乐透互娱
LOTO INTERACTIVE

Loto Interactive Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 8198)

www.lotoie.com

ANNUAL REPORT 2019

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CORPORATE INFORMATION

BOARD OF DIRECTORS

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

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

Ms. Zhang Jing *(Chairman)*
Dr. Lu Haitian
Mr. Yan Hao

COMPLIANCE OFFICER

Mr. Wang Bingzhong

COMPANY SECRETARY

Ms. Chow Chiu Man, Mandy

AUTHORISED REPRESENTATIVES

Mr. Wang Bingzhong
Ms. Chow Chiu Man, Mandy

REGISTERED OFFICE

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Grand Pavilion, Hibiscus Way
802 West Bay Road
Grand Cayman, KY1-1205
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HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited
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24 Shedden Road, P.O. Box 1586
Grand Cayman, KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

AUDITORS

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

LEGAL ADVISORS

Shearman & Sterling
21st Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

PRINCIPAL BANKERS

Bank of Communications Co., Ltd.,
Hong Kong Branch
The Industrial and Commercial Bank of China,
Shenzhen Branch

STOCK CODE

The Stock Exchange of Hong Kong Limited: 8198

WEBSITE

www.lotoie.com

CHAIRMAN'S STATEMENT

TO OUR SHAREHOLDERS

On behalf of the board (the "Board") of directors (the "Directors") of Loto Interactive Limited (the "Company"), I hereby present the results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2019 (the "Year").

In 2019, the Group faced both challenges and opportunities. For challenges, the lottery market in the PRC remained uncertain in many aspects, and the government continued to take action to strictly prohibit all internet lottery ticket sales activities. In spite of the unstable social and economic environment and the volatile market, we actively explored and captured new opportunities in the trend of global fin-tech development.

During the Year, we continued to focus on scientific research and innovation, and put great efforts in developing "big data centre" services which achieved remarkable results. Big data centre services have become the main growth driver of the Company's performance. The Group recorded a revenue of HK$64.6 million for the Year, representing a dramatic increase of HK$58.6 million as compared to the last corresponding year. Loss attributable to owners of the Company for the Year amounted to HK$33.6 million, representing a decrease of loss of HK$0.5 million as compared to the loss of HK$34.1 million for the last corresponding year. As at 31 December 2019, the Group had cash and bank balances of HK$95.0 million.

We started building the big data centres in Sichuan Province, the PRC in March 2019 to provide comprehensive services including premises, hardware support, power supply, ancillary supervision and management services to our clients. We have also developed software for supervision and analysis of big data and licensed to clients for use, thereby establishing a stable customer base. In addition, the Group has established cooperative relationship with various local subsidiaries of a leading state-owned enterprise in the power energy business in China, and has been selected as one of its strategic business partners for electricity consumption and water conservation projects. At present, we have completed the construction of two big data centres with an aggregate gross floor area of 6,760 square metres, and plan to expand this segment with our third big data centre currently under construction.

The Group will continue to actively explore different opportunities, put great efforts in developing the big data centres, and capture new investment and business opportunities through different approaches while maintaining steady business growth. With the money lender's license granted in January 2020, the Group will continue to leverage its corporate expertise and resources to broaden its income source. We believe that through business innovation and relevant deployment and promotion, we will be able to enhance and maximise the long-term shareholders' value.

IN APPRECIATION

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

Zhang Jing
Chairman

Hong Kong, 20 March 2020

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in (i) provision of data analysis and storage services (the "big data centre services"), (ii) distribution of mobile gaming (the "online game business") and (iii) trading of lottery terminals and parts (the "lottery business") and the provision of lottery-related technologies, systems and solutions to two state-run lottery operators in the PRC, namely the China Welfare Lottery Issuance Centre and China Sports Lottery Administration Centre (the "CSLA").

Big Data Centre Services

The Group operates two big data centres in Sichuan, the PRC to provide comprehensive services including premises, hardware support, power supply, ancillary supervision and management services to our clients.

The first big data centre of the Group commenced business in March 2019 and is located in Ya'an, Sichuan Province. With a gross area of 960 square meters, it has an operation capacity of providing data analysis and storage services for up to 9,500 data processors at the same time.

The second big data centre of the Group commenced business in June 2019 and is located in Kangding, Sichuan Province. With a gross area of approximately 5,800 square meters, it has an operation capacity of providing data analysis and storage services for up to 95,000 data processors at the same time.

