMB360,951,000 for such year.

b. The aggregate amount of these transactions amounted to approximately RMB666,000 for the year ended 31 December 2019, which fell within the Procurement Cap of RMB570,722,000 for such year.

CCTs with Ant Financial Group

4. The Company and Alipay, which is a wholly-owned subsidiary of Ant Financial, entered into a framework agreement (the "**Alipay Framework Agreement**") on 23 March 2017, whereby the Group shall provide online activities and services which are not subject to the applicable PRC lottery laws and regulations, including information subscription and other content, and the sales and distribution of the lottery and its relevant products that the Group has developed or is authorised to operate (in online form), in the event that and so long as it is allowed under applicable laws and regulations in the PRC, on the lottery channel(s) of the online platform(s) of Alipay Group (the "**Alipay Lottery Channel**") on a 50:50 revenue-sharing basis (after deduction of taxes or expenses payable to third party service providers or partners) under the Alipay Framework Agreement. The Group believes that the operation of the Alipay Lottery Channel can help strengthen the Group's online presence and its online customer-base, and will enable the Group to prepare for the potential re-opening of the online lottery distribution market in the PRC. As disclosed in the announcement of the Company dated 23 March 2017, Ant Financial Group (including Alipay) are deemed by the Stock Exchange as connected persons of the Company pursuant to Rule 20.17 of GEM Listing Rules. In addition, Ant Financial is a "30%-controlled company" (as defined under the GEM Listing Rules) held by Alibaba Holding, which, in turn, holds an indirect 60% equity interest in the controlling shareholder of the Company, Ali Fortune. Hence, each of Alibaba Holding, Ant Financial and Alipay is an associate of Ali Fortune and a connected person of the Company under the GEM Listing Rules. Accordingly, the transactions contemplated under the Alipay Framework Agreement constituted CCTs under Chapter 20 of the GEM Listing Rules.

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

During the year ended 31 December 2019, the Group entered into the following transactions with Ant Financial Group:

Nature of transactions	Total amount (RMB'000)
In respect of the Alipay Framework Agreement:	
The Group's utilisation of certain channels on the online platforms of Alipay Group for operation of online activities or services which are not subject to the applicable PRC lottery laws and regulations, and sales and distribution of lottery products (in online form) on a 50:50 revenue-sharing basis	8 [Note a]

Note:

a. The aggregate amount of these transactions amounted to approximately RMB8,000 for the year ended 31 December 2019, which fell within the Alipay Cap of RMB13,300,000 for such year.

Annual review of CCTs

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

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

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

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

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

The Company's auditor was engaged to report on the Group's CCTs in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor had issued its unqualified letter containing its findings, conclusions and confirmations in respect of the CCTs disclosed above in accordance with Rule 20.54 of the GEM Listing Rules. A copy of the auditor's letter had been provided by the Company to the Stock Exchange.

During the year ended 31 December 2019, the Company reviewed its related party transactions and confirmed that, save as disclosed above, there was no connected transaction or continuing connected transaction of the Company which is required to be disclosed pursuant to Chapter 20 of the GEM Listing Rules. Save as disclosed above, none of the related party transactions set out in note 35 to the consolidated financial statements are such transactions required to be disclosed pursuant to Chapter 20 of the GEM Listing Rules.

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

As at 31 December 2019, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange, were as follows:

a. Interests in Shares and restricted share units:

	Number of Shares/restricted share units held			Approximate percentage held
Name of Director	**Personal interest**	**Corporate interest**	**Total**	**(Note 1)**
Mr. Sun Ho	46,158,000 (Note 2)	2,006,250,000 (Note 3)	2,052,408,000	17.58%
Ms. Hu Taoye	–	–	–	0%
Mr. Yang Guang	–	–	–	0%
Mr. Li Faguang	–	–	–	0%
Mr. Ji Gang	–	–	–	0%
Mr. Zou Liang	–	–	–	0%
Ms. Monica Maria Nunes	1,750,000	–	1,750,000	0.015%
Mr. Feng Qing	375,000	–	375,000	0.003%
Dr. Gao Jack Qunyao	750,000	–	750,000	0.006%

Notes:

1. Based on a total of 11,672,342,235 Shares in issue as at 31 December 2019.

2. It represents 31,848,000 Shares and 14,310,000 restricted share units (granted under the Share Award Scheme) beneficially held by Mr. Sun Ho.

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

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

Name of Director	Date of grant	Exercise price per Share (HK$)	Exercisable Period (Note 2)	Number of underlying Shares	Approximate percentage held (Note 1)
Mr. Feng Qing	1 June 2015	0.858	1 June 2016 – 31 May 2020	375,000	0.003%
Dr. Gao Jack Qunyao	1 June 2015	0.858	1 June 2016 – 31 May 2020	375,000	0.003%

Notes:

1. Based on a total of 11,672,342,235 Shares in issue as at 31 December 2019.

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

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

Name of Director	Nature of interests	Number of shares/underlying shares held#	Percentage of issued shares of Alibaba Holding
Ms. Hu Taoye	Beneficial and equity derivative interests	132,056 (Note 1)	negligible
Mr. Yang Guang	Beneficial and equity derivative interests	203,328 (Note 2)	0.001%
Mr. Li Faguang	Beneficial and equity derivative interests	121,000 (Note 3)	negligible
Mr. Ji Gang	Beneficial and equity derivative interests	56,912 (Note 4)	negligible
Mr. Zou Liang	Beneficial and equity derivative interests	23,840 (Note 5)	negligible

Notes:

1. It represents 88,056 ordinary shares and 44,000 restricted share units beneficially held by Ms. Hu Taoye.

2. It represents 41,328 ordinary shares and 162,000 restricted share units beneficially held by Mr. Yang Guang.

3. It represents 121,000 restricted share units beneficially held by Mr. Li Faguang.

4. It represents 20,512 ordinary shares and 36,400 restricted share units beneficially held by Mr. Ji Gang.

5. It represents 4,000 ordinary shares and 19,840 restricted share units beneficially held by Mr. Zou Liang.

The shareholders of Alibaba Holding approved an increase in the number of authorized ordinary shares and a one-to-eight share subdivision of Alibaba Holding's ordinary shares, including all outstanding options, restricted share units and share awards at the annual general meeting held on 15 July 2019 (the "Share Subdivision"). As a result of the Share Subdivision, one American depositary share of Alibaba Holding shall represent eight ordinary shares. The number of shares/underlying shares held by each of the relevant Directors shown above has been adjusted to take into account the effect of the Share Subdivision.

d. Long positions in shares and underlying shares of Alibaba Pictures Group Limited ("Ali Pictures"), an associated corporation of the Company within the meaning of Part XV of the SFO:

Name of Director	Nature of interests	Number of shares of Ali Pictures held	Percentage of issued shares of Ali Pictures
Mr. Zou Liang	Beneficial owner	90,000	negligible

Save as disclosed above, as at 31 December 2019, none of the Directors and chief executive of the Company had any interests or short positions in the Shares, underlying Shares (in respect of share options of the Company which were regarded as unlisted physically settled equity derivatives) and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES AND DEBENTURES

As at 31 December 2019, so far as was known to the Directors or chief executive of the Company, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the Shares, underlying Shares and debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, were directly or indirectly interested in 5% or more of the issued voting shares of any other member of the Group or held any option in respect of such shares and recorded in the register kept by the Company pursuant to section 336 of the SFO:

Name of Shareholder	Capacity	Number of Shares held	Approximate percentage of issued share capital of the Company (Note 1)
Ali Fortune (Note 2)	Beneficial owner	6,502,723,993 (Note 8)	55.71%
Alibaba Investment Limited (Note 2)	Interest of controlled corporation	6,502,723,993 (Note 8)	55.71%
API Holdings Limited (Note 2)	Interest of controlled corporation	6,502,723,993 (Note 8)	55.71%
Alibaba Holding (Note 3)	Interest of controlled corporation	6,502,723,993 (Note 8)	55.71%
API (Hong Kong) Investment Limited (Note 4)	Interest of controlled corporation	6,502,723,993 (Note 8)	55.71%
Shanghai Yunju Venture Capital Investment Co., Ltd. (formerly known as Shanghai Yunju Investment Management Co., Ltd.) (Note 5)	Interest of controlled corporation	6,502,723,993 (Note 8)	55.71%
Ant Financial (Note 6)	Interest of controlled corporation	6,502,723,993 (Note 8)	55.71%
Hangzhou Yunbo Investment Consultancy Co., Ltd. (Note 7)	Interest of controlled corporation	6,502,723,993 (Note 8)	55.71%
Mr. Ma Yun (Note 7)	Interest of controlled corporation	6,502,723,993 (Note 8)	55.71%
Maxprofit Global Inc (Note 9)	Beneficial owner	2,006,250,000	17.19%

Notes:

1. Based on a total of 11,672,342,235 Shares in issue as at 31 December 2019.

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

3. Alibaba Holding holds 100% of the issued share capital of AIL.

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

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

6. Ant Financial holds 100% of the equity interests in Shanghai Yunju. Hangzhou Junhan Equity Investment Partnership (Limited Partnership) ("**Junhan**") and Hangzhou Junao Equity Investment Partnership (Limited Partnership) ("**Junao**") hold approximately 28.45% and 21.53% of the equity interests in Ant Financial, respectively.

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

8. Each of AIL, Alibaba Holding, API Holdings, API (Hong Kong) Investment Limited, Shanghai Yunju, Ant Financial, Junhan, Junao, Yunbo, and Mr. Ma Yun are taken to be interested in an aggregate of 6,502,723,993 Shares by virtue of Part XV of the SFO.

9. As disclosed in the section headed "DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" above, Mr. Sun Ho was deemed to be interested in these 2,006,250,000 Shares by virtue of his interest in Maxprofit Global Inc.

Save as disclosed above, as at 31 December 2019, the Directors or chief executive of the Company were not aware of any other persons (not being a Director or chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares, underlying Shares and debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO; or was directly or indirectly interested in 5% or more of the issued voting shares of any other member of the Group or held any option in respect of such shares and recorded in the register kept by the Company pursuant to section 336 of the SFO.

INTERESTS OF OTHER PERSONS

As at 31 December 2019, apart from the interests in the Shares, underlying Shares and debentures of the Company and its associated corporations held by the Directors, chief executive and substantial Shareholders of the Company stated above, there were no other persons with interests recorded in the register of the Company required to be kept under section 336 of the SFO.

SUFFICIENCY OF PUBLIC FLOAT

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

SHARE OPTIONS

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

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

During the year ended 31 December 2019, no options were granted by the Company pursuant to the Share Option Schemes. No options were cancelled but options in respect of 200,000 Shares were forfeited, whereas options in respect of 97,407,752 Shares had expired during the year ended 31 December 2019. As at the date of this report, the total number of Shares still available for issue under the Share Option Schemes (excluding, for the purpose of calculating the "scheme mandate limit", any options granted under the 2014 Scheme but forfeited or expired in accordance with the terms of such scheme) shall be 232,648,787 Shares, representing approximately 2% of the Company's issued share capital as at that date.

No options were exercised during the year ended 31 December 2019.

As at 31 December 2019, the number of Shares in respect of which options had been granted and remained outstanding under the Share Option Schemes was 80,660,698 (2018: 178,268,450), representing approximately 1% (2018: 2%) of the Company's issued share capital as at that date.

GRANT OF AWARD SHARES PURSUANT TO SHARE AWARD SCHEME

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

On 17 May 2019, the Board granted a total of 55,200,000 award Shares to 7 directors of subsidiaries of the Company and certain eligible persons under the Share Award Scheme. The 55,200,000 award Shares granted represent approximately 0.47% of the issued share capital of the Company as at the date of this report. Based on the closing price of HK$0.45 per Share on the date of grant of the award Shares, the market value of the 55,200,000 award Shares in aggregate is HK$24,840,000.

On 9 December 2019, the Board granted a total of 16,100,000 award Shares to Mr. Sun Ho, an executive Director and certain eligible persons under the Share Award Scheme. The 16,100,000 award Shares granted represent approximately 0.14% of the issued share capital of the Company as at the date of this report. Based on the closing price of HK$0.315 per Share on the date of grant of the award Shares, the market value of the 16,100,000 award Shares in aggregate is HK$5,071,500.

During the year under review, the trustee of the Share Award Scheme (the "**Trustee**") purchased a total of 75,832,000 Shares on the Stock Exchange at a total consideration of approximately HK$28.4 million to satisfy award Shares granted under the Share Award Scheme.

During the year under review, 71,300,000 award Shares were granted by the Company pursuant to the Share Award Scheme, 35,348,425 award Shares were vested in the grantees and 32,052,400 award Shares were forfeited.

All of the 71,300,000 award Shares were granted by way of acquisition of existing Shares through on-market transactions by the Trustee. The Board shall cause to pay the Trustee the purchase price and the related expenses from the Company's cash resources. The Trustee shall purchase from the market the relevant number of award Shares and shall hold the award Shares on trust for the relevant selected participants until they are vested in such selected participants and delivered in accordance with the terms of the Share Award Scheme. There is no condition, performance target or lock up restriction attached to the award Shares.

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

EQUITY-LINKED AGREEMENT

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

Score Value Agreement

As disclosed in the Score Value Circular, the Score Value Agreement was entered into between the Company, the Purchaser, the Vendors and Score Value in relation to the acquisition by the Purchaser of a 100% equity interest in Score Value (i.e. the Score Value Transaction) for a maximum consideration of HK$489.5 million (subject to downward adjustments). The maximum consideration is to be satisfied as to HK$239.5 million in cash and as to HK$250.0 million by way of the allotment and issue of a maximum of 168,918,918 Consideration Shares (being new Shares to be issued by the Company as defined in the Score Value Circular) at the issue price of HK$1.48 per Share. Subject to the Score Value Group meeting certain operational targets (namely, launching the sales of a lottery game through mobile smart phone channel in prescribed number of provinces in the PRC) as set out in the section headed "Bonus Options" on page 11 of the Score Value Circular, the Company shall also grant the Bonus Options (as defined in the Score Value Circular) to the Vendors which shall entitle the Vendors to subscribe for a maximum of 166,666,666 Bonus Option Shares (as defined in the Score Value Circular) at a subscription price of HK$1.8 per Bonus Option Share (for a maximum total amount of approximately HK$300 million receivable by the Company). As the pre-condition for the grant of the Bonus Options was not fulfilled within 2 years from the date of the Score Value Agreement, the Company will no longer grant the Bonus Options to the Vendors.

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

Pursuant to the Score Value Agreement, the Company or the Purchaser shall be required to pay deferred consideration in a maximum amount of HK$300 million (comprising HK$100 million in cash and 135,135,135 Consideration Shares) to the Vendors upon fulfilment of certain pre-conditions at a later stage, including obtaining the approval of the relevant PRC government authority for the lottery game to be supplied by a subsidiary of Score Value and profit guarantees of an average of RMB20 million (equivalent to approximately HK$25.2 million, according to the then exchange rate of HK$1.26 to RMB1.00) per year provided by the Vendors in respect of the Shenzhen Subsidiary of Score Value for each of the three financial years ended 31 December 2015, 2016 and 2017 as described in the paragraph headed "Deferred Consideration" on pages 9 and 10 of the Score Value Circular.

The Shenzhen Subsidiary of Score Value met the profit guarantees for the three years ended 31 December 2015, 2016 and 2017, and a total of 33,783,784 Shares had been issued to the Vendors accordingly. Save as disclosed above, the other pre-conditions for the payment of the other tranches of deferred consideration have not yet been fulfilled but the parties to the Score Value Agreement have mutually agreed to further extend the deadline for fulfilment of such pre-condition to 31 December 2020. Accordingly, the First Deferred Consideration, Second Deferred Consideration and Third Deferred Consideration as described under the paragraph headed "Deferred Consideration" on page 9 of the Score Value Circular have not been paid to the Vendors.

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

MANAGEMENT CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

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

	2019	2018
– the largest customer	**39.5%**	30.8%
– five largest customers combined	**73.3%**	58.4%

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

	2019	2018
– the largest supplier	**14.3%**	15.1%
– five largest suppliers combined	**37.9%**	51.0%

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

No single customer accounted for more than 40% of the Group's total revenue from sales of goods or rendering of services for the year under review and the largest customer is a provincial sports lottery centre in the PRC with satisfactory settlement history. The Group continues to expand the customer base and thus we do not consider that the relationships with our customers expose the Group's business to any substantial risks.

INTERESTS IN COMPETING BUSINESS

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

PRE-EMPTIVE RIGHTS

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

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the independent non-executive Directors has confirmed his/her independence (together with the independence of his/her respective "immediate family members" as defined under Rule 20.10(1)(a) of the GEM Listing Rules) pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers all independent non-executive Directors are independent.

EMOLUMENT POLICY

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

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

RETIREMENT AND PENSION PLAN

To comply with the statutory requirements of the Mandatory Provident Fund ("**MPF**") Schemes Ordinance (Chapter 485 of the Laws of Hong Kong), the Group has set up the MPF Scheme. Mandatory contributions to the scheme are made by both the employers and employees at 5% of the employees' monthly relevant income capped at HK$30,000. The employees employed by the PRC subsidiaries are members of the state-managed retirement benefit schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the required contributions under the schemes. During the year, the Group made contributions to the MPF Scheme amounted to approximately HK$0.5 million (2018: approximately HK$0.6 million). During the year under review, no forfeited contributions had been used by the employer to reduce the existing level of contributions.

LOAN TO AN OFFICER

A loan granted to an officer of the Company for an original period of 2 years was expired on 31 December 2018 and extended for three years. It is repayable by monthly instalments at interest rate with reference to market rate. The transaction is fully exempted from the connected transaction requirements under Rule 20.74 of the GEM Listing Rules.

DONATIONS

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

CONTROL AGREEMENTS ADOPTED BY THE GROUP TO INDIRECTLY CONTROL OPERATING SUBSIDIARIES OF THE COMPANY (NAMELY, SILVERCREEK AND CAIXIAOER) IN CHINA

In respect of Silvercreek

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

The Target Company is a company incorporated in Hong Kong with limited liability and is an investment holding company holding a 100% equity interest in 深圳市福悅信息諮詢有限公司 (Shenzhen Fortune Happy Information Advisory Co., Ltd.) (the "**WFOE**") which is a wholly foreign owned enterprise established under the laws of the PRC. The WFOE, in turn, controls a 100% equity interest in an operating subsidiary, Silvercreek, through a set of control agreements (the "**Control Agreements**") entered into between the WFOE and two individual shareholders of Silvercreek (the "**Nominee Shareholders**") who are PRC nationals acting as nominees to together hold the entire equity interest in Silvercreek on behalf of the WFOE. The WFOE has transferred all of its rights and obligations under Control Agreements to a wholly-owned subsidiary of the Company, 世紀星彩企業管理有限公司 (China Lottery Management Co., Ltd.) ("**CLMC**"), on 4 May 2017. Thus, CLMC controls 100% equity interest in Silvercreek. During the year under review, the Nominee Shareholders were Mr. Zhang Ting (who held a 95% equity interest in Silvercreek as at 31 December 2019) and Mr. Wang Jian (who held a 5% equity interest in Silvercreek as at 31 December 2019).

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

Silvercreek holds the necessary PRC internet content provider and PRC telecom service provider licences to operate the Restricted Business in the PRC which is subject to foreign investment restrictions. Accordingly, the Control Agreements were adopted so as to allow CLMC to gain full effective control over the management and financial operation of Silvercreek and enable the economic benefits of Silvercreek to be consolidated into the consolidated financial statements of the Group. The Control Agreements were not adopted for reasons or requirements other than the aforesaid foreign investment restrictions in respect of the Restricted Business in the PRC. For the year ended 31 December 2019, net assets totalling approximately HK$5.3 million and no revenue of Silvercreek were consolidated into the consolidated financial statements of the Group via the Control Agreements.

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

(i) under a *loan agreement (貸款協議)* between CLMC and the Nominee Shareholders, CLMC (as the lender) agreed to lend a loan amounting to RMB50 million (equivalent to approximately HK$56.73 million) to the Nominee Shareholders (as the borrowers) for their onward investment in Silvercreek such that they will together have 100% equity interest in Silvercreek. The loan must only be repaid by way of the Nominee Shareholders transferring their equity interests in Silvercreek to CLMC or its nominee and may only be used by the Nominee Shareholders for the purpose of investing in Silvercreek as its increased registered capital. The Nominee Shareholders shall pay any dividends, interests or benefits received from Silvercreek to CLMC. Where permissible under the PRC law, CLMC has the right to acquire from the Nominee Shareholders their entire equity interests in Silvercreek or all the assets of Silvercreek and use the outstanding loan owed by the Nominee Shareholders to CLMC as settlement of the consideration for the acquisition;

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

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

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

All the above-mentioned Control Agreements provide for dispute resolution via arbitration in China. The PRC counsel of the Company was of the view that the initial Control Agreements did not violate the relevant PRC laws, had proper authorisation for their execution and were valid, legal and enforceable. However, there are substantial uncertainties regarding the interpretation and application of the PRC laws, rules and regulations currently in effect. Accordingly, the possibility cannot be ruled out that the PRC regulatory authorities and PRC courts may in the future take a view that is contrary to the views of the PRC counsel of the Company concerning the Control Agreements.

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

During the year under review, there had been no material change in the Control Agreements and/or the circumstances under which they were adopted.

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

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

In respect of Caixiaoer

CLMC, a wholly-owned subsidiary of the Company, and two individual shareholders of Caixiaoer (the "**Caixiaoer Nominee Shareholders**"), who are PRC nationals acting as nominees to jointly hold the entire equity interest in Caixiaoer on behalf of CLMC, entered into a set of control agreements (the "**Caixiaoer Control Agreements**"), pursuant to which CLMC shall control the 100% equity interest in Caixiaoer, an operating subsidiary. Thus, CLMC controls 100% equity interest in Caixiaoer. As at 20 March 2020, the Caixiaoer Nominee Shareholders were Ms. Han Yi (who held a 90% equity interest in Caixiaoer) and Mr. Luo Shihui (who held a 10% equity interest in Caixiaoer).

Caixiaoer is a limited liability company established under the laws of the PRC and is principally engaged in providing lottery information, such as winning numbers and trend charts, through online channels. In addition, it also researches and develops and operates a number of casual games to boost users' interest and enhance user loyalty (the "**Caixiaoer Restricted Business**").

Caixiaoer holds the necessary Internet Content Provider License and Permit for Production and Operation of Radio and Television Programs to operate the Caixiaoer Restricted Business in the PRC which is subject to foreign investment restrictions. Accordingly, the Caixiaoer Control Agreements were adopted so as to allow CLMC to gain full effective control over the management and financial operation of Caixiaoer and enable the economic benefits of Caixiaoer to be consolidated into the consolidated financial statements of the Group. The Caixiaoer Control Agreements were not adopted for reasons or requirements other than the aforesaid foreign investment restrictions in respect of the Caixiaoer Restricted Business in the PRC. For the year ended 31 December 2019, net liabilities totalling approximately HK$1.2 million and no revenue of Caixiaoer were consolidated into the consolidated financial statements of the Group via the Caixiaoer Control Agreements.

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

(i) under a loan agreement (借款協議) between CLMC and the Caixiaoer Nominee Shareholders, CLMC (as the lender) agreed to lend a loan amounting to RMB25 million (equivalent to approximately HK$28.37 million) to the Caixiaoer Nominee Shareholders (as the borrowers) for their onward investment in Caixiaoer such that they will together hold 100% equity interest in Caixiaoer. The loan may be repaid by way of the Caixiaoer Nominee Shareholders transferring their equity interests in Caixiaoer to CLMC or its nominee and may only be used by the Caixiaoer Nominee Shareholders for the purpose of investing in Caixiaoer as its increased registered capital. The Caixiaoer Nominee Shareholders shall pledge their entire equity interests in Caixiaoer to the lender as security for the loan. Where permissible under the PRC law, CLMC has the right to acquire from the Caixiaoer Nominee Shareholders their entire equity interests in Caixiaoer or all the assets of Caixiaoer and use the outstanding loan owed by the Caixiaoer Nominee Shareholders to CLMC as settlement of the consideration for the acquisition;

(ii) under an equity pledge agreement (股權質押協議) between CLMC and the Caixiaoer Nominee Shareholders, the Caixiaoer Nominee Shareholders agreed to pledge their respective equity interests in Caixiaoer (including but not limited to any bonus, dividends or other cash and non-cash benefits generated from such pledged equity interests) to CLMC to secure the due performance of their obligations under the loan agreement mentioned in (i) above. This equity pledge agreement ensures that the Caixiaoer Nominee Shareholders cannot transfer their respective equity interests in Caixiaoer to other parties;

(iii) under an exclusive call option agreement (獨家購買權合同) between CLMC, the Caixiaoer Nominee Shareholders and Caixiaoer, where permissible under the PRC law, CLMC may, according to the call option exercise procedures determined by itself and at the price stated in such agreement, require the Caixiaoer Nominee Shareholders to perform and complete all approval and registration procedures required under PRC law so as to allow the acquisition(s) of all or part of the equity interests in Caixiaoer that are currently held or will be held by the Caixiaoer Nominee Shareholders by CLMC or its designee(s). Caixiaoer Nominee Shareholders and Caixiaoer have also granted CLMC and/or its designee an irrevocable and exclusive right to acquire all or part of the assets of Caixiaoer. The exclusive call option is an exclusive right of CLMC. CLMC may elect to acquire all or part of the equity interests held by any existing shareholders of Caixiaoer, or to acquire all or part of the assets of Caixiaoer, or to exercise both rights at the same time;

(iv) under an exclusive business cooperation agreement (獨家業務合作協議) between CLMC and Caixiaoer, CLMC, as the exclusive service provider of Caixiaoer, will provide comprehensive technical support, business support and relevant consulting services to the operation of Caixiaoer during the term of the agreement. Such services include all the necessary services within the main business scope of Caixiaoer as determined by CLMC from time to time, including but not limited to technical services, business consulting, asset and equipment leasing, market consulting, system integration and system maintenance services. Both parties agreed that during the term of the agreement, CLMC will enjoy and bear all the economic benefits and risks arising from any business of Caixiaoer; in the event of any operating loss or difficulties experienced by Caixiaoer, CLMC may provide any form of financial support permitted by the prevailing law; and

(v) under a voting right entrustment agreement (表决權委托協議) and power of attorney undertaking (授權委托書) between CLMC and Caixiaoer Nominee Shareholders, Caixiaoer Nominee Shareholders unconditionally and irrevocably entrust CLMC and/or its designated third party to exercise the trustee's right as a shareholder of the company as permitted under PRC law, including: convene, attend, and preside the company's general meeting and signing relevant resolutions, meeting minutes and other relevant documents as an agent of Caixiaoer Nominee Shareholders, and sign all documents that required to be signed by the company's shareholders and any documents that will be submitted to company registration authority for approval, registration, and filing purposes on behalf of Caixiaoer Nominee Shareholders; vote on all matters that may be resolved or considered by shareholders under the requirements of PRC law and articles of association on behalf of Caixiaoer Nominee Shareholders; sell, transfer, pledge or dispose of all or part of the equity interests held by Caixiaoer Nominee Shareholders in the company, and sign all necessary documents and perform all necessary procedures to fulfill such purposes on behalf of Caixiaoer Nominee Shareholders; rights to nominate, appoint or elect directors, supervisors, managers and other senior management of the company; authorize or resolve on the disposal of the company's assets on behalf of Caixiaoer Nominee Shareholders; resolve on the dissolution and liquidation of the company on behalf of Caixiaoer Nominee Shareholders and form liquidation group on behalf of Caixiaoer Nominee Shareholders to exercise the power granted to a liquidation group by law during liquidation, including but not limited to resolving on the disposal of the company's assets; and other powers exercised by shareholders as required under PRC law and the articles of association. All assets acquired by Caixiaoer Nominee Shareholders after the company's bankruptcy, liquidation, dissolution or termination, including the company's equity interests, will be transferred to the trustee at nil consideration or at the lowest price permitted by the prevailing PRC law, or the then liquidator will dispose of all assets, including equity interests, of the company to protect the direct or indirect rights of Caixiaoer Nominee Shareholders and/or creditors. In the event of death, incapacity, married, divorce, bankruptcy of the Caixiaoer Nominee Shareholders or other circumstances that may affect Caixiaoer Nominee Shareholders' exercise of the equity interests held by Caixiaoer Nominee Shareholders, the successor of Caixiaoer Nominee Shareholders or the then shareholder or assignee of the company's equity interests will be deemed to be a party to the agreement and succeed/assume all rights and obligations of Caixiaoer Nominee Shareholders under the agreement. The voting rights entrustment agreement and power of attorney undertakings grant CLMC voting rights in respect of the equity interests in Caixiaoer held on trust by the Caixiaoer Nominee Shareholders so that CLMC can have effective control over Caixiaoer.

All the above-mentioned Caixiaoer Control Agreements provide for dispute resolution via arbitration in China. The PRC counsel of the Company was of the view that the Caixiaoer Control Agreements did not violate the relevant PRC laws; the execution and enforcement of the relevant Caixiaoer Control Agreements by CLMC and Caixiaoer did not violate the provisions of their respective articles of association; the execution and validity of the Caixiaoer Control Agreements do not require and are not conditional upon any prior approval of the PRC government body; and the Caixiaoer Control Agreements were valid, legal and binding on the signing parties. However, the PRC counsel of the Company also advised that there are substantial uncertainties regarding the interpretation and application of the PRC laws, rules and regulations currently in effect. Accordingly, the possibility cannot be ruled out that the PRC regulatory authorities and PRC courts may in the future take a view that is contrary to the view of the PRC counsel of the Company concerning the Caixiaoer Control Agreements.

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

During the year under review, there had been no material change in the Caixiaoer Control Agreements and/or the circumstances under which they were adopted.

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

The Group shall continue to closely monitor the policy development of the PRC government with respect to foreign investment decisions. Through Caixiaoer, the Group hopes to continue growing its online presence in preparation for any potential approval and authorisation of online distribution of lottery products in the future.

AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") comprises three independent non-executive Directors, namely, Ms. Monica Maria Nunes, Mr. Feng Qing and Dr. Gao Jack Qunyao. Ms. Monica Maria Nunes is the chairperson of the Audit Committee. The consolidated financial statements of the Group for the year ended 31 December 2019 have been reviewed and commented on by the Audit Committee.

AUDITOR

PricewaterhouseCoopers ("**PwC**") was appointed as the auditor of the Company in December 2016 to replace the former auditor, HLB Hodgson Impey Cheng Limited, following its resignation on 8 November 2016. Save as aforesaid, there have been no other changes of auditors of the Company in the past three years. A resolution for the re-appointment of PwC as auditor of the Company will be proposed at the forthcoming annual general meeting of the Company. The consolidated financial statements of the Group for the year ended 31 December 2019 have been audited by PwC.

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

There were no significant investments, material acquisitions and disposals that constituted "notifiable transactions" under Chapter 19 of the GEM Listing Rules during the year ended 31 December 2019.

BUSINESS REVIEW

(a) Review of the Group's business:

Detailed discussion and analysis of the industries in which the Group operates, and the Group's business and performance for the year ended 31 December 2019 are set out in the "Discussion and Analysis of the Group's Results and Business" section on pages 79 to 93 of this annual report.

(b) Principal risks and uncertainties facing the Group:

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

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

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

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

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

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

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

- During the course of 2018 and 2019, it was noted that certain PRC government's directives were issued to closely regulate the administration of the online game industry and the PRC government had paid attention to the internet industry. This may cause uncertainties to China's overall games industry and hence the pace of the development of the Group's games and entertainment business in the PRC.

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

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

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

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

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

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

During the year under review, the Group has been complying with the lottery and online gaming related laws and regulations in the PRC (including but not limited to Lottery Management Regulations (彩票管理條例); The Detailed Rules for the Implementation of Lottery Management Regulations (彩票管理條例實施細則); Measures for Lottery Issuance and Sales Management (彩票發行銷售管理辦法); The Interim Measures for the Administration of Internet Sales of Lottery (互聯網銷售彩票管理暫行辦法); The Interim Measures for the Administration of Telephone Sales of Lottery (電話銷售彩票管理暫行辦法)); Interim Provisions on the Administration of Internet Culture (互聯網文化管理暫行規定); and Notice on Comprehensive Prevention and Control of Children and Adolescents' Myopia Implementation Plan (綜合防控兒童青少年近視實施方案的通知)), and there is no incidence of non-compliance with any other relevant laws and regulations affecting the Group (including but not limited to Employment Ordinance of Hong Kong (Chapter 57 of the Laws of Hong Kong); Labour Law of the PRC (中華人民共和國勞動法), The Labour Contract Law of the PRC (中華人民共和國勞動合同法); Regulations of Paid Annual Leave of Employees (職工帶薪年休假條例); PRC Criminal Law (中華人民共和國刑法); PRC Anti-Unfair Competition Law (中華人民共和國反不正當競爭法); PRC Interim Provisions on Prohibiting Commercial Bribery (禁止商業賄賂行為的暫行規定); The Company Law of the PRC(中華人民共和國公司法); Hong Kong Prevention of Bribery Ordinance (Chapter 201 of the Laws of Hong Kong)) that has come to the knowledge of the Directors.