The Group's third big data centre is currently under construction and expected to complete construction as early as the end of May 2020. Upon completion, the operation scale of the third big data centre will be approximately 2.5 to 3 times of the second big data centre.

The services provided by these big data centres to their customers cover a full range from monitoring the average utilisation rate and working status of data processors to supervising the overall safety and security of both physical environment and internet connection within the big data centres. Each customer is provided with a monthly report on operation results of its data processors. In the event of any unusual condition reported on the data processors, the relevant customer will receive an immediate notification and follow-up inspection and maintenance services will be provided by the Group upon request. In order to ensure full-load operation of the big data centres, the Group maintains regular communication with local utility services providers in respect of resources allocation and application for increase or decrease in supply of utility.

In addition, the Group has developed a comprehensive management software (the "Software") specifically for its big data centres. With the customised hardware installed in the Big Data Centres, the Software provides integrated solutions for operation and maintenance management, financial management and resources allocation in cloud computing in the big data centres. The Software enables the clients to remotely monitor their data processors and obtain real-time information on the average computing capacity, CPU load and utilisation and operating time and to receive notification of unusual condition of their data processors. The Software effectively solves the common problems encountered in the operation and maintenance management of big data centres such as delayed information access, inefficient operation and maintenance, inability to quantify on-site work and inability to get access to on-site information anytime and anywhere.

During the Year, the big data centres services generated revenue of approximately HK$62.5 million, accounting for 96.7% of the Group's revenue.

Online Game Business

In line with the Group's strategy for developing leisure and entertainment business, the Group is in cooperation with various reputable companies in the online game industry to distribute online mobile games. On 5 July 2019, "A Tale in the Kingdom of Women (《大話女兒國》)", a large-scale mobile game exclusively distributed by our Company, has completed closed testing and was launched into operation with positive market response.

As at the end of the Year, we witnessed an increase in revenue of HK$1.4 million compared to the corresponding period in 2018 (2018: HK$0.6 million). The online game distribution business accounted for 3.1% of total revenue of the Year (2018: 9.6%).

Lottery Business

The Group is engaged in providing lottery-related technologies, systems and solutions as well as distribution of high quality and versatile lottery terminals in China.

Due to the particular procurement cycle of CSLA for lottery terminals and parts as well as the sluggish demand from market in Mainland China, the Group has suspended trading of lottery vending machines, and closely monitors any development in the market conditions and regulatory framework. It cannot rule out the possibilities of ceasing to trade the approved lottery vending machines or the business related to CSLA in the future.

FINANCIAL REVIEW

The Group is engaged in three operating segments, namely the big data centre services, online game business and lottery business. During the Year, total revenue of the Group amounted to HK$64.6 million (2018: HK$6.0 million), representing an increase of approximately HK$58.6 million, which comprised the following:

(1) Big data centre services

Revenue contributed by the big data centres services in the provision of data analysis, storage services and ancillary administrative and consulting services amounted to HK$62.5 million for the Year (2018: Nil).

(2) Online game business

Revenue generated from online game business amounted to HK$2.0 million for the Year, increased by 250.1% compared to HK$0.6 million in the corresponding period in 2018.

(3) Lottery business

During the Year, the Group recorded revenue in the provision of services and solutions for distribution of lottery products of approximately HK$0.1 million (2018: HK$0.4 million), representing a decrease of HK$0.3 million. No revenue was generated from sales of lottery terminals and parts for the sports lottery due to the particular procurement cycle of the CSLA as explained above (2018: HK$5.1 million).

Operating Results

The Group recorded a loss of HK$34.8 million for the Year, roughly equivalent to HK$34.8 million in 2018, which was mainly attributable to the combined effect of:

(i) increase in gross profit of approximately HK$12.6 million for the Year as compared to the corresponding period in 2018 as a result of the commencement of operation of the big data centre business;

(ii) increase in non-operating expense related to impairment of investment in associates of HK$7.7 million and share of losses of associates of HK$1.7 million;

(iii) increase in staff cost of HK$6.7 million which was attributable to the increased number of employees due to new business expansion of the Year (2019: 90; 2018: 27);

(iv) increase in operating expense including travelling expense and administrative expense of HK$1.0 million; and

(v) decrease in share-based payment expense of HK$4.5 million.