(d) Significant event after the reporting period:

Since January 2020, the outbreak of Novel Coronavirus ("COVID-19") has an impact on the global business environment and operation of many industries, including lottery in the PRC and sports and games in India. Subject to the development and spread of COVID-19 subsequent to the date of this report, further changes in economic conditions may have an impact on the financial results and the expected usage and timeline of Adjusted Remaining Net Proceeds of the Group, the extent of which could not be reasonably estimated as at the date of this report. The Group will continuously monitor the development of the COVID-19 and take the necessary measures for the benefit of the Group.

(e) Business outlook of the Group:

Details of the likely future development in the Group's business can be found in the section headed "Business Outlook" on page 84 of this annual report.

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

KPIs	Reasons for selection as KPIs	Financial Year 2019	Financial Year 2018	Variance
Revenue (HK$'000)	To assess the sales performance and volume of transactions of the Group.	175,077	168,573	↑ 3.9%
Operating loss (HK$'000)	To assess the Group's operating performance and cost management.	194,931	261,979	↓ 25.6%
(Loss)/Profit for the year attributable to owners of the Company (HK$'000)	To assess the Group's profitability (after expenses).	(123,883)	315,157	↓ 139.3%

(g) Information on environmental matters of the Group:

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

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

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

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

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

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

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

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

(h) Relationships with our stakeholders:

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

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

Stakeholders of the Group	Relationships with the Group
Shareholders	The Group strives to not only maximise the Shareholders' return through continuous business development, but also to maintain a high level of transparency and accountability to the Shareholders in various ways, such as: • maintaining and employing a policy of open and timely disclosure of relevant information to the Shareholders through announcements, circulars, quarterly, interim and annual reports; • maintaining effective communications with the Shareholders through annual general meeting and the official website of the Company; • implementing policies of the Group in respect of sustainability management of its operations so as to reduce their impact on the environment but create a positive social impact on the community where the Group operates; and

DIRECTORS' REPORT

Stakeholders of the Group	Relationships with the Group
	• setting up a Risk Management and Internal Control Committee of the Company to help detect risks associated with our operations and minimise their impact.
Business partners	Apart from maintaining close working relationships with Alibaba Group, Ant Financial Group and its business partners on virtual sports lottery games supplied in the PRC, the Group has been pursuing opportunities abroad to globalise its business by strategically working with leading local business partners in overseas markets such as India, South East Asia and beyond.
Employees	Apart from salaries, the Group offers to its employees other fringe benefits including year-end bonus, discretionary bonus, Share Option Schemes, Share Award Scheme, contributory provident fund, social security fund and medical benefits. In addition, the Group offers valuable opportunities for our employees to enhance their professional knowledge and skills through (i) on-the-job training, and (ii) other training activities sponsored by the Group. (i) On-the-job training: The research and development team of the Group comprises veteran professionals in the PRC lottery and gaming industries. Through working with these professionals, employees can share knowledge base and learn state-of-the-art technology and business practices from their superiors. (ii) Other training activities: In-house briefing materials on latest corporate governance and listing rule requirements are provided to Directors and company secretary. Directors and employees also attend in-house and outside training seminars on job-related topics, or participate in industry-specific seminars and conferences from time to time.
Suppliers/subcontractors	The Group does not run any factories but outsources the manufacturing functions to outside suppliers/subcontractors to help produce our lottery hardware products.

Stakeholders of the Group	Relationships with the Group
Customers (including governmental lottery authorities or operators authorised by such authorities, and online consumers in respect of games and entertainment business)	During the year under review, the largest customer and the five largest customers (combined) of the Group accounted for approximately 39.5% and approximately 73.3% of the total revenue of the Group respectively. No single customer accounted for more than 40% of the Group's total revenue from sales of goods or rendering of services for the year under review and the largest customer is a provincial sports lottery centre in the PRC with satisfactory settlement history. The Group continues to expand the customer base and thus we do not consider that the relationships with our customers expose the Group's business to any substantial risks. The Group works closely with its customers in respect of its lottery business to implement responsible lottery measures and prevent problem gaming in various ways. As regards the Group's non-lottery games and entertainment business, anti-addiction measures are also implemented as appropriate and as required.
Community	We strive to actively contribute to the development of a responsible lottery gaming industry which will raise important public funds for charity, welfare and sports development projects in China. We are actively involved in sports development and charity events, and we have been the sponsor of a wide range of sports events. We liaise closely with the PRC lottery authorities and strive to help them develop healthy lottery markets for the community. We not only introduce new lottery types to the PRC lottery markets, but also propose to the PRC lottery authorities to evaluate new forms of legal and regulated lottery distribution channels with a view to cracking down on the illegal gambling market in China. The footprint of our business spans across China and selected overseas markets. We employ around 360 employees and help create job opportunities in the communities where we operate.

On behalf of the Board

Sun Ho
Chairman & CEO

20 March 2020

FINANCIAL SUMMARY

RESULTS

	For the year ended 31 December				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**175,077**	168,573	302,210	251,492	301,630
Operating loss	**194,931**	261,979	242,584	267,630	91,046
(Loss)/Profit for the year attributable to owners of the Company	**(123,883)**	315,157	(365,664)	332,989	(280,222)

ASSETS AND LIABILITIES

	As at 31 December				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**3,254,718**	3,721,541	3,988,869	4,034,351	1,613,920
Total liabilities	**(239,496)**	(688,810)	(1,283,305)	(1,730,606)	(555,397)
Net assets	**3,015,222**	3,032,731	2,705,564	2,303,745	1,058,523
Equity attributable to owners of the Company	**2,982,224**	2,983,982	2,658,374	2,267,872	1,059,205
Non-controlling interests	**32,998**	48,749	47,190	35,873	(682)
	3,015,222	3,032,731	2,705,564	2,303,745	1,058,523

AGTech Holdings Limited

(Incorporated in Bermuda with limited liability)
Stock Code: 8279

2019
FINANCIAL REPORT

Fortune · Happiness · Health · Luck · Responsibility

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INDEPENDENT AUDITOR'S REPORT

pwc

羅兵咸永道

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

OPINION

What we have audited

The consolidated financial statements of AGTech Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 135 to 222, which comprise:

- the consolidated statement of financial position as at 31 December 2019;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

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

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

KEY AUDIT MATTERS

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

Key audit matter identified in our audit is related to revenue recognition.

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition	
Refer to Notes 2.24 and 5 to the consolidated financial statements. The Group recognised revenue of HK$175,077,000 (2018: HK$168,573,000) from sales of lottery hardware, lottery games and system, provision of lottery distribution and ancillary services, game and entertainment during the year ended 31 December 2019. Sales of lottery hardware are recognised when a group entity has delivered product to the customer and there is no unfulfilled obligation that could affect the customer's acceptance of the products. For provision of distribution and ancillary services and repair and maintenance services, revenue is recognised when the services are rendered according to the terms of service agreements. We focused on this area due to the magnitude and the volume of revenue transactions of the Group.	In response to this key audit matter, our audit work included controls testing and substantive procedures as follows: • evaluated and tested the design and operating effectiveness of controls over the capture and measurement of revenue transactions; • evaluated the appropriateness of accounting policies on revenue recognition for the existing and new business models and the appropriateness of related accounting estimates and judgments made; • performed substantive testing on the accuracy and occurrence of revenue using sampling techniques by examining contracts or service agreements, invoices and customer receipts; and • performed cut-off testing on a sample of revenue transactions before and after year end to assess whether the transactions were recognised in the proper period by tracing to contracts or service agreements, invoices, customer receipts and deferred revenue calculation. Based on the procedures performed, the revenue recognised was supported by the audit evidence that we obtained and consistent with the accounting policies of the Group.

OTHER INFORMATION

The Directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Lam Wai Nang.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 20 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Note	2019 HK$'000	2018 HK$'000
Revenue	5	175,077	168,573
Other income	7	8,849	21,826
Net other losses	8	(19,695)	(12,010)
Employee benefits expenses	9	(200,424)	(239,438)
Purchase of and changes in inventories		(57,623)	(57,586)
Operating lease rental expenses		–	(25,798)
Depreciation expenses	14, 15	(23,581)	(2,815)
Other operating expenses		(77,534)	(114,731)
Operating loss		(194,931)	(261,979)
Gain on fair value changes of convertible bonds	29	85,190	521,177
Gain on fair value changes of contingent consideration payables	28	7,795	50,120
Net finance income	10	30,870	16,081
Share of results of investments accounted for using equity method	20	(38,195)	(1,813)
(Loss)/profit before income tax		(109,271)	323,586
Income tax expenses	11	(4,332)	(6,474)
(Loss)/profit for the year	12	(113,603)	317,112
Other comprehensive income:			
Item that will not be reclassified subsequently to profit or loss			
Currency translation differences		(11,113)	(39,298)
Other comprehensive income for the year, net of tax		(11,113)	(39,298)
Total comprehensive income for the year		(124,716)	277,814
(Loss)/profit attributable to:			
Owners of the Company		(123,883)	315,157
Non-controlling interests		10,280	1,955
		(113,603)	317,112
Total comprehensive income attributable to:			
Owners of the Company		(133,599)	278,330
Non-controlling interests		8,883	(516)
		(124,716)	277,814
(Loss)/earning per share			
Basic	13	(HK1.09 cents)	HK2.83 cents
Diluted	13	(HK1.09 cents)	(HK1.33 cents)

The notes on pages 143 to 222 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Note	2019 HK$'000	2018 HK$'000
Non-current assets			
Property, plant and equipment	14	**5,685**	6,993
Right-of-use assets	15	**21,135**	–
Investment properties	16	**47,997**	51,228
Goodwill	17	**1,067,576**	1,081,460
Other intangible assets	18	**1,742**	1,742
Deferred income tax assets	19	**6,057**	6,349
Investments accounted for using equity method	20	**14,300**	53,133
Other receivables, deposits and prepayments	21	**42,931**	14,153
		1,207,423	1,215,058
Current assets			
Inventories	22	**11,923**	16,953
Trade receivables	23	**26,646**	24,438
Other receivables, deposits and prepayments	21	**87,350**	83,211
Cash and bank balances	24	**1,921,376**	2,381,881
		2,047,295	2,506,483
Total assets		**3,254,718**	3,721,541
Current liabilities			
Trade payables	26	**9,157**	15,642
Accruals and other payables	27	**91,369**	128,150
Contract liabilities	25	**7,290**	12,320
Current income tax liabilities		**2,814**	586
Lease liabilities	15	**14,581**	–
Convertible bonds	29	**–**	418,818
Contingent consideration payables	28	**69,589**	77,384
		194,800	652,900

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2019

	Note	2019 HK$'000	2018 HK$'000
Non-current liabilities			
Deferred income tax liabilities	19	**6,425**	6,778
Provision for warranties	30	**31,172**	29,132
Lease liabilities	15	**7,099**	–
		44,696	35,910
Total liabilities		**239,496**	688,810
Net assets		**3,015,222**	3,032,731
Equity			
Share capital	31	**23,344**	22,544
Reserves attributable to owners of the Company		**2,958,880**	2,961,438
		2,982,224	2,983,982
Non-controlling interests		**32,998**	48,749
Total equity		**3,015,222**	3,032,731

The consolidated financial statements on pages 135 to 222 were approved by the Board of Directors on 20 March 2020 and were signed on its behalf by:

Sun Ho
Director

Hu Taoye
Director

The notes on pages 143 to 222 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Attributable to owners of the Company													
	Share capital HK$'000 (Note 31)	Share premium HK$'000	Shares held for share award scheme HK$'000 (Note (a))	Share options reserve HK$'000	Share awards reserve HK$'000	Statutory reserve HK$'000 (Note (b))	Exchange reserve HK$'000	Contributed surplus HK$'000 (Note (c))	Property revaluation reserve HK$'000 (Note (d))	Other reserve HK$'000 (Note (e))	Accumu-lated losses HK$'000	Subtotal HK$'000	Attributable to non-controlling interests HK$'000	Total HK$'000
Balance at 1 January 2019	22,544	3,269,729	(148,805)	97,384	61,311	21,139	87,687	47,191	14,402	75,788	(564,388)	2,983,982	48,749	3,032,731
Loss for the year	–	–	–	–	–	–	–	–	–	–	(123,883)	(123,883)	10,280	(113,603)
Other comprehensive income for the year	–	–	–	–	–	–	(9,716)	–	–	–	–	(9,716)	(1,397)	(11,113)
Total comprehensive income for the year	–	–	–	–	–	–	(9,716)	–	–	–	(123,883)	(133,599)	8,883	(124,716)
Recognition of equity settled share-based payments	–	–	–	5,217	26,958	–	–	–	–	–	–	32,175	–	32,175
Issue of shares upon conversion of convertible bonds	800	127,681	–	–	–	–	–	–	–	–	–	128,481	–	128,481
Lapse of share options	–	–	–	(55,054)	–	–	–	–	–	–	55,054	–	–	–
Purchase of shares under share award scheme	–	–	(28,433)	–	–	–	–	–	–	–	–	(28,433)	–	(28,433)
Transfer of shares upon vesting of share awards under share award scheme	–	(7,524)	45,427	–	(37,903)	–	–	–	–	–	–	–	–	–
Transaction with non-controlling interests	–	–	–	–	–	–	–	–	–	(152)	–	(152)	(24,634)	(24,786)
Transactions with a shareholder														
– Employee share-based compensation	–	–	–	–	–	–	–	–	–	798	–	798	–	798
– Employee share-based compensation recharge	–	–	–	–	–	–	–	–	–	(1,028)	–	(1,028)	–	(1,028)
Transfer from accumulated losses	–	–	–	–	–	3,114	–	–	–	–	(3,114)	–	–	–
Balance at 31 December 2019	23,344	3,389,886	(131,811)	47,547	50,366	24,253	77,971	47,191	14,402	75,406	(636,331)	2,982,224	32,998	3,015,222

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2019

	Attributable to owners of the Company													
	Share capital HK$'000 (Note 31)	Share premium HK$'000	Shares held for share award scheme HK$'000 (Note (a))	Share options reserve HK$'000	Share awards reserve HK$'000	Statutory reserve HK$'000 (Note (b))	Exchange reserve HK$'000	Contributed surplus HK$'000 (Note (c))	Property revaluation reserve HK$'000 (Note (d))	Other reserve HK$'000 (Note (e))	Accumulated losses HK$'000	Subtotal HK$'000	Attributable to non-controlling interests HK$'000	Total HK$'000
Balance at 1 January 2018	22,494	3,249,914	(167,407)	136,954	41,582	19,121	124,514	47,191	14,402	93,575	(923,966)	2,658,374	47,190	2,705,564
Profit for the year	–	–	–	–	–	–	–	–	–	–	315,157	315,157	1,955	317,112
Other comprehensive income for the year	–	–	–	–	–	–	(36,827)	–	–	–	–	(36,827)	(2,471)	(39,298)
Total comprehensive income for the year	–	–	–	–	–	–	(36,827)	–	–	–	315,157	278,330	(516)	277,814
Recognition of equity settled share-based payments	–	–	–	9,689	49,461	–	–	–	–	–	–	59,150	–	59,150
Issue of shares upon exercise of share options under share option scheme	23	8,839	–	(2,820)	–	–	–	–	–	–	–	6,042	–	6,042
Lapse of share options	–	–	–	(46,439)	–	–	–	–	–	–	46,439	–	–	–
Issue of shares upon settlement of contingent consideration	27	12,135	–	–	–	–	–	–	–	(12,162)	–	–	–	–
Purchases of shares under share award scheme	–	–	(12,289)	–	–	–	–	–	–	–	–	(12,289)	–	(12,289)
Transfer of shares upon vesting of share awards under share award scheme	–	(1,159)	30,891	–	(29,732)	–	–	–	–	–	–	–	–	–
Transactions with non-controlling interests	–	–	–	–	–	–	–	–	–	(5,625)	–	(5,625)	2,075	(3,550)
Transfer to accumulated losses	–	–	–	–	–	2,018	–	–	–	–	(2,018)	–	–	–
Balance at 31 December 2018	22,544	3,269,729	(148,805)	97,384	61,311	21,139	87,687	47,191	14,402	75,788	(564,388)	2,983,982	48,749	3,032,731

Notes:

(a) Shares held for share award scheme represents shares of the Company that are held by the trustees for the purpose of granting award shares under the share award scheme (see Note 33 for further information). Shares vested to selected participants are recognised on a weighted average basis. As at 31 December 2019, 150,507,325 shares were held for share award scheme (2018: 110,252,450).

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

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

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

(e) Other reserve represents the equity portion of contingent considerations related to the acquisition of a subsidiary, transactions with a shareholder and transactions with non-controlling interests.

The notes on pages 143 to 222 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	2019 HK$'000	2018 HK$'000
Cash flows from operating activities		
(Loss)/profit before income tax	**(109,271)**	323,586
Adjustments for:		
Share-based payments	**32,973**	59,150
Depreciation expenses	**23,581**	2,815
Provision for warranties	**6,762**	7,612
(Gain)/loss on disposals of property, plant and equipment	**(49)**	368
Loss on fair value changes of investment properties	**2,269**	–
Gain on fair value changes of contingent consideration payables	**(7,795)**	(50,120)
Gain on fair value changes of convertible bonds	**(85,190)**	(521,177)
Net finance income	**(30,870)**	(16,081)
Share of results of investments accounted for using equity method	**38,195**	1,813
	(129,395)	(192,034)
Changes in working capital		
Inventories	**4,777**	(7,719)
Trade receivables	**(2,729)**	23,118
Other receivables, deposits and prepayments	**9,255**	38,935
Amounts due from/to fellow subsidiaries	**5,701**	21,987
Amount due from a joint venture	**(7,141)**	(957)
Amount due from an associate	**(24,203)**	(4,886)
Amount due to non-controlling interests	**(1,137)**	1,094
Trade payables	**(6,281)**	11,011
Contract liabilities	**(4,869)**	(37,814)
Accruals and other payables	**(21,508)**	(41,086)
Provision for warranties	**(7,905)**	(8,202)
Cash used in operations	**(185,435)**	(196,553)
Income taxes paid	**(2,226)**	(7,630)
Net cash used in operating activities	**(187,661)**	(204,183)

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2019

	2019 HK$'000	2018 HK$'000
Cash flows from investing activities		
Settlement of contingent consideration in relation to acquisition of a subsidiary	–	(20,000)
Purchases for property, plant and equipment	(1,778)	(5,236)
Proceeds from disposal of property, plant and equipment	69	226
Investment in a joint venture	–	(55,793)
Prepaid capital contribution in a joint venture	(28,178)	–
(Increase)/decrease in fixed deposits held at bank with original maturity over three months	(778,544)	391,659
Decrease in pledged bank deposits	2,672	–
Increase in restricted cash	–	(7,841)
Interest received	59,446	54,597
Net cash (used in)/generated from investing activities	(746,313)	357,612
Cash flows from financing activities		
Proceeds from issue of ordinary shares	–	6,042
Redemption of convertible bonds	(232,608)	–
Payments to trustees for purchase of shares under share award scheme	(21,606)	(12,289)
Principal elements of lease payments	(21,894)	–
Transactions with non-controlling interests	(24,786)	(3,550)
Net cash used in from financing activities	(300,894)	(9,797)
Net (decrease)/increase in cash and cash equivalents	(1,234,868)	143,632
Cash and cash equivalents at beginning of year	2,353,368	2,212,503
Exchange gains/(losses) on cash and cash equivalents	5,376	(2,767)
Cash and cash equivalents at end of year	1,123,876	2,353,368

Note: The principal non-cash transactions included issue of shares upon conversion of convertible bonds, purchases and transfer of shares upon vesting of share awards under share award scheme discussed in Notes 29 and 33.

The notes on pages 143 to 222 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2019

(a) Reconciliation of liabilities arising from financing activities:

	Lease liabilities HK$'000	**Convertible bonds** HK$'000	**Total** HK$'000
Balance as at 1 January 2018	–	900,190	900,190
Gain on fair value changes	–	(521,177)	(521,177)
Interest expense	–	39,805	39,805
Balance as at 31 December 2018	–	418,818	418,818
Recognised on adoption of HKFRS 16	38,470	–	38,470
Balance as at 1 January 2019	**38,470**	**418,818**	**457,288**
Conversion during the year	**–**	**(128,481)**	**(128,481)**
Gain on fair value changes	**–**	**(85,190)**	**(85,190)**
Acquisition of leases	**4,052**	**–**	**4,052**
Interest expense	**1,417**	**27,461**	**28,878**
Cash flows	**(21,894)**	**(232,608)**	**(254,502)**
Currency translation difference	**(365)**	**–**	**(365)**
Balance as at 31 December 2019	**21,680**	**–**	**21,680**

The notes on pages 143 to 222 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

New standards, amendments and interpretations adopted by the Group

The following new standards, amendments and interpretations have been adopted by the Group for the first time for the financial year beginning on 1 January 2019:

Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Annual Improvements 2015 – 2017 Cycle	Annual Improvements Project
HKFRS 16	Leases
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments

The application of the above new standards, amendments and interpretations in the current year has had no material impact on the Group's results and financial position, except HKFRS 16 "Leases". As a result of adopting the standard, the Group had to change its accounting policies. The Group elected to adopt the new rules retrospectively but recognised the cumulative effect of initially applying the new standard on 1 January 2019. The impact of adoption is disclosed in Note 2.2.

New standards and amendments not yet adopted

The following new standards and amendments to existing standards are effective for annual periods beginning on or after 1 January 2020 and have not been applied in preparing these consolidated financial statements:

		Effective for accounting periods beginning on or after
Amendments to HKAS 1 and HKAS 8	Definition of Material	1 January 2020
Amendments to HKFRS 3	Definition of a Business	1 January 2020
Conceptual Framework for Financial Reporting	Revised Conceptual Framework for Financial Reporting	1 January 2020
HKFRS 17	Insurance Contracts	1 January 2021
Amendments to HKFRS 10 and HKAS 28	Sales or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policies

This note explains the impact of the adoption of HKFRS 16 "Leases" on the Group's consolidated financial statements.

As indicated in Note 2.1 above, the Group has adopted HKFRS 16 "Leases" retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The new accounting policies are disclosed in Note 2.27.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 "Leases". These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 7.82%.

Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases; and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 "Leases" and HKFRIC 4 "Determining whether an Arrangement contains a Lease".

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policies (continued)

Measurement of lease liabilities

	2019 HK$'000
Operating lease commitments disclosed as at 31 December 2018	46,207
Discounted using the lessee's incremental borrowing rate of at the date of initial application	(7,160)
Less: Short-term leases not recognised as a liability	(577)
Lease liabilities recognised as at 1 January 2019	38,470
Of which are:	
Current lease liabilities	19,506
Non-current lease liabilities	18,964
	38,470

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Subsidiaries

2.3.1 Consolidation

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

(a) Business combinations

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

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

Acquisition-related costs are expensed as incurred.

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

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss (Note 2.9).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Subsidiaries (continued)

2.3.1 Consolidation (continued)

(a) Business combinations (continued)

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

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

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

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

2.3.2 Separate financial statements

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Investments accounted for using equity method

2.4.1 Joint arrangements

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

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

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

2.4.2 Associates

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Segment reporting

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

2.6 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

Foreign exchange gains and losses are presented in the consolidated statement of profit or loss and other comprehensive income within 'net other gains or losses'.

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

(c) Group companies

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Property, plant and equipment

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

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

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

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.10).

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

2.8 Investment properties

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Goodwill and intangible assets

(a) Goodwill

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

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

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

(b) Intangible assets acquired separately

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

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

2.10 Impairment of non-financial assets

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Financial assets

(a) Classification

The Group classifies its financial assets as those to be measured at amortised cost. The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

(b) Recognition and measurement

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

At initial recognition, the Group measures a financial asset at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in 'net other gains or losses'.

2.12 Impairment of financial assets

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Impairment testing of trade receivables is described in Note 3.1(b).

2.13 Inventories

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Trade and other receivables

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

Trade and other receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See Note 2.11 for further information about the Group's accounting for trade receivables and Note 2.12 for a description of the Group's impairment policies.

2.15 Cash and cash equivalents

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

2.16 Share capital

Ordinary shares are classified as equity.

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

2.17 Shares held for share award scheme

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

2.18 Trade and other payables

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Convertible bonds

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

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

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

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

2.20 Current and deferred income tax

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

(a) Current income tax

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Current and deferred income tax (continued)

(b) Deferred income tax

Inside basis differences

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

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

Outside basis differences

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

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

(c) Offsetting

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Employee benefits

(a) Defined contribution plans

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

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

(b) Bonus plans

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

2.22 Share-based payments

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22 Share-based payments (continued)

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

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

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

When the share options are still not exercised at the expiry date, the amount previously recognised in 'share options reserve' is transferred to 'accumulated losses'.

2.23 Provisions

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

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

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

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

Warranties

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.24 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods or services supplied, stated net of discounts, returns and value added taxes. The Group recognises revenue when or as the control of the good or service is transferred to the customer and when specific criteria have been met for each of the Group's activities as described below. Payments received in advance that are related to sales of goods or provision of services not yet delivered to customers are deferred and recognised as contract liabilities.

Where multiple-element arrangement exists, the transaction price is allocated at the inception of the arrangement to each element based on their relative fair values for revenue recognition purposes. The transaction price is allocated to each element using the price charged consistently when each element is sold separately or third party evidence of the stand-alone selling price for each element, or if neither type of evidence is available, using management's best estimate of selling price. Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management. Multiple-element arrangements primarily relate to the provision of games and entertainment business. Incentives to customers are recorded as reduction of revenue.

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year, except for some contracts for sales of goods which the payment terms might provide the customers with protection from the Group failing to adequately complete its obligation under the contract. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

(a) Sales of goods

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

The Group's obligation to repair or replace faulty products under the standard warranty terms is recognised as a provision (Note 30).

(b) Provision of services

For provision of distribution and ancillary services and repair and maintenance services, revenue is recognised when the services are rendered according to the terms of service agreements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.25 Rental income

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

2.26 Interest income

Interest income is recognised using the effective interest method.

2.27 Leases

As explained in Note 2.2 above, the Group has change its accounting policy for leases where the Group is the lessee. The new policy is described below and the impact of the change in Note 2.2.

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

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable,
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date,
- amounts expected to be payable by the Group under residual value guarantees,
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.27 Leases (continued)

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing, and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. While the Group revalues its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use buildings held by the Group.

Payments associated with short-term leases of equipment and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term (Note 16). Initial direct costs incurred in obtaining an operating lease are recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.27 Leases (continued)

Accounting policies applied until 31 December 2018

The Group as lessee

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

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

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

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

The Group as lessor

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.28 Contract assets and contract liabilities

Upon entering into a contract with a customer, the Group obtains rights to receive consideration from the customer and assumes performance obligations to transfer goods or provide services to the customer.

The combination of those rights and performance obligations gives rise to a net contract asset or a net contract liability depending on the relationship between the remaining rights and the performance obligations. The contract is an asset and recognised as contract assets if the cumulative revenue recognised in profit or loss exceeds cumulative payments made by customers. Conversely, the contract is a liability and recognised as contract liabilities if the cumulative payments made by customers exceeds the revenue recognised in profit or loss.

Contract assets are assessed for impairment under the same approach adopted for impairment assessment of financial assets carried at amortized cost. Contract liabilities are recognised as revenue when the Group transfers the goods or services to the customers and therefore satisfied its performance obligation.

The incremental costs of obtaining a contract with a customer are capitalized and presented as contract related assets, if the Group expects to recover those costs, and are subsequently amortized on a systematic basis that is consistent with the transfer to the customers of the goods or services to which the assets relate. The Group recognises an impairment loss in the consolidated income statement to the extent that the carrying amount of the contract related assets recognised exceeds the remaining amounts of consideration that the Group expects to receive less the costs that relate directly to providing those goods or services that have not been recognised as expenses.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

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

Majority of the Group's bank deposits were denominated in US$, HK$ and RMB. RMB-denominated bank deposits were primarily held by the entities of which functional currency is RMB, and US$- and HK$- denominated bank deposits were primarily held by the entities of which functional currency is HK$. Since HK$ is pegged to US$ under the Linked Exchange Rate System in Hong Kong, the Directors consider that there is no significant foreign exchange risk in respect to US$.

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

(ii) Interest rate risk

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

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

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

(iii) Other price risk

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk

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

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

To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the assets as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward looking information. Especially the following indicators are incorporated:

- external credit rating (as far as available)
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the counterparty's ability to meet its obligations
- actual or expected significant change in the operating results of the counterparty
- significant expected changes in the performance and behaviour of the counterparty, including changes in the payment status of counterparties in the group and changes in the operating results of the counterparty

A default on a financial asset is when the counterparty fails to make contractual payments when they fall due.

Financial assets are written off when there is no reasonable expectation of recovery.

Cash and bank balances placed in renowned or high credit-rated financial institutions are considered to be of low credit risk as they have an investment credit rating with at least one major agency. No impairment had been provided under 12-month expected credit loss assessment.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

For other receivables and deposits, the balances mainly comprise of amounts due from fellow subsidiaries, other tax recoverable and rental and utilities deposits. For amounts due from fellow subsidiaries, management consider they do not have significant credit risk due to the past payment history and also taking into account of the sound financial performance and position of their holding companies or significant shareholders to meet contractual cash flow obligations in the near term. Other tax recoverable from the tax authority of the PRC government is considered to be of low credit risk. Management considers rental and utilities deposits do not have significant credit risk since the deposits are refundable from landlords and counterparties upon end of lease term or recoverable by the Group through using the leased property and the utilities. For remaining balances, the Group carries out regular review on these balances and follow up action on any overdue amounts to minimise exposures to credit risk. During the year, no impairment loss (2018: HK$Nil) were recognised in profit or loss in relation to other receivables and deposits.

For trade receivables which primarily arise from sales with customers who are governmental lottery authorities or operators authorised by such authorities, no significant impairment allowance had been provided under lifetime expected credit loss assessment. Management considered there was no history of default of the debtors and also took into account of Group's view of current and forecast economic conditions that may affect the ability of the debtors to settle receivables.

No significant changes to the estimation techniques or significant assumptions were made during the year.

As at 31 December 2019, the Group is subject to concentration of credit risk as 54% (2018: 30%) of the Group's trade receivables were due from the Group's largest customer. Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in Note 23.

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

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk

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

At 31 December 2019, the Group has no available unutilised banking facilities (2018: HK$Nil).

The table below analyses the Group's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows.

	On demand or within 1 year	More than 1 year but not more than 5 years	Total undiscounted cash flows	Carrying amounts
	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2019				
Trade payables	**9,157**	**–**	**9,157**	**9,157**
Accruals and other payables	**82,163**	**–**	**82,163**	**82,163**
Contingent consideration payables settled by cash	**50,000**	**–**	**50,000**	**44,927**
Lease liabilities	**15,219**	**8,091**	**23,310**	**21,680**
	156,539	**8,091**	**164,630**	**157,927**
At 31 December 2018				
Trade payables	15,642	–	15,642	15,642
Accruals and other payables	114,955	–	114,955	114,955
Contingent consideration payables settled by cash	50,000	–	50,000	44,614
Debt instrument of convertible bonds	332,328	–	332,328	303,634
	512,925	–	512,925	478,845

3 FINANCIAL RISK MANAGEMENT (continued)

3.2 Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2018.

The capital structure of the Group consists of net debt (which includes trade payables, accruals and other payables, contract liabilities, lease liabilities, contingent consideration payables and convertible bonds, net of cash and cash equivalents) and equity attributable to owners of the Company (comprising issued share capital and reserves).

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

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

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

	2019	2018
	HK$'000	HK$'000
Debt	**189,879**	639,119
Less: cash and cash equivalents	**(1,123,876)**	(2,353,368)
Net cash	**933,997**	1,714,249
Equity attributable to owners of the Company	**2,982,224**	2,983,982
Net debt-to-equity ratio	**N/A**	N/A

As at 31 December 2019, the Group was in net cash position, taking into accounts its debt and cash and cash equivalents.

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2019 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

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

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Financial liabilities at fair value through profit or loss				
Contingent consideration payables	**24,662**	**–**	**44,927**	**69,589**

The following table presents the Group's financial instruments that are measured at fair value at 31 December 2018:

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Financial liabilities at fair value through profit or loss				
Contingent consideration payables	32,770	–	44,614	77,384
Embedded derivative of convertible bonds	–	–	115,184	115,184
	32,770	–	159,798	192,568

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

See Notes 16, 28 and 29 for disclosures of the measurement of investment properties, contingent consideration payables and convertible bonds that are measured at fair value.

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

Valuation processes of the Group

The fair values of the Group's investment properties and contingent consideration payables as at 31 December 2019 and 2018 have been arrived at on the basis of valuation carried out on the respective dates by Asset Appraisal Limited ("AAL"). The fair values of the embedded derivative of convertible bonds as at 22 July 2019 and 31 December 2018 have been arrived at on the basis of valuation carried out by GW Financial Advisory Services Limited ("GWFASL"). AAL and GWFASL are independent professional valuers not connected to the Group, and are members of the Hong Kong Institute of Surveyors and have appropriate qualifications and relevant experience.

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

At each financial year end, the finance team:

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(a) Fair value of investment properties

The fair value of investment properties is determined by using valuation technique. Details of the judgement and assumptions have been disclosed in Note 16.

(b) Impairment assessment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.9. Significant judgements were required to determine the cash generating unit where the impairment assessment is performed, and to determine the appropriate recoverable amount being higher amount of the fair value less costs of disposal and value in use. If the share price of the Company had increased/decreased by 50%, the fair value less costs of disposal of the Group would have increased/decreased by approximately HK$2,130,202,000. Details of the judgement and assumptions have been disclosed in Note 17.