MATERIAL ACQUISITION AND DISPOSAL OF INVESTMENTS

On 15 November 2019, Zhejiang Keyinghuancai Information Technology Co., Ltd., a wholly-owned subsidiary of the Company, entered into an equity transfer agreement to acquire the entire equity interest in Sichuan Lecaiyuntian Internet Technology Co., Ltd at a consideration of HK$15,000,000 (the "Acquisition"). The Acquisition was completed on 22 November 2019 and as at 31 December 2019, the goodwill was at the amount of approximately HK$10,996,000.

ADDITION TO PROPERTY, PLANT AND EQUIPMENT

During the Year, the Company made an significant investment in the amount of approximately HK$176.1 million in relation to the construction of the big data centres, including two completed big data centres and one construction in progress. The construction work of the first big data centre was completed in March 2019, with a gross area of 960 square metres. The second big data centre was completed in June 2019, with a gross area of 5,800 square metres. As of 31 December 2019, the Group is of a net asset position with property, plant and equipment of HK$164.5 million (representing an increase of HK$158.0 million from HK$6.5 million as of 31 December 2018).

IMPAIRMENT OF FINANCIAL INSTRUMENTS AND INVESTMENT IN ASSOCIATES

Impairment of equity investment at fair value through other comprehensive loss were recognised at the end of the Year, which resulted to an impact on comprehensive loss of HK$10.1 million.

During the Year, provision for impairment on investment in associates has been made by the Company of HK$5.8 million of Shenzhen BlueTech Network Technology Co., Ltd and HK$1.9 million of Guangzhou Sentai Information Technology Co., Ltd according to the impairment test at the end of the Year, which would have an impact on profit and loss of the Company.

LOAN RECEIVABLES

Yourich Inc Limited

On 18 October 2017, the Company granted a loan (the "Loan") to an independent third party, Yourich Inc Limited (the "Borrower"), in the principal amount of HK$99,000,000 at the interest rate of 6% per annum for a term of two years. The Loan was guaranteed by Ms. Liu He (the "Guarantor"), a director and sole beneficial owner of the Borrower and was secured by 95% of the entire equity interests in Artix Investment Co., Ltd. (the "Target") held by the Guarantor and any rights and interests derived thereof. As at the date of this report, the outstanding amount has been repaid in full.

Shenzhen Chipchain Technologies Co., Ltd.

As at 19 June 2019, the Group entered into a convertible note arrangement (the "Convertible Note Agreement") with Shenzhen Chipchain Technologies Co., Ltd. (the "Convertible Note Issuer"), pursuant to which the Group agreed to grant to the Convertible Note Issuer a convertible note (the "Convertible Note") in the principal amount of RMB10,000,000 (equivalent to approximately HK$11,163,000) at an interest rate of 8% per annum for a term of six (6) months, during which the Group is entitled to convert the Convertible Note into 3.33% of the equity interest in the Convertible Note Issuer (the "Conversion Right"). The Group did not exercise the Conversion Right and the Convertible Note Issuer has defaulted in repayment of the Convertible Note when it was due. The Convertible Note was subsequently classified under loan receivable. The Group has been actively discussing with the Convertible Note Issuer to recover the Convertible Note. As at the date of this report, a total amount of RMB5 million has been repaid by the Convertible Note Issuer.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group continues to manage its balance sheet carefully and maintains conservative policies in cash and financial management. As at 31 December 2019, the Group's cash and bank balances (including bank deposits with original maturity over three months) amounted to HK$95.0 million (2018: HK$198.2 million), representing a decrease of HK$103.2 million from last year. Of the cash and cash equivalents as at 31 December 2019, 48% (2018: 4.7%) was denominated in Renminbi, with the remaining balance in United States dollars and Hong Kong dollars.

MANAGEMENT DISCUSSION AND ANALYSIS

The decrease in cash and bank balances was mainly due to (i) the cash used in the construction of three big data centres of approximately HK$176.1 million (of which big data centres, two started generating revenue in the Year and one is currently under construction); (ii) the cash received by withdrawal of structured notes amounted HK$50.0 million; and (iii) the cash received by repayment of loan from Yourich Inc Limited amounted HK$49.3 million.

As stated in 2019 interim report and 2019 third quarterly report of the Company, the Group continues to explore new business models which will diversify our business. If any of these potential projects materialises, the Company will make announcement(s) in accordance with the requirement under the GEM Listing Rules where necessary or appropriate.