(c) Recognition of deferred income tax assets

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

(d) Withholding taxes arising from the distributions of dividends

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

(e) Valuation of embedded derivative of convertible bonds

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(f) Valuation of contingent consideration payables

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

(g) Estimated impairment of trade and other receivables

The Group estimates the provisions for impairment of trade and other receivables by assessing their recoverability based on credit history, prevailing market conditions as well as forward looking estimates at the end of each reporting period. This requires the use of estimates and judgements. Provisions are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. Where the expectation is different from the original estimate, such difference will affect the carrying amount of trade and other receivables and thus the impairment loss in the period in which such estimate is changed. The Group reassesses the provisions at the end of each reporting period.

(h) Provision for warranties

The Group generally offers two-to-eight year warranties for its hardware. Management estimates the related provision for future warranty claims based on historical warranty claim information, as well as recent trends that might suggest that past cost information may differ from future claims. Factors that could impact the estimated claim information include the success of the Group's productivity and quality initiatives, as well as parts and labour costs.

(i) Share-based payments

The Group is required to expense its employees' share-based compensation awards in accordance with HKFRS 2 "Share-based payment". The Group measures share-based compensation cost based on the fair value on the grant date of each award. This cost is recognised over the period during which an employee is required to provide service in exchange for the award or the requisite service period, usually the vesting period, and is adjusted for actual forfeitures that occur before vesting. The Group is required to use certain assumptions, including the forfeitures and the service period of each employee, to assess the fair value of share-based compensation. The use of different assumptions and estimates could produce materially different estimated fair values for the share-based compensation awards and related expenses.

5 REVENUE

Revenue represents the amounts received and receivable from lottery hardware (including provision of related after-sale services), lottery games and systems, provision of lottery distribution and ancillary services, games and entertainment primarily in the PRC for the year, and is analysed as follows:

	2019	2018
	HK$'000	HK$'000
Lottery hardware	**104,785**	102,060
Lottery games and systems	**43,296**	33,957
Provision of lottery distribution and ancillary services	**18,285**	24,582
Games and entertainment	**8,711**	7,974
	175,077	168,573

6 SEGMENT INFORMATION

Information reported to the executive Directors, being the chief operating decision-maker ("CODM"), for the purposes of resources allocation and assessment of performance focuses specifically on the revenue analysis by principal categories of the Group's business and the profit or loss of the Group as a whole.

Accordingly, the CODM have determined that the Group has one sole operating segment. The information regarding revenue derived from the principal businesses described above is set out in Note 5.

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

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

6 SEGMENT INFORMATION (continued)

Geographical information

The Group's operations are mainly located in the PRC.

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

	Revenue from external customers		Non-current assets*	
	2019	2018	**2019**	2018
	HK$'000	HK$'000	**HK$'000**	HK$'000
PRC	**167,989**	165,318	**1,150,802**	1,153,062
Hong Kong	**–**	–	**8,085**	2,514
Others	**7,088**	3,255	**42,479**	53,133
	175,077	168,573	**1,201,366**	1,208,709

* Non-current assets represent non-current assets other than deferred income tax assets.

Information about major customers

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

	2019	2018
	HK$'000	HK$'000
Customer A	**69,130**	51,877
Customer B	**21,611**	16,787
	90,741	68,664

7 OTHER INCOME

	2019 HK$'000	2018 HK$'000
Rental income from investment properties	**3,320**	3,650
Recharge for technical services to a joint venture	**1,600**	2,600
Write-back of contract liabilities in relation to games and entertainment business	**2,577**	14,000
Others	**1,352**	1,576
	8,849	21,826

8 NET OTHER LOSSES

	2019 HK$'000	2018 HK$'000
Loss on fair value changes of investment properties (Note 16)	**(2,269)**	–
Foreign exchange loss	**(17,475)**	(11,642)
Gain/(loss) on disposals of property, plant and equipment	**49**	(368)
	(19,695)	(12,010)

9 EMPLOYEE BENEFITS EXPENSES

	2019 HK$'000	2018 HK$'000
Fees, salaries, discretionary bonuses and other benefits	**136,781**	160,280
Share-based payments	**27,706**	41,668
Defined contributions plans	**35,937**	37,490
Total employee benefits expenses	**200,424**	239,438

(a) Defined contribution plans

The Group participates in employee social security plans as required by the regulations in the PRC. The Group also participates in the Mandatory Provident Fund scheme to which all qualified employees of the Group in Hong Kong are entitled. The assets of the retirement benefit schemes are held, separately from those of the Group, in funds under the control of the trustees. The employees of the subsidiaries in the PRC are members of social security schemes operated by the relevant local government authorities. The pension plans are funded by payments from employees and by the relevant group companies. The amounts charged to profit or loss represent contributions payable by the Group at the specified rates according to the respective plans. The only obligation of the Group in respect of the retirement benefit schemes is to make the specified contributions.

Contributions totalling approximately HK$1,727,000 (2018: HK$1,981,000) were payable to the fund at the year-end.

9 EMPLOYEE BENEFITS EXPENSES (continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2018: two) Director whose emoluments is reflected in the analysis shown in Note 36. The emoluments payable to the remaining four (2018: three) individuals during the year are as follows:

	2019 HK$'000	2018 HK$'000
Salaries and other benefits	5,792	5,223
Defined contributions plans	432	333
Discretionary bonus	1,525	–
Share-based payments	9,887	9,893
	17,636	15,449

Their emoluments fell within the following bands:

	2019 Number of individuals	2018 Number of individuals
HK$2,500,001 to HK$3,000,000	1	–
HK$4,000,001 to HK$4,500,000	1	–
HK$4,500,001 to HK$5,000,000	1	1
HK$5,000,001 to HK$5,500,000	–	2
HK$5,500,001 to HK$6,000,000	1	–
	4	3

No emoluments were paid by the Group to any of the above four (2018: three) individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

10 NET FINANCE INCOME

	2019 HK$'000	2018 HK$'000
Interest income on bank deposits	**58,990**	55,886
Interest income on amount due from an associate	**758**	–
Interest expense on convertible bonds (Note 29)	**(27,461)**	(39,805)
Interest expense on lease liabilities	**(1,417)**	–
Net finance income	**30,870**	16,081

11 INCOME TAX EXPENSES

Taxation has been calculated on the estimated assessable profit for the year at the rates prevailing in the countries in which the members of the Group operate.

No provision for Hong Kong profits tax has been made, as there were no assessable profits arising in or derive from Hong Kong for the both years.

北京亞博高騰科技有限公司(Beijing AGTech GOT Technology Co., Ltd.*) ("GOT"),北京思德泰科科技發展有限公司(Beijing Systek Science & Technology Development Co., Ltd.*) ("Beijing Systek") and 深圳中林瑞德科技有限公司(Shenzhen Zoom Read Tech Co., Ltd.*) ("Shenzhen Subsidiary") are subject to PRC Enterprise Income Tax ("EIT") at 15% for both years, as GOT, Beijing Systek and Shenzhen Subsidiary are recognised as High and New Technology Enterprise under the PRC EIT Law. 北京奕趣互彩科技有限公司(Beijing Yiquhucai Technology Co., Ltd.*) is subject to PRC EIT at 25% and 10% for the years ended 31 December 2019 and 2018 respectively, as it is recognised as a Small Low-Profit Enterprise under the PRC EIT Law for the year ended 31 December 2018. Other PRC subsidiaries of the Group are subject to PRC EIT at 25% for both years.

* *For identification purpose only*

	2019 HK$'000	2018 HK$'000
Current tax:		
– PRC EIT on assessable profit for the year	**4,356**	4,967
– Adjustments in respect of prior years	**145**	(144)
Deferred tax (Note 19):		
– Origination and reversal of temporary differences	**(169)**	1,651
Income tax expense	**4,332**	6,474

11 INCOME TAX EXPENSES (continued)

The tax on the Group's loss/profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to loss/profit of the consolidated entities as follows:

	2019	2018
	HK$'000	HK$'000
(Loss)/profit before tax	**(109,271)**	323,586
Tax calculated at domestic income tax rates	**(22,105)**	50,303
Income not subject to tax	**(40,208)**	(119,378)
Expenses not deductible for tax purposes	**15,965**	29,906
Utilisation of previously unrecognised tax losses	**(4,551)**	(1,531)
Tax losses and other temporary differences for which no deferred income tax asset was recognised	**55,086**	47,318
Adjustments in respect of prior years	**145**	(144)
Income tax expenses	**4,332**	6,474

12 (LOSS)/PROFIT FOR THE YEAR

(Loss)/profit for the year has been arrived at after charging:

	2019	2018
	HK$'000	HK$'000
Share-based payments		
– Directors and eligible employees (Note 9)	**27,706**	41,668
– Other eligible participants	**5,267**	17,482
Marketing expenses	**11,205**	17,725
Provision for warranties	**6,762**	7,612
Auditor's remuneration		
– Audit services	**1,500**	2,100

13 (LOSS)/EARNING PER SHARE

(a) Basic

Basic loss or earning per share is calculated by dividing the loss attributable to owners of the Company for the year ended 31 December 2019 of approximately HK$123,883,000 (2018: profit of approximately HK$315,157,000) by the weighted average number of ordinary shares outstanding during the year of approximately 11,450,972,000 (2018: approximately 11,264,431,000) shares and excluding the weighted average number of shares held for share award scheme of approximately 108,824,000 (2018: approximately 116,984,000) shares.

(b) Diluted

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has four categories of dilutive potential ordinary shares: convertible bonds, contingent considerations, share options and share awards. The convertible bonds are assumed to have been converted into ordinary shares, and the profit or loss attributable to owners of the Company is adjusted to eliminate the relevant interest expense and fair value changes. The contingent considerations are assumed to have been settled in ordinary shares, and the profit or loss attributable to owners of the Company is adjusted to eliminate the relevant fair value changes. For the share options and share awards, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options and share awards.

For the year ended 31 December 2019, convertible bonds are excluded from the computation of the diluted loss per share as there were no convertible bonds outstanding as at 31 December 2019. For the years ended 31 December 2019 and 2018, the computation of the diluted loss per share does not assume the exercise of the outstanding share options and the vesting of the outstanding share awards, as they would decrease the diluted loss per share. For the years ended 31 December 2019 and 2018, contingent considerations are not treated as outstanding and are excluded from the computation of the diluted loss per share as the conditions are not satisfied as at 31 December 2019 and 31 December 2018.

13 (LOSS)/EARNING PER SHARE (continued)

	2019 **HK$'000**	2018 HK$'000
(Loss)/profit attributable to owners of the Company used in calculating basic loss or earning per share	**(123,883)**	315,157
Adjustments for:		
– Interest expense on convertible bonds	**–**	39,805
– Gain on fair value changes of convertible bonds	**–**	(521,177)
Loss attributable to owners of the Company used in calculating diluted loss per share	**(123,883)**	(166,215)

	2019 **Number of shares (in thousand)**	2018 Number of shares (in thousand)
Weighted average number of ordinary shares used in calculating basic loss or earning per share	**11,342,148**	11,147,447
Adjustment for:		
– Assumed conversion of convertible bonds	**–**	1,332,960
Weighted average number of ordinary shares used in calculating diluted loss per share	**11,342,148**	12,480,407

14 PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Computer equipment HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost						
Balance at 1 January 2018	886	6,058	4,259	8,030	6,144	25,377
Additions	–	2,683	1,128	558	867	5,236
Disposals	–	–	(1,253)	(6,805)	(959)	(9,017)
Currency translation differences	(46)	(399)	(172)	(441)	(187)	(1,245)
Balance at 31 December 2018 and 1 January 2019	840	8,342	3,962	1,342	5,865	20,351
Additions	–	397	546	835	–	1,778
Disposals	–	–	(267)	(58)	(241)	(566)
Currency translation differences	(16)	(160)	(66)	(142)	(60)	(444)
Balance at 31 December 2019	824	8,579	4,175	1,977	5,564	21,119
Accumulated depreciation and impairment						
Balance at 1 January 2018	421	5,585	2,820	6,786	4,344	19,956
Depreciation charge	44	996	947	351	477	2,815
Disposals	–	–	(1,245)	(6,266)	(912)	(8,423)
Currency translation differences	(24)	(296)	(103)	(389)	(178)	(990)
Balance at 31 December 2018 and 1 January 2019	441	6,285	2,419	482	3,731	13,358
Depreciation charge	42	1,161	954	542	290	2,989
Disposals	–	–	(267)	(38)	(241)	(546)
Currency translation differences	(9)	(132)	(46)	(121)	(59)	(367)
Balance at 31 December 2019	474	7,314	3,060	865	3,721	15,434
Net book amount						
Balance at 31 December 2019	350	1,265	1,115	1,112	1,843	5,685
Balance at 31 December 2018	399	2,057	1,543	860	2,134	6,993

15 LEASES

This note provides information for leases where the Group is a lessee.

(i) Amounts recognised in the consolidated statement of financial position

The consolidated statement of financial position shows the following amounts relating to leases:

	31 December 2019 HK$'000	1 January 2019 HK$'000
Right-of-use assets		
Buildings	**21,135**	38,513
	21,135	38,513
Lease liabilities		
Current	**14,581**	19,506
Non-current	**7,099**	18,964
	21,680	38,470

Additions to the right-of-use assets during the year ended 31 December 2019 was HK$4,052,000.

(ii) Amounts recognised in the consolidated statement of profit or loss and other comprehensive income

The consolidated statement of profit or loss and other comprehensive income shows the following amounts relating to leases:

	2019 HK$'000	2018 HK$'000
Depreciation charge of right-of-use assets		
Buildings	**20,592**	–
	20,592	–
Interest expense (included in net finance income)	**1,417**	–
Expense relating to short-term leases (included in other operating expenses)	**577**	–

The total cash outflow for leases in the year ended 31 December 2019 was HK$21,894,000.

15 LEASES (continued)

(iii) The Group's leasing activities and how these are accounted for

The Group leases various offices and staff quarters. Rental contracts are typically made for a fixed periods of one year to eight years, but may have extension options as described in (iv) below.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

(iv) Extension and termination options

Extension and termination options are included in the leases of the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

16 INVESTMENT PROPERTIES

	2019 HK$'000	2018 HK$'000
At fair value		
Balance at beginning of year	**51,228**	54,041
Loss on fair value changes	**(2,269)**	–
Currency translation differences	**(962)**	(2,813)
Balance at end of year	**47,997**	51,228

	2019 HK$'000	2018 HK$'000
Amounts recognised in profit or loss		
Rental income	**3,320**	3,650
Direct operating expenses from properties that generated rental income	**(910)**	(950)
	2,410	2,700

The Group's properties interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

As at 31 December 2019, no investment properties of the Group (2018: HK$Nil) were pledged to secure bank borrowings and banking facilities granted to the Group.

Details of the Group's investment properties and information about the fair value hierarchy as at 31 December 2019 and 2018 are as follows:

	Quoted prices in active markets for identical assets (Level 1) HK$'000	Significant other observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Office units in the PRC				
31 December 2019	–	47,997	–	47,997
31 December 2018	–	51,228	–	51,228

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

16 INVESTMENT PROPERTIES (continued)

Valuation techniques

The fair value was determined using the market comparable approach based on recent market prices without any significant adjustments being made to the market observable data. In estimating the fair value of the properties, the highest and best use of the properties is their current use. The most significant input into this valuation approach is price per square foot.

There were no changes to the valuation techniques during the year.

17 GOODWILL

	2019 HK$'000	2018 HK$'000
Cost		
Balance at beginning of year	**1,084,317**	1,123,405
Currency translation differences	**(13,884)**	(39,088)
Balance at end of year	**1,070,433**	1,084,317
Accumulated impairment		
Balance at beginning and end of year	**2,857**	2,857
Net book amount		
Balance at end of year	**1,067,576**	1,081,460

Goodwill of the Group arose on the acquisition of subsidiaries in the past which was attributable to the synergies expected from the combined operations of the Group, the assembled workforce and their knowledge and experience surrounding lottery and games related businesses. The cash generating unit to which the goodwill is allocated is the Group as a whole, being the only operating segment.

As at 31 December 2019 and 2018, the recoverable amount of the Group was determined based on fair value less costs of disposal, which was estimated by management with reference to the transaction price of the Company's listed shares on GEM of The Stock Exchange of Hong Kong Limited. Management considered the recoverable amount of the Group was higher than its carrying amount as at 31 December 2019 and 2018.

During the year ended 31 December 2019 and 2018, the management determined that there was no impairment of goodwill based on the fair value less costs of disposal model.

18 OTHER INTANGIBLE ASSET

	2019 HK$'000	2018 HK$'000
Cost		
Balance at beginning and end of year	**1,742**	1,742
Accumulated impairment		
Balance at beginning and end of year	**–**	–
Net book amount		
Balance at end of year	**1,742**	1,742

The other intangible asset comprised club membership and the Directors consider that it has indefinite useful life.

19 DEFERRED INCOME TAX

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	2019 HK$'000	2018 HK$'000
Deferred tax assets:		
Deferred tax asset to be recovered after more than 12 months	**4,676**	4,370
Deferred tax asset to be recovered within 12 months	**1,381**	1,979
	6,057	6,349
Deferred tax liabilities:		
Deferred tax liability to be recovered after more than 12 months	**6,425**	6,778
	6,425	6,778

19 DEFERRED INCOME TAX (continued)

The movement in deferred income tax assets and liabilities during the year, without consideration of the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax assets

	Provision for warranties	
	2019	2018
	HK$'000	HK$'000
Balance at beginning of year	**6,349**	6,840
Currency translation differences	**(121)**	(402)
Charged to profit or loss	**(171)**	(89)
Balance at end of year	**6,057**	6,349

Deferred tax liabilities

	Investment properties	
	2019	2018
	HK$'000	HK$'000
Balance at beginning of year	**6,778**	5,502
Currency translation differences	**(13)**	(286)
(Credited)/charged to profit or loss	**(340)**	1,562
Balance at end of year	**6,425**	6,778

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. As at 31 December 2019, no withholding tax had been provided for the earnings of approximately HK$157,172,000 (2018: HK$167,866,000) expected to be retained by the PRC subsidiaries and not to be remitted to a foreign investor in the foreseeable future based on management's estimation of overseas funding requirements.

At the end of the reporting period, the Group has estimated unused tax losses of approximately HK$985,152,000 (2018: HK$727,859,000) available for offsetting against future profits of the companies in which the losses arose. Included in the estimated unused tax losses are losses of approximately HK$673,569,000 (2018: HK$432,392,000) that will expire within 5 years generally or 10 years for High and New Technology Enterprises and Small Low-Profit Enterprise under the EIT Law of the PRC. Other estimated unused tax losses of approximately HK$311,583,000 (2018: HK$295,467,000) may be carried forward indefinitely. Some of the tax loss brought forward amounts are subject to review by the tax authority later on once the subsidiaries commence to earn assessable profits. No deferred tax asset has been recognised in respect of these estimated unused tax losses due to unpredictability of future profit streams.

20 INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

Associate

The amounts recognised in the consolidated statement of financial position are as follows:

	2019 HK$'000	2018 HK$'000
Unlisted investment, at cost	291	291
Share of post-acquisition profit or loss and other comprehensive income, net of dividends received	(291)	(193)
	–	98

There is no associate that is individually material to the Group. The amounts recognised in the consolidated statement of profit or loss and other comprehensive income are as follows:

	2019 HK$'000	2018 HK$'000
The Group's share of:		
Loss from continuing operation	(98)	(193)
Post-tax profit or loss from discontinued operations	–	–
Other comprehensive income	–	–
	(98)	(193)

The amount of unrecognised share of loss of an associate for the current year was approximately HK$5,225,000.

Details of the Group's associate is as follows:

Name of entity	Place of incorporation	Class of shares held	% of ownership interest 2019	% of ownership interest 2018	Principal activities	Measurement method
Star N Cloud Network Intelligence Company Limited	Macau	Ordinary	30%	30%	I.T. Investment and business consulting	Equity

The associate is a private company and there is no quoted market price available for its shares.

20 INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD (continued)

Joint venture

The amounts recognised in the consolidated statement of financial position are as follows:

	2019 HK$'000	2018 HK$'000
Unlisted investment, at cost	55,793	55,793
Share of post-acquisition profit or loss and other comprehensive income, net of dividends received	(39,717)	(1,620)
Exchange difference	(1,776)	(1,138)
	14,300	53,035

The amounts recognised in the consolidated statement of profit or loss and other comprehensive income are as follows:

	2019 HK$'000	2018 HK$'000
The Group's share of:		
Loss from continuing operation	(38,097)	(1,620)
Post-tax profit or loss from discontinued operations	–	–
Other comprehensive income	–	–
	(38,097)	(1,620)

20 INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD (continued)

Joint venture (continued)

The tables below provide summarised financial information for the joint venture that is material to the Group. The information disclosed reflects the amounts presented in the financial statements of the relevant joint venture and not the Group's share of those amounts.

	2019 HK$'000	2018 HK$'000
Current assets		
Cash and cash equivalents	33,676	2,807
Other current assets	38,216	71,939
	71,892	74,746
Non-current assets	64,030	60,668
Current liabilities		
Financial liabilities (excluding trade and other payables and provisions)	1,007	9,750
Other current liabilities	35,147	6,068
	36,154	15,818
Non-current liabilities	6,157	1,740
Net assets	93,611	117,856

Prepaid capital contribution by shareholders of approximately HK$61,834,000 was included in the net assets of the joint venture as at 31 December 2019.

20 INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD (continued)

Joint venture (continued)

	2019 HK$'000	2018 HK$'000
Revenue	18,031	6,548
Interest income	–	1,027
Depreciation and amortisation	(1,889)	(2,165)
Interest expense	–	–
Income tax expense	(5,274)	(335)
Loss from continuing operations	(99,630)	(20,817)
Loss from discontinued operations	–	–
Loss for the period	(99,630)	(20,817)
Other comprehensive income	6	(54)
Total comprehensive income	(99,624)	(20,871)
Dividend received from joint venture	–	–

Details of the Group's joint venture at 31 December 2019 are as follows:

Name of entity	Place of incorporation	% of ownership interest 2019	% of ownership interest 2018	Principal activities	Measurement method
Paytm First Games Private Limited (Previously known as Gamepind Entertainment Private Limited)	India	45%	45%	Development and operating platforms for users to participate in and play various games	Equity

The joint venture is a private company and there is no quoted market price available for its shares.

There are no contingent liabilities relating to the Group's interest in the joint venture.

21 OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2019	2018
	HK$'000	HK$'000
Other receivables	**52,683**	56,484
Interest receivables	**9,903**	10,359
Rental, utility and other deposits	**27,531**	22,631
Prepayments	**40,164**	7,890
	130,281	97,364
Less non-current portion	**(42,931)**	(14,153)
	87,350	83,211

At 31 December 2019 and 2018, none of the above assets was impaired. The financial assets included in the above balances related to receivables on which there was no recent history of default.

At 31 December 2019, other receivables included amounts due from fellow subsidiaries of approximately HK$1,772,000 (2018: HK$18,274,000), amount due from a joint venture of approximately HK$7,963,000 (2018: HK$957,000) and an amount due from an associate of approximately HK$29,847,000 (2018: HK$4,886,000). The balances were unsecured, interest-free and repayable on demand except for the balance of HK$29,089,000 (2018: Nil) carried interest of 4.8% (2018: Nil) per annum.

At 31 December 2019, prepayments included prepaid capital contribution in Paytm First Games Private Limited, a joint venture of the Group of approximately HK$28,178,000 (2018: Nil). The shares were subsequently allotted to the Group on 7 January 2020.

The fair value of other receivables and deposits approximated to their carrying amount.

The carrying amounts of the other receivables and deposits were mainly denominated in RMB and HK$.

The maximum exposure to credit risk at the reporting date was the carrying value of each class of receivables mentioned above. The Group did not hold any collateral as security.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22 INVENTORIES

	2019 HK$'000	2018 HK$'000
Raw materials	**3,859**	4,981
Work in progress	**737**	823
Finished goods	**7,327**	11,149
	11,923	16,953

The cost of inventories recognised as expense and included in 'purchase of and changes in inventories' amounted to approximately HK$57,623,000 (2018: HK$57,586,000). There were no inventory write-downs for the years ended 31 December 2019 and 2018.

23 TRADE RECEIVABLES

	2019 HK$'000	2018 HK$'000
Trade receivables	**26,646**	24,438

The credit terms granted to customers are varied and are generally the result of negotiations between individual customers and the Group. No interest is charged on trade receivables.

Ageing analysis of trade receivables based on the date of the relevant invoice or demand note was as follows:

	2019 HK$'000	2018 HK$'000
0 to 30 days	**24,358**	22,921
31 to 60 days	**1,730**	258
61 to 90 days	**228**	228
91 to 120 days	**11**	172
121 to 365 days	**319**	378
Over 365 days	**–**	481
	26,646	24,438

At 31 December 2019, trade receivables of approximately HK$24,358,000 (2018: HK$22,921,000) were full performing.

23 TRADE RECEIVABLES (continued)

At 31 December 2019, trade receivables of approximately HK$2,288,000 (2018: HK$1,517,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

The fair value of trade receivables approximated to their carrying amount. The carrying amounts of trade receivables were denominated in RMB.

The maximum exposure to credit risk at the reporting date was the carrying value of trade receivables. The Group did not hold any collateral as security.

24 CASH AND BANK BALANCES

	2019 **HK$'000**	2018 HK$'000
Cash and cash equivalents	**1,123,876**	2,353,368
Fixed deposits held at bank with original maturity over three months	**778,544**	–
Pledged bank deposits	**2,504**	5,234
Restricted cash	**16,452**	23,279
	1,921,376	2,381,881

Cash and cash equivalents comprised cash in hand, deposits held at call with bank, other short-term highly liquid investments with original maturities of three months or less, carrying effective interest ranging from 0.001% to 3.350% (2018: 0.001% to 2.970%) per annum.

As at December 2019, fixed deposits held at bank with original maturity over three months carried effective interest at 3.15% per annum (2018: Nil).

Pledged bank deposits represented deposits pledged with banks to secure letters of guarantee granted to the Group carrying effective interest at Nil (2018: Nil) per annum. The pledged bank deposits will be released upon expiry of the relevant letters of guarantee.

Cash and bank balance above included approximately HK$16,452,000 (2018: approximately HK$23,279,000) which are held by trustees of the Company for purchases of shares under share award scheme. These deposits are not available for general use by the Group.

24 CASH AND BANK BALANCES (continued)

As at 31 December 2019 and 2018, cash and bank balances were denominated in the following currencies:

	2019 HK$'000	2018 HK$'000
HK$	**22,342**	59,172
RMB	**125,061**	240,449
United States dollars	**1,773,668**	2,081,910
Others	**305**	350
	1,921,376	2,381,881

RMB is currently not a freely convertible currency in the international market. The conversion of RMB into foreign currencies and remittance of RMB out of the PRC are subject to the rules and regulations of the foreign exchange control promulgated by the PRC government.

25 CONTRACT LIABILITIES

	2019 HK$'000	2018 HK$'000
Contract liabilities in relation to lottery hardware	**5,185**	7,550
Contract liabilities in relation to provision of lottery distribution and ancillary services	**1,283**	758
Contract liabilities in relation to games and entertainment	**822**	4,012
Total current contract liabilities	**7,290**	12,320

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities.

	2019 HK$'000	2018 HK$'000
Revenue recognised that was included in the contract liability balance at the beginning of year		
Lottery hardware	**4,893**	3,127
Provision of lottery distribution and ancillary services	**319**	116
Games and entertainment	**–**	2,087
	5,212	5,330

26 TRADE PAYABLES

Ageing analysis of the trade payables based on invoice date was as follows:

	2019 HK$'000	2018 HK$'000
0 to 30 days	**6,825**	2,003
31 to 60 days	**10**	6,679
61 to 90 days	**3**	3,714
91 to 120 days	**7**	288
121 to 365 days	**1,735**	2,505
Over 365 days	**577**	453
	9,157	15,642

The average credit period is 30 days.

The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe. Trade payables were non-interest bearing.

27 ACCRUALS AND OTHER PAYABLES

	2019 HK$'000	2018 HK$'000
Accrued expenses	**34,069**	51,108
Other payables	**57,300**	77,042
	91,369	128,150

As at 31 December 2019, other payables included an amount due to non-controlling interests of approximately HK$486,000 (2018: HK$1,667,000) and amounts due to fellow subsidiaries of approximately HK$37,976,000 (2018: HK$47,664,000), which was unsecured, interest-free and repayable on demand.

The Group has financial risk management policies in place to ensure that all payables are paid within the credit time frame. Other payables were non-interest-bearing.

The other payables were mainly denominated in RMB.

The fair value of other payables approximated to their carrying amounts.

28 CONTINGENT CONSIDERATION PAYABLES

	2019 HK$'000	2018 HK$'000
Payables settled by cash upon obtaining the game approval	**44,927**	44,614
Payable settled by issue of shares upon commencing first round game sales	**24,662**	32,770
	69,589	77,384

	2019 HK$'000	2018 HK$'000
Balance at beginning of year	**77,384**	147,504
Gain on fair value changes recognised in profit or loss	**(7,795)**	(50,120)
Payment of contingent consideration payable to be settled by cash upon meeting 2017 profit guarantee	**–**	(20,000)
Balance at end of year	**69,589**	77,384

Valuation techniques

The fair value of contingent consideration payables to be settled by cash (upon obtaining the game approval) was determined by discounting the contractual cash flows over the contractual term of the consideration payables at discount rates which were appropriate to the riskiness of the consideration payables, with reference to the prevailing market rates and other relevant indicators.

The fair value of contingent consideration payable to be settled by issue of shares (upon commencing first round game sales) was determined by using the published closing price per share with reference to other relevant indicators.

There were no changes to the valuation techniques during the year.

28 CONTINGENT CONSIDERATION PAYABLES (continued)

Information about fair value measurement using significant unobservable inputs (level 3) – contingent consideration payables settled by cash

As at 31 December 2019

Description	Fair value (HK$'000)	Valuation technique	Unobservable inputs	Range (Weighted average)	Relationship of unobservable inputs to fair value
Payables settled by cash	44,927	Discounted cash flow	Discount rate	11.292%	The higher the discount rate, the lower the fair value

As at 31 December 2018

Description	Fair value (HK$'000)	Valuation technique	Unobservable inputs	Range (Weighted average)	Relationship of unobservable inputs to fair value
Payables settled by cash	44,614	Discounted cash flow	Discount rate	12.073%	The higher the discount rate, the lower the fair value

As at 31 December 2019, the conditions of obtaining the game approval and commencing first round game sales have not yet been fulfilled by the deadline stated in the acquisition agreement, but the parties to the acquisition agreement have mutually agreed to extend the deadline for fulfilment of such conditions to 31 December 2020.

29 CONVERTIBLE BONDS

On 19 July 2019, Ali Fortune Investment Holding Limited exercised the conversion rights attaching to the convertible bonds in the aggregate principal amount of HK$99,720,000. Accordingly, an aggregate of 400,000,000 shares were allotted and issued at the then conversion price of HK$0.2493 per share on 22 July 2019.

As no further conversion rights attaching to the convertible bonds were exercised by Ali Fortune Investment Holding Limited on or before the maturity date, the Company redeemed the remaining convertible bonds in an aggregate principal amount of HK$232,608,165 on 10 August 2019 pursuant to the instrument of the convertible bonds.

At 31 December 2019, there were no convertible bonds outstanding. At 31 December 2018, the convertible bonds in an aggregate principal amount of HK$332,328,165 allotted and issued to Ali Fortune Investment Holding Limited were outstanding.

	Debt instrument	**Embedded derivative**	**Total**
	HK$'000	HK$'000	HK$'000
At 1 January 2018	263,829	636,361	900,190
Gain on fair value changes	–	(521,177)	(521,177)
Interest expense	39,805	–	39,805
At 31 December 2018 and 1 January 2019	303,634	115,184	418,818
Conversion during the year	(98,487)	(29,994)	(128,481)
Gain on fair value changes	–	(85,190)	(85,190)
Interest expense	27,461	–	27,461
Redemption during the year	(232,608)	–	(232,608)
At 31 December 2019	–	–	–

The fair value of the conversion option embedded in convertible bonds at 31 December 2018 amounted to approximately HK$115,184,000.

Information about fair value measurement using significant unobservable inputs (level 3) – Embedded derivative of convertible bonds

As at 31 December 2018

Description	Fair value (HK$'000)	Valuation technique	Unobservable inputs	Range (Weighted average)	Relationship of unobservable inputs to fair value
Embedded derivative of convertible bonds	115,184	Binominal model	Expected volatility of share prices	56.36%	The higher the expected volatility, the higher the fair value

30 PROVISION FOR WARRANTIES

	2019 HK$'000	2018 HK$'000
Balance at beginning of year	**42,327**	45,600
Amount charged to profit or loss	**6,762**	7,612
Amounts utilised	**(7,905)**	(8,202)
Currency translation differences	**(806)**	(2,683)
Balance at end of year	**40,378**	42,327
Less non-current portion	**(31,172)**	(29,132)
	9,206	13,195

The Group provides warranties to its customers on certain of its products, under which faulty products are repaired or replaced. The amount of provision for the warranties was estimated based on sales volumes and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

At the end of the reporting period, the Group estimated that provision for warranties are expected to be utilised in six years.

Provision for warranties of approximately HK$6,762,000 (2018: HK$7,612,000) was included in 'other operating expenses'.