The Group had no bank borrowings in 2019 (2018: Nil). As of 31 December 2019, the Group had other borrowings of RMB10,000,000 (approximately equivalent to HK$11,163,000) which was interest-bearing due to a related party and repayable within a period not exceeding one year.

As at 31 December 2019, the Group's current assets exceeded its current liabilities by HK$150.2 million (2018: HK$341.6 million). The Group had a capital surplus of HK$342.7 million as at 31 December 2019 (2018: HK$371.2 million).

The gearing ratio of the Group (total borrowings divided by shareholders' funds) was 2.8% as at 31 December 2019 (2018: Nil).

OUTLOOK

The PRC government has been taking action to strictly prohibit all internet lottery ticket sales activities since March 2015, which posed major challenges and uncertainties to the development of the Group's lottery business. In addition, due to the particular procurement cycle of CSLA for lottery terminals and parts as well as the sluggish demand from market in Mainland China, the Company has to think proactively and seek new opportunities.

In addition to the lottery business and online game business, we will focus on big data centre services which have a brighter prospect. At present, the two big data centres constructed by us in Sichuan Province, the PRC have a sizable scale of operation with a wide range of customers, and are contributing to the Group with stable revenue. In the future, we will continue our expansion which includes our third big data centre currently under construction. Upon completion, such centre will become the largest big data centre of the Group and is expected to attract more customers and bring considerable revenue. We believe that, under the new political and economic environment, we shall actively seek changes, adhere to the spirit of innovation, and leverage our core experience and corporate resources to achieve long-term benefits for the Group and its shareholders. We are confident that with the concerted efforts of the Group, we will be able to open up a brand-new world and achieve outstanding results.

CHARGES ON GROUP ASSETS

None of the Group's assets were pledged as of 31 December 2019 and 2018.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

As at 31 December 2019, all assets and liabilities of the Group were denominated in Hong Kong dollars, Renminbi and United States dollars. For the year ended 31 December 2018, the business activities of the Group were mainly denominated in Hong Kong dollars and Renminbi. Since the impact to foreign exchange exposure has been insignificant, no hedging or other alternatives have been implemented.

STAFF AND REMUNERATION POLICY

As at 31 December 2019, the Group had a total of 47 full-time employees (2018: 27) and 43 third party consultants (2018: Nil). For the year ended 31 December 2019, the Directors received total emoluments of approximately HK$9.2 million (2018: HK$11.6 million), including non-cash share-based payments to Directors of HK$4.5 million in 2019 (2018: HK$6.9 million). The Group continues to provide remuneration packages to employees that are in line with market practices and past performance. The Group also provides employee benefits such as mandatory provident fund, medical insurance, staff training programs and share option schemes.

CAPITAL COMMITMENT AND CONTINGENT LIABILITIES

The Group's capital commitments at the end of the Year and 31 December 2018 are as follows:

	2019	2018
	HK$'000	*HK$'000*
Property, plant and equipment Contracted, but not provided for	**75,788**	22,060

As at 31 December 2019 and 2018, the Group did not have any significant contingent liabilities.

IMPORTANT EVENTS AFTER THE FINANCIAL YEAR

Reference is made to the announcement of the Company dated 23 January 2020. On 23 January 2020, the Company, through Interactive Lab Limited, a wholly-owned subsidiary of the Company, and Bee Computing (HK) Limited (the "JV Partner") entered into a joint venture agreement relating to the formation of a joint venture company (the "JV Company") to be held as to approximately 51% by Interactive Lab Limited and approximately 49% by the JV Partner. The JV Company is proposed primarily to be engaged in the development and operation of the technology in relation to one type of blockchain supercomputing chip and the related application devices. The term of operation of the JV Company is ten years from 23 January 2020 to 22 January 2030, which may be extended upon unanimous consent of all the then shareholders of the JV Company.

BOARD OF DIRECTORS

Ms. Zhang Jing
Chairman and Non-executive Director

Ms. Zhang, aged 38, was appointed as the chairman of the Company and a non-executive Director on 2 January 2020. She is also the chairman of the nomination committee of the Company. Ms. Zhang joined 500.com Limited (NYSE stock code: WBAI), a company listed on the New York Stock Exchange and the holding company of the Company, since April 2007. She is currently the senior director of human resources of 500.com Limited and a director of certain subsidiaries of 500.com Limited. Ms. Zhang was the vice president of 500wan HK Limited, a subsidiary of 500.com Limited, from April 2017 to June 2018. From June 2008 to June 2016, she was the finance supervisor responsible for managing online platform transaction funds. Ms. Zhang has over 10 years of financial management and personnel management experiences. Ms. Zhang holds a bachelor's degree in medicine from Hubei Minzu University (formerly known as Hubei Minzu College) in 2004.