31 SHARE CAPITAL

	Number of shares (in thousand)	HK$'000
Authorised:		
Ordinary shares of HK$0.002 each	20,000,000	40,000
Issued and fully paid:		
At 1 January 2018	11,247,299	22,494
Exercise of share options under share option scheme (Note (i))	11,529	23
Settlement of contingent consideration (Note (ii))	13,514	27
At 31 December 2018 and 1 January 2019	11,272,342	22,544
Conversion of convertible bonds (Note (iii))	400,000	800
At 31 December 2019	11,672,342	23,344

Notes:

(i) During the year ended 31 December 2019, no options granted under the share option scheme were exercised. During the year ended 31 December 2018, part of the options granted under the share option scheme for 11,203,961 shares of HK$0.002 each were exercised at exercise prices ranging from HK$0.4250 to HK$0.9200 per share, resulting in the issue of 11,528,961 shares of HK$0.002 each. The shares rank pari passu in all respects with other shares in issue.

(ii) During the year ended 31 December 2018, the condition of part of the contingent considerations related to the acquisition of a subsidiary was fulfilled, and an aggregate of 13,513,514 shares were allotted and issued to the vendors in accordance with the terms of the acquisition agreement dated 17 November 2014. The shares rank pari passu with all the existing shares in issue.

(iii) On 19 July 2019, Ali Fortune Investment Holding Limited exercised the conversion rights attaching to the convertible bonds in the aggregate principal amount of HK$99,720,000. Accordingly, an aggregate of 400,000,000 shares were allotted and issued at the then conversion price of HK$0.2493 per share on 22 July 2019. The shares rank pari passu with all the existing shares in issue.

32 DIVIDEND

The Board does not recommend the payment of a final dividend for the year (2018: Nil).

33 SHARE-BASED PAYMENT TRANSACTIONS

Share option scheme prior to 17 November 2014 ("2004 Share Option Scheme")

The 2004 Share Option Scheme was adopted pursuant to a resolution passed on 18 November 2004 for the primary purpose of providing incentives to Directors and eligible participants (as defined in the 2004 Share Option Scheme). Under the 2004 Share Option Scheme, the Board may at its discretion grant options to eligible employees, including Directors of the Company and its subsidiaries, certain consultants, suppliers or customers of the Group who, in the sole discretion of the Board, have contributed or will contribute or can contribute to the Group, to subscribe for shares in the Company from time to time. The maximum number of shares which may be issued upon exercise of all options to be granted under the 2004 Share Option Scheme and any other schemes shall not exceed 10% of the shares in issue at the date of approval of the 2004 Share Option Scheme, without prior approval from the Shareholders. The number of shares in respect of which options may be granted under the 2004 Share Option Scheme to any individual in any one year is not permitted to exceed 1% of the shares in issue at the date of approval of the 2004 Share Option Scheme, without prior approval from the Shareholders.

Options granted to a Director, the chief executive or substantial Shareholder of the Company or any of their associates (as defined in the GEM Listing Rules) require the approval of independent non-executive Directors (excluding an independent non-executive Director who is the prospective grantee in question). Options granted to substantial Shareholders or independent non-executive Directors or their respective associates in excess of 0.1% of the Company's share capital and with a value in excess of HK$5 million must be approved in advance by the Shareholders.

Options granted must be taken up within 28 days of the date of grant, upon payment of HK$1 per option. Options may be exercised at any time from the date of grant of the share option to a period to be notified by the Board to each grantee at the time of making such offer, which shall expire in 10 years from the date of grant.

The subscription price of the share option is determined by the Board, and the amount will not be less than the higher of (a) the closing price of shares on the Stock Exchange on the date of grant; (b) the average closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange for the 5 business days immediately preceding the date of grant; and (c) the nominal value of a Share on the date of grant.

The 2004 Share Option Scheme is valid for a period of 10 years commencing on the adoption date of 18 November 2004 and was expired in 2014. Thereafter, no further options would be granted under the 2004 Share Option Scheme but the subsisting options granted thereunder prior to the expiry date will continue to be valid and exercisable in accordance with the terms of the 2004 Share Option Scheme.

33 SHARE-BASED PAYMENT TRANSACTIONS (continued)

Share option scheme on or after 23 December 2014 ("2014 Share Option Scheme")

The 2014 Share Option Scheme was adopted pursuant to a resolution passed on 23 December 2014 for the primary purpose of providing incentives to Directors and eligible participants (as defined in the 2014 Share Option Scheme). Under the 2014 Share Option Scheme, the Board may at its discretion grant options to eligible employees, including Directors of the Company and its subsidiaries, certain consultants, suppliers or customers of the Group who, in the sole discretion of the Board, have contributed or will contribute or can contribute to the Group, to subscribe for shares in the Company from time to time. The maximum number of shares which may be issued upon exercise of all options to be granted under the 2014 Share Option Scheme and any other schemes shall not exceed 10% of the shares in issue at the date of approval of the 2014 Share Option Scheme, without prior approval from the Shareholders. The number of shares in respect of which options may be granted under the 2014 Share Option Scheme to any individual in any one year is not permitted to exceed 1% of the shares in issue at the date of approval of the 2014 Share Option Scheme, without prior approval from the Shareholders.

Options granted to a Director, the chief executive or substantial Shareholder of the Company or any of their associates (as defined in the GEM Listing Rules) require the approval of independent non-executive Directors (excluding an independent non-executive Director who is the prospective grantee in question). Options granted to substantial Shareholders or independent non-executive Directors or their respective associates in excess of 0.1% of the Company's share capital and with a value in excess of HK$5 million must be approved in advance by the Shareholders.

Options granted must be taken up within 28 days of the date of grant, upon payment of HK$1 per option. Options may be exercised at any time from the date of grant of the share option to a period to be notified by the Board to each grantee at the time of making such offer, which shall expire in 10 years from the date of grant.

The subscription price of the share option is determined by the Board, and the amount will not be less than the higher of (a) the closing price of shares on the Stock Exchange on the date of grant; (b) the average closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange for the 5 business days immediately preceding the date of grant; and (c) the nominal value of a Share on the date of grant.

The 2014 Share Option Scheme is valid for a period of 10 years commencing on the adoption date of 23 December 2014.

33 SHARE-BASED PAYMENT TRANSACTIONS (continued)

The following table discloses details and movements of the Company's share options held by Directors, eligible employees and other eligible participants of the Group during the years ended 31 December 2019 and 2018:

	Date of grant	Exercise Price per share (HK$)	Exercise period	Outstanding at 1 January 2019	Exercised during the year	Expired during the year	Forfeited during the year	Outstanding at 31 December 2019
Directors:								
2004 Share Option Scheme	21 January 2014	1.31	21 January 2015 – 20 January 2019	125,000	–	(125,000)	–	–
2014 Share Option Scheme	1 June 2015	0.858	1 June 2016 – 31 May 2020	1,500,000	–	(750,000)	–	750,000
Eligible employees:								
2004 Share Option Scheme	2 January 2014/ 21 January 2014	1.19/1.31	2 January 2015 – 20 January 2019	15,247,060	–	(15,247,060)	–	–
2014 Share Option Scheme	20 January 2015	0.92	20 January 2016 – 19 January 2020	4,475,000	–	(2,137,500)	(200,000)	2,137,500
Other eligible participants:								
2004 Share Option Scheme	21 January 2014	1.31	21 January 2015 – 20 January 2019	1,375,000	–	(1,375,000)	–	–
2014 Share Option Scheme	20 January 2015/ 7 July 2015	0.92/1.102	20 January 2016 – 6 July 2020	155,546,390	–	(77,773,192)	–	77,773,198
Total				178,268,450	–	(97,407,752)	(200,000)	80,660,698
Exercisable at beginning or end of year				97,407,752				80,660,698
Weighted average exercise price				HK$1.0923	–	HK$1.0988	HK$0.92	HK$1.078

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33 SHARE-BASED PAYMENT TRANSACTIONS (continued)

	Date of grant	Exercise Price per share (HK$)	Exercise period	Outstanding at 1 January 2018	Exercised during the year	Expired during the year	Forfeited during the year	Outstanding at 31 December 2018
Directors:								
2004 Share Option Scheme	21 January 2014	1.31	21 January 2015 – 20 January 2019	625,000	(375,000)	(125,000)	–	125,000
2014 Share Option Scheme	1 June 2015	0.858	1 June 2016 – 31 May 2020	2,250,000	(375,000)	(375,000)	–	1,500,000
Eligible employees:								
2004 Share Option Scheme	2 January 2014/ 21 January 2014	1.19/1.31	2 January 2015 – 20 January 2019	31,556,620	–	(15,184,560)	(1,125,000)	15,247,060
2014 Share Option Scheme	20 January 2015	0.92	20 January 2016 – 19 January 2020	57,483,600	(450,000)	(11,236,200)	(41,322,400)	4,475,000
Other eligible participants:								
2004 Share Option Scheme	21 January 2014	1.31	21 January 2015 – 20 January 2019	12,753,961	(10,003,961)	(1,375,000)	–	1,375,000
2014 Share Option Scheme	20 January 2015/ 7 July 2015	0.92/1.102	20 January 2016 – 6 July 2020	205,728,522	–	(50,182,132)	–	155,546,390
Total				310,397,703	(11,203,961)	(78,477,892)	(42,447,400)	178,268,450
Exercisable at beginning or end of year				93,681,853				97,407,752
Weighted average exercise price				HK$1.0418	HK$0.5182	HK$1.0935	HK$0.8728	HK$1.0923

33 SHARE-BASED PAYMENT TRANSACTIONS (continued)

No share options were exercised during the year ended 31 December 2019. During the year ended 31 December 2018, share options for 11,203,961 shares exercised resulted in 11,528,961 shares being issued at a weighted average price of HK$0.5241 each. The related weighted average share price at the time of exercise was HK$0.8175 per share.

At 31 December 2019, the number of shares in respect of which options had been granted and remained outstanding under the 2014 Share Option Scheme was 80,660,698 (2018: 161,521,390), and under the 2004 Share Option Scheme was Nil (2018: 16,747,060), totally representing approximately 1% (2018: 2%) of the Company's issued share capital as at that date.

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

Expiry date and exercise price of share options outstanding at the end of the year are as follows:

Expiry date	Range of exercise price per share option	Number of share options	
		2019	2018
2019	HK$0.8580 – HK$1.3100	**–**	97,407,752
2020	HK$0.8580 – HK$1.1020	**80,660,698**	80,860,698
		80,660,698	178,268,450

No share options were granted during the year ended 31 December 2019 (2018: Nil).

33 SHARE-BASED PAYMENT TRANSACTIONS (continued)

The fair values of options granted in previous years were calculated using the binominal model, details of which are as follows:

	Date of grant		
	7 July 2015	1 June 2015	20 January 2015
Number of shares to be issued upon exercise of options granted	300,312,280	72,944,800	52,200,000
Estimated fair values of options granted (rounded to HK$'000)	HK$143,454	HK$29,474	HK$22,915
Significant inputs into the model:			
Closing share price at date of grant	HK$1.0200	HK$0.8400	HK$0.9200
Exercise price	HK$1.1020	HK$0.8580	HK$0.9200
Expected volatility	66.39%-75.55%	66.59%-73.87%	65.85%-72.71%
Expected life of options	2-5 years	2-5 years	2-5 years
Risk-free interest rate	0.401%-1.156%	0.444%-1.104%	0.344%-0.971%
Dividend yield	Nil	Nil	Nil

Expected volatility was determined by using the historical volatility of the share prices of other companies in the similar industry over the expected life of the options. No other feature of the options granted was incorporated into the measurement of fair values.

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

33 SHARE-BASED PAYMENT TRANSACTIONS (continued)

On 22 June 2015, certain options previously granted to eligible employee were forfeited by cancellation. On 7 July 2015, the Company granted options carrying rights to subscribe a total of 19,219,500 shares under the Share Option Scheme to eligible employee and other eligible participants, options carrying rights to subscribe 19,219,500 shares were identified by the Company as replacement equity instruments for the cancelled equity instruments. The decreased value arising from the aforementioned cancellation and replacement was approximately HK$13,220,000, which represented the difference between the fair value of the replacement options and the fair value of the cancelled options at the date of the replacement options were granted. Then fair values of the replacement options and cancelled options were estimated using the binominal method. The following table lists the inputs to the model used:

	Number of shares in respect of the cancelled options	**Number of shares in respect of the replacement options**
Number of shares to be issued upon exercise of options granted	19,219,500	19,219,500
Estimated fair values of options granted (rounded to HK$'000)	HK$22,486	HK$9,266
Significant inputs into the model:		
Closing share price at date of the replacement options were granted	HK$1.2700	HK$1.0200
Exercise price	HK$0.1006	HK$1.1020
Expected volatility	65.10%-68.49%	66.39%-71.74%
Expected life of options	1.15-2.15 years	2-5 years
Risk-free interest rate	0.158%-0.464%	0.401%-1.156%
Dividend	Nil	Nil

Expected volatility was determined by using the historical volatility of the share prices of other companies in the similar industry over the expected life of the options. No other feature of the options granted was incorporated into the measurement of fair values.

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

Share award scheme ("Share Award Scheme")

The Company has adopted the Share Award Scheme on 17 March 2017 (the "Adoption Date") which allows the Company to grant award Shares to selected participants as incentives and/or rewards for their contribution to the Group.

33 SHARE-BASED PAYMENT TRANSACTIONS (continued)

Share award scheme ("Share Award Scheme") (continued)

Set out below are a summary of all the grants of award Shares under the Share Award Scheme since the Adoption Date up to and including 31 December 2019:

Date of grant	Grantees	Number of award Shares granted	Approximate % of issued share capital of the Company as at the relevant financial year end date	Closing market price per Share at the relevant date of grant (HK$)	Aggregate market value of the relevant award Shares granted (based on closing market price at the relevant date of grant) (HK$)
15 May 2017	Directors and eligible employees	100,618,500	0.9% as at 31 December 2017	1.33	133,822,605
10 January 2018	Certain eligible persons	28,800,000	0.26% as at 31 December 2018	1.26	36,288,000
11 September 2018	Director and certain eligible persons	75,690,000	0.67% as at 31 December 2018	0.58	43,900,200
17 May 2019	Certain eligible persons	55,200,000	0.47% as at 31 December 2019	0.45	24,840,000
9 December 2019	Director and certain eligible persons	16,100,000	0.14% as at 31 December 2019	0.315	5,071,500
	Total:	**276,408,500**			

All of the 276,408,500 award Shares shall be granted by way of acquisition of existing Shares from the market by the trustee of the Share Award Scheme (the "Trustee"). The Board shall cause to pay the Trustee the purchase price and the related expenses from the Company's cash resources. The Trustee shall purchase from the market the relevant number of award Shares and shall hold the award Shares on trust for the relevant selected participants until they are vested in such selected participants and delivered in accordance with the terms of the Share Award Scheme. There is no condition, performance target or lock up restriction attached to the award Shares.

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

33 SHARE-BASED PAYMENT TRANSACTIONS (continued)

Share award scheme ("Share Award Scheme") (continued)

	Directors	Eligible employees	Total
Outstanding at 1 January 2018	15,900,000	74,728,875	90,628,875
Granted during the year	7,080,000	97,410,000	104,490,000
Vested during the year	(4,550,000)	(17,804,625)	(22,354,625)
Forfeited during the year	–	(38,625,000)	(38,625,000)
Outstanding at 31 December 2018 and 1 January 2019	18,430,000	115,709,250	134,139,250
Granted during the year	6,000,000	65,300,000	71,300,000
Vested during the year	(3,270,000)	(32,078,425)	(35,348,425)
Forfeited during the year	(6,850,000)	(25,202,400)	(32,052,400)
Outstanding at 31 December 2019	14,310,000	123,728,425	138,038,425

The award Shares shall be vested over a four years period and the fair value was determined based on the published closing price of the Company's shares at the respective grant dates. The expected dividends during the vesting period have been taken into account when assessing the fair value of these awarded shares. The weighted average fair value of award Shares granted during the year ended 31 December 2019 was HK$0.42 per share (2018: HK$0.77 per share).

34 OPERATING LEASE COMMITMENTS

The Group as lessee

From 1 January 2019, the Group has recognised right-of-use assets for these leases, except for short-term leases. See Note 15 for further information.

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

	2019 **HK$'000**	2018 HK$'000
Within one year	**–**	24,061
In the second to fifth years inclusive	**–**	22,146
	–	46,207

As at 31 December 2018, operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated for terms one to three years and rentals are fixed over the lease periods. The Group does not have an option to purchase the leased asset at the expiry of the lease period.

The Group as lessor

Property rental income earned during the year was approximately HK$3,320,000 (2018: HK$3,650,000). All of the Group's investment properties are held for rental purposes. All of the properties held have committed tenants for the next half year.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2019 **HK$'000**	2018 HK$'000
Within one year	**1,764**	3,430
In the second to fifth years inclusive	**–**	2,001
	1,764	5,431

35 RELATED PARTY TRANSACTIONS

In addition to those disclosed elsewhere in these consolidated financial statements, the following transactions were carried out with related parties:

(a) Sales of services

	Note	2019 HK$'000	2018 HK$'000
Revenue of games and entertainment business from fellow subsidiaries	(i)	**499**	1,094
Revenue of games and entertainment business from a joint venture	(ii)	**7,079**	146
Recharge for technical services to a joint venture	(iii)	**1,600**	2,600

Notes:

(i) This represents the revenue received from fellow subsidiaries for games and entertainment business which is based on pre-determined fee basis as stipulated in the agreement.

(ii) This represents the revenue received from a joint venture for games and entertainment business which is based on pre-determined fee basis as stipulated in the agreement.

(iii) This represents the recharge for technical services to a joint venture which is charged at pre-determined fee basis as stipulated in the agreement.

35 RELATED PARTY TRANSACTIONS (continued)

(b) Purchases of goods and services

	Note	**2019** **HK$'000**	2018 HK$'000
Recharge for operation of lottery distribution from fellow subsidiaries	(i)	**2,294**	5,154
Recharge for operation of games and entertainment business from a fellow subsidiary	(ii)	**–**	888
Purchase of marketing services for games and entertainment business from fellow subsidiaries	(iii)	**756**	31,296
Purchase of technology services from fellow subsidiaries	(iv)	**1,625**	1,798
Recharge for rental services from a fellow subsidiary	(v)	**162**	198
Recharge for management and administrative services from fellow subsidiaries	(vi)	**7,087**	5,954
Purchase of marketing services for lottery distribution business from a fellow subsidiary	(vii)	**136**	–

Notes:

(i) This represents the recharge for operation of lottery distribution from fellow subsidiaries which is based on pre-determined fee basis as stipulated in the agreement.

(ii) This represents the recharge for operation of games and entertainment business from a fellow subsidiary which is based on pre-determined fee basis as stipulated in the agreement.

(iii) This represents the marketing fees paid/payable to fellow subsidiaries for supply of products or services offered to individual users on certain online platforms operated by the Group at a discounted price.

(iv) This represents the service fee on technology services and resources provided by fellow subsidiaries which is charged based on the actual usage of those services.

(v) This represents the recharge of rental services from a fellow subsidiary which is fully exempted from the connected transaction requirements under Rule 20.74 of the GEM Listing Rules.

(vi) This represents the recharge of management and administrative services from fellow subsidiaries which is fully exempted from the connected transaction requirements under Rule 20.96 of the GEM Listing Rules.

(vii) This represents the marketing fees paid/payable to a fellow subsidiary for supply of products for lottery distribution business based on prices that would be available to independent third parties. This transaction is fully exempted from the connected transaction requirements under Rule 20.74 of the GEM Listing Rules.

35 RELATED PARTY TRANSACTIONS (continued)

(c) Key management compensation

The remuneration of the Directors (who are the key management personnel of the Group) during the year was as follows:

	2019 HK$'000	2018 HK$'000
Short-term employee benefits	5,892	6,601
Share-based payments	4,533	7,608
Post-employment benefits	210	346
	10,635	14,555

(d) Loan to related party

	2019 HK$'000	2018 HK$'000
Loan to an officer	2,215	2,395

Note:

This represents the loan granted to an officer of the Company for an original period of two years which was expired on 31 December 2018 and extended for three years. It is repayable by monthly instalments at interest rate with reference to market rate and secured by the Company's shares held by the officer. The transaction is fully exempted from the connected transaction requirements under Rule 20.74 of the GEM Listing Rules.

36 DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The remuneration of every Director and the chief executive is set out below:

For the year ended 31 December 2019

	Fees HK$'000	Salaries, discretionary bonuses and other benefits in kind HK$'000	Share-based payments (Note (v)) HK$'000	Contributions to retirement benefit schemes HK$'000	Total emoluments HK$'000
Executive Directors:					
Mr. Sun Ho	4,290	–	2,956	198	7,444
Ms. Hu Taoye (i)	–	876	798	–	1,674
Mr. Zhou Haijing (ii)	33	93	741	12	879
Non-executive Directors:					
Mr. Zhang Qin (iii)	–	–	–	–	–
Mr. Li Faguang (iv)	–	–	–	–	–
Mr. Yang Guang	–	–	–	–	–
Mr. Ji Gang	–	–	–	–	–
Mr. Zou Liang	–	–	–	–	–
Independent non-executive Directors:					
Ms. Monica Maria Nunes	200	–	–	–	200
Mr. Feng Qing	200	–	19	–	219
Dr. Gao Jack Qunyao	200	–	19	–	219
Total emoluments	4,923	969	4,533	210	10,635

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

For the year ended 31 December 2018

	Fees HK$'000	Salaries, discretionary bonuses and other benefits in kind HK$'000	Share-based payments (Note (v)) HK$'000	Contributions to retirement benefit schemes HK$'000	Total emoluments HK$'000
Executive Directors:					
Mr. Sun Ho	4,290	–	3,193	198	7,681
Mr. Zhou Haijing	420	1,291	4,278	148	6,137
Non-executive Directors:					
Mr. Zhang Qin	–	–	–	–	–
Mr. Yang Guang	–	–	–	–	–
Mr. Ji Gang	–	–	–	–	–
Mr. Zou Liang	–	–	–	–	–
Independent non-executive Directors:					
Ms. Monica Maria Nunes	200	–	1	–	201
Mr. Feng Qing	200	–	68	–	268
Dr. Gao Jack Qunyao	200	–	68	–	268
Total emoluments	5,310	1,291	7,608	346	14,555

Notes:

(i) Appointed on 30 January 2019.
(ii) Resigned on 30 January 2019.
(iii) Resigned on 4 March 2019.
(iv) Appointed on 4 March 2019.
(v) Share-based payments represent estimated money value of the share options and share awards granted to the Directors and chief executive.

Mr. Sun Ho is also the chief executive and his emoluments disclosed above include those for services rendered by him as the chief executive.

No emoluments were paid by the Group to any of the Directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the Directors waived their emoluments during the year ended 31 December 2019 (2018: Nil).

There are no loans, quasi-loans or other dealings in favour of Directors, their controlled bodies corporate and connected entities with such Directors (2018: Nil).

Save as disclosed under the section headed "DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS" in the Directors' Report of this annual report, no significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2018: None).

37 STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2019	2018
	HK$'000	HK$'000
Non-current assets		
Investments in subsidiaries	**–**	–
Current assets		
Amounts due from subsidiaries	**3,588,665**	3,856,402
Other receivables, deposits and prepayments	**2,159**	1,693
Cash and bank balances	**19,420**	25,026
	3,610,244	3,883,121
Total assets	**3,610,244**	3,883,121
Current liabilities		
Accruals and other payables	**6,211**	5,257
Amounts due to subsidiaries	**11,753**	11,038
Convertible bonds	**–**	418,818
Contingent consideration payables	**69,589**	77,384
	87,553	512,497
Total liabilities	**87,553**	512,497
Net assets	**3,522,691**	3,370,624
Equity		
Share capital	**23,344**	22,544
Reserves	**3,499,347**	3,348,080
Total equity	**3,522,691**	3,370,624

The financial statements were approved by the Board of Directors on 20 March 2020 and were signed on its behalf by:

Sun Ho
Director

Hu Taoye
Director

37 STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Reserve movement

	Share premium	Shares held for share award scheme	Share options reserve	Share awards reserve	Contributed surplus	Other reserve	Retained earnings/ (accumulated losses)	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balance at 1 January 2018	3,249,914	(167,407)	136,954	41,582	47,191	42,568	(524,019)	2,826,783
Profit for the year	–	–	–	–	–	–	468,444	468,444
Recognition of equity settled share-based payments	–	–	9,689	49,461	–	–	–	59,150
Issue of shares upon exercise of share options under share option scheme	8,839	–	(2,820)	–	–	–	–	6,019
Lapse of share options	–	–	(46,439)	–	–	–	46,439	–
Issue of shares upon settlement of contingent consideration	12,135	–	–	–	–	(12,162)	–	(27)
Purchase of shares under share award scheme	–	(12,289)	–	–	–	–	–	(12,289)
Transfer of shares upon vesting of share awards under share award scheme	(1,159)	30,891	–	(29,732)	–	–	–	–
Balance at 31 December 2018 and 1 January 2019	3,269,729	(148,805)	97,384	61,311	47,191	30,406	(9,136)	3,348,080
Profit for the year	–	–	–	–	–	–	20,074	20,074
Recognition of equity settled share-based payments	–	–	5,217	26,958	–	–	–	32,175
Issue of shares upon conversion of convertible bonds	127,681	–	–	–	–	–	–	127,681
Lapse of share options	–	–	(55,054)	–	–	–	55,054	–
Purchase of shares under share award scheme	–	(28,433)	–	–	–	–	–	(28,433)
Transfer of shares upon vesting of share awards under share award scheme	(7,524)	45,427	–	(37,903)	–	–	–	–
Transactions with a shareholder								
– Employee share-based compensation	–	–	–	–	–	798	–	798
– Employee share-based compensation recharge	–	–	–	–	–	(1,028)	–	(1,028)
Balance at 31 December 2019	3,389,886	(131,811)	47,547	50,366	47,191	30,176	65,992	3,499,347

38 PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2019 and 2018 are set out as follows:

Name of subsidiary	Form of business structure	Place of incorporation/ registration and kind of legal entity	Principal place of operations	Issued and fully paid share capital/ registered capital/ paid-up capital	Proportion of nominal value of issued capital/ registered capital held by the Company	Principal activities
Asia Gaming Technologies Limited	Incorporated	Hong Kong, limited liability company	PRC	Ordinary shares of HK$5,122	51% (held indirectly)	Sales and distribution of software games and system and provision of maintenance, after-sales, training and consultancy services for such products
亞博泰科科技（北京）有限公司 (Asia Gaming Technologies (Beijing) Co., Ltd.*)	Wholly-foreign owned enterprise	PRC, limited liability company	PRC	Paid-up capital of HK$13.8 million	51% (held indirectly)	Sales and distribution of software games and system and provision of maintenance, after-sales, training and consultancy services for such products
亞博泰科科技（天津）有限公司 (Asia Gaming Technologies (Tianjin) Co., Ltd.*)	Wholly-foreign owned enterprise	PRC, limited liability company	PRC	Paid-up capital of RMB10 million	51% (held indirectly)	Sales and distribution of software games and system and provision of maintenance, after-sales, training and consultancy services for such products
Maxprofit Management Limited	Incorporated	Hong Kong, limited liability company	Hong Kong	Ordinary shares of HK$600,000	100% (held indirectly)	Provision of management services for the Group
Beijing Systek	Wholly-foreign owned Enterprise	PRC, limited liability company	PRC	Registered capital of HK$21 million	100% (held indirectly)	Research and development of sports lottery information technology
世紀星彩企業管理有限公司 (China Lottery Management Co., Ltd.*)	Wholly-foreign owned Enterprise	PRC, limited liability company	PRC	Registered capital of HK$150 million	100% (held indirectly)	Provision of sports lottery management and marketing consultancy services and supply of sports lottery sales terminals (and accessories)
SYSTEK LTD	Incorporated	BVI, limited liability company	PRC	1 ordinary share of US$1	100% (held indirectly)	Investment holding
SHINING CHINA INC	Incorporated	BVI, limited liability company	PRC	50,000 ordinary shares of US$1 each	100% (held indirectly)	Investment holding
Exequs Co. Ltd.	Incorporated	BVI, limited liability company	PRC	50,000 ordinary shares of US$1 each	100% (held indirectly)	Investment holding
Fortune Happy Investment Limited	Incorporated	Hong Kong, limited liability company	Hong Kong	Ordinary shares of HK$10,000	100% (held indirectly)	Investment holding
北京亞博科技有限公司 (Beijing AGTech Co., Ltd.*)	Domestic enterprise	PRC, limited liability company	PRC	Registered capital of RMB30 million	100% (held indirectly)	Investment holding
GOT	Domestic enterprise	PRC, limited liability company	PRC	Registered capital of RMB100 million	100% (held indirectly)	Research, development and production of sports lottery terminals and systems

38 PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Form of business structure	Place of incorporation/ registration and kind of legal entity	Principal place of operations	Issued and fully paid share capital/ registered capital/ paid-up capital	Proportion of nominal value of issued capital/ registered capital held by the Company	Principal activities
深圳市银溪數碼技術有限公司 (Shenzhen Silvercreek Digital Technology Co., Ltd.*) (Note)	Domestic enterprise	PRC, limited liability company	PRC	Paid-up capital of RMB30 million	100% (held indirectly)	Provision for lottery organisations with comprehensive phone and mobile betting solutions
Score Value Limited	Incorporated	BVI, limited liability company	PRC	50,000 ordinary shares of US$1 each	100% (held indirectly)	Investment holding
Sincere Honor Holdings Limited	Incorporated	Hong Kong, limited liability company	Hong Kong	Ordinary shares of HK$10,000	100% (held indirectly)	Investment holding
Shenzhen Subsidiary	Domestic enterprise	PRC, limited liability company	PRC	Paid-up capital of RMB5 million	100% (held indirectly)	Research and development, quality assurance and sale of handheld lottery sales equipment, provision of after-sales maintenance services
北京名影科漫科技有限公司 (Beijing MTC Creative Mind Tech Co., Ltd.*)	Domestic enterprise	PRC, limited liability company	PRC	Paid-up capital of RMB10 million	100% (held indirectly)	Research and development, quality assurance and sale of handheld lottery sales equipment, provision of after-sales maintenance services

* *For identification purpose only*

Note:

The equity interest of Shenzhen Silvercreek Digital Technology Co., Ltd. is held by individual nominees on behalf of the Group.

The above table lists out the principal subsidiaries of the Company which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities during the year and at the end of the reporting period.

The amounts due from/to subsidiaries are unsecured, interest-free and repayable on demand.

The Group had no subsidiaries which have material non-controlling interests for the years ended 31 December 2019 and 2018.

39 TRANSACTION WITH NON-CONTROLLING INTERESTS

On 19 June 2018 and 20 June 2018, the Group acquired an additional 30% of the issued shares of 北京奕趣互彩科技有限公司 (Beijing Yiquhucai Technology Co. Ltd*) ("Yiquhucai") and 北京博悦樂動科技有限公司 (Beijing Boyueledong Technology Co. Ltd*) ("Boyueledong") for HK$177,000 and HK$3,373,000 respectively. Immediately prior to the purchase, the carrying amounts of the existing 30% non-controlling interest in Yiquhucai and Boyueledong was HK$246,000 and deficit of HK$2,321,000 respectively. The Group recognised a decrease in non-controlling interests of deficit of HK$2,075,000 and a decrease in equity attributable to owners of the parent of HK$5,625,000.

On 16 September 2019, the Group acquired an additional 55% of the issued shares of 深圳世紀星彩企業管理有限公司 (formerly known as 順豐彩（深圳）科技發展有限責任公司) (Shenzhen Century Star Lottery Enterprise Management Limited*) ("Shenzhen Century") for HK$24,786,000. Immediately prior to the purchase, the carrying amount of the existing 55% non-controlling interest in Shenzhen Century was HK$24,634,000. The Group recognised a decrease in non-controlling interests of HK$24,634,000 and a decrease in equity attributable to owners of the parent of HK$152,000. The effect on the equity attributable to the owners of Shenzhen Century during the year is summarised as follows:

	2019	2018
	HK$'000	HK$'000
Carrying amount of non-controlling interests acquired	**24,634**	(2,075)
Consideration paid to non-controlling interests	**(24,786)**	(3,550)
Excess of consideration paid recognised in the transactions with non-controlling interests reserve within equity	**(152)**	(5,625)

* *For identification purpose only*

All the above-mentioned acquisitions in this Note 39 did not constitute "notifiable transactions" under Chapter 19 of the GEM Listing Rules during the year under review. As Shenzhen Century is an "insignificant subsidiary" of the Company as defined in Rule 20.08 of the GEM Listing Rules, the Group's acquisition of an additional 55% equity interest in Shenzhen Century did not constitute a connected transaction under Chapter 20 of the GEM Listing Rules.

40 EVENT AFTER THE END OF THE REPORTING PERIOD

Since January 2020, the outbreak of Novel Coronavirus ("COVID-19") has an impact on the global business environment and operation of many industries, including lottery in the PRC and sports and games in India. Subject to the development and spread of COVID-19 subsequent to the date of these consolidated financial statements, further changes in economic conditions may have an impact on the financial results and the expected usage and timeline of Adjusted Remaining Net Proceeds of the Group, the extent of which could not be reasonably estimated as at the date of these consolidated financial statements. The Group will continuously monitor the development of the COVID-19 and take the necessary measures for the benefit of the Group.