Mr. Wang Bingzhong
Chief Executive Officer and Executive Director

Mr. Wang, aged 36, was appointed as an executive Director on 19 June 2017. He was subsequently appointed as chief executive officer, compliance officer and authorised representative of the Company on 10 July 2017. He is also a director of certain subsidiaries of the Company. Mr. Wang was a director of Dragon Investment Advisory Company Limited, a private equity fund, from September 2016 to March 2017. Mr. Wang served as an associate director of CCB International (Holdings) Limited, and a director of CCBI Overseas Holdings Limited in 2016. Prior to that, Mr. Wang was a director of A-TEST Compliance Services (Beijing) Co., Ltd. (奧測世紀（北京）技術股份有限公司) (NEEQ stock code: 830873), a company listed on the National Equities Exchange and Quotations Co. Ltd. (全國中小企業股份轉讓系統), from December 2013 to March 2015. Mr. Wang received a master of business administration from the Hong Kong University of Science and Technology in 2013 as well as a bachelor's degree in computer science and technology from Nanjing University in 2005.

Ms. Huang Lilan
Executive Director/Chief Financial Officer

Ms. Huang, aged 37, was appointed as an executive Director on 23 March 2018 and the chief financial officer of the Company on 6 June 2017. She is also a director of certain subsidiaries of the Company. Ms. Huang has more than a decades' experience in accounting, auditing, taxation and financial management. Prior to joining the Company, Ms. Huang served as the financial director of a subsidiary of 500.com Limited since 2011. Ms. Huang also served as senior auditor at Ernst & Young from 2006 to 2011. She received a bachelor's degree in business and finance from the University of International Business and Economics in 2005 and has been professionally certified by the Institute of Management Accountants.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Yuan Qiang
Non-executive Director

Mr. Yuan, aged 46, was appointed as a non-executive Director on 2 January 2018. He is also a member of both the audit committee and remuneration committee of the Company. He is currently the chief financial officer of 500.com Limited. Mr. Yuan was the senior vice president of finance of 500.com Limited from July 2016 to December 2017, the vice president of finance of 500.com Limited from June 2014 to July 2016 and the financial director of 500.com Limited from March 2013 to June 2014. Mr. Yuan served as the financial manager of a subsidiary of 500.com Limited from January 2001 to March 2013. Mr. Yuan has more than 15 years of experience in accounting, financial control, corporate finance and mergers & acquisitions. Mr. Yuan obtained a bachelor's degree in financial management from Zhongnan University of Finance and Economics.

Dr. Lu Haitian
Independent Non-executive Director

Dr. Lu, aged 40, was appointed as an independent non-executive Director on 10 July 2017. He is also a member of both the audit committee and nomination committee of the Company. Dr. Lu is currently a professor in law at the School of Accounting and Finance and the director of Chinese Mainland Affairs at The Hong Kong Polytechnic University. He served at the School of Accounting and Finance in The Hong Kong Polytechnic University first as a visiting lecturer in law from September 2005 to June 2007 and later as an assistant professor in law from June 2007 to June 2012, associate professor in law from July 2012 to June 2018, and the associate dean (external relations and development) in the Faculty of Business from January 2018 to January 2020. Dr. Lu has more than 15 years of experience in accounting and law. He obtained a bachelor of international economic law from Nanjing University in 2001, a master of laws from The University of Liverpool in 2002, and a Ph.D. in law from National University of Singapore in 2007. Dr. Lu is currently an independent non-executive director of K. H. Group Holdings Limited (stock code: 1557), a company listed on the Main Board of The Stock Exchange of Hong Kong Limited.

Mr. Lin Sen
Independent Non-executive Director

Mr. Lin, aged 43, was appointed as an independent non-executive Director on 10 July 2017. He is also the chairman of the audit committee and a member of the remuneration committee of the Company. From June 2017 to April 2019, Mr. Lin served as the chief financial officer of 7Road Holdings Limited (stock code: 797), a company listed on the Main Board of The Stock Exchange of Hong Kong Limited. From November 2006 to January 2017, Mr. Lin served as the chief financial officer of Palm Commerce Information Technology (China) Co., Ltd. (掌信彩通信息科技（中國）有限公司) ("Palm Commerce"), which is a lottery service provider in the PRC. Palm Commerce is currently a subsidiary of Telling Telecommunication Holding Co., Ltd. (天音通信控股股份有限公司) (SHE stock code: 000829), a company listed on the Shenzhen Stock Exchange. From February 2001 to July 2006, Mr. Lin served as manager of PricewaterhouseCoopers International Limited. Mr. Lin obtained a bachelor's degree in international business administration from Central University of Finance and Economics (中央財經大學) in 1998 and an executive MBA from China Europe International Business School (中歐國際工商管理學院) in 2011. In 2010, Mr. Lin became a registered accountant in the PRC.

Mr. Yan Hao
Independent Non-executive Director

Mr. Yan, aged 41, was appointed as an independent non-executive Director on 10 July 2017. He is also the chairman of the remuneration committee and a member of the nomination committee of the Company. Mr. Yan is currently a lawyer of Junzejun Law Offices. Mr. Yan currently serves as an arbitrator for the World Intellectual Property Organization, the Hong Kong International Arbitration Centre, the Shenzhen Court of International Arbitration, and the Guangzhou Arbitration Commission, respectively, as well as a panellist of the Asian Domain Name Dispute Resolution Centre. Mr. Yan obtained a bachelor of laws from Wuhan University in 2001, a master of laws from the University of Hong Kong in 2003 and a master of laws from Stanford University in 2016. Mr. Yan is qualified to practice law in the PRC and is also a registered foreign lawyer in Hong Kong.

SENIOR MANAGEMENT

Ms. Huang Lilan
Chief Financial Officer

(Please refer to the profile details in above section)

Ms. Chow Chiu Man, Mandy
Company Secretary

Ms. Chow, aged 43, joined the Group in September 2004. She was appointed as the company secretary and authorised representative of the Company on 10 July 2017. She has over 15 years' experience in company secretarial affairs. Ms. Chow is an associate of both The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators) in the United Kingdom. She holds a bachelor of business degree from Monash University and a master degree in corporate governance from The Hong Kong Polytechnic University.

CORPORATE GOVERNANCE PRACTICES

The Company recognises the importance of good corporate governance to safeguard the interest of the Company's shareholders (the "Shareholders") and achieved these by an effective board, segregation of duties with clear accountability, sound internal controls, appropriate risk assessment procedures and transparency to all the Shareholders. Throughout the year ended 31 December 2019 (the "Year"), the Company complied with all the Code Provisions of the Corporate Governance Code (the "CG Code") set out in Appendix 15 to the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"), save for the following:

Under the code provision C.1.2 of the CG Code, management should provide all members of the Board with monthly updates to enable the Board as a whole and each Director to discharge their duties. Although the management of the Company has not provided the Board with monthly updates, the Company has based on business situation, provided the Board, from time to time, with updated business information to enable the Board as a whole and each director to discharge their duties.

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

BOARD OF DIRECTORS

Composition of the Board

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

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

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

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

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

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

2 January 2020	Mr. Pan Zhengming resigned as a non-executive Director and accordingly ceased to be the chairman of the Board and a member and the chairman of the Nomination Committee
2 January 2020	Ms. Zhang Jing was appointed as a non-executive Director, the chairman of the Board and a member and the chairman of the Nomination Committee

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

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

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

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

Roles and Responsibilities of the Board

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

Chairman and Chief Executive Officer

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

Appointments and Re-election of Directors

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

Under the Company's Articles, at each annual general meeting, one-third of the Directors for the time being shall retire from office by rotation, provided that every Director shall be subject to retirement at least once every three years. This year, Mr. Yuan Qiang and Dr. Lu Haitian will retire from office by rotation at the forthcoming annual general meeting. Ms. Zhang Jing, who was appointed on 2 January 2020 to fill a casual vacancy occasioned by the resignation of Mr. Pan Zhengming, will also retire at the forthcoming annual general meeting and is eligible to offer herself for re-election. The Board and the Nomination Committee recommend their re-appointments. The biographies of the retiring Directors proposed to be re-elected at the annual general meeting are set out in the circular sent with this annual report to provide information to shareholders to decide on their re-elections.

Board Diversity Policy

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

The Nomination Committee monitors the implementation of the board diversity policy and will at appropriate time set measurable objectives for achieving diversity under the board diversity policy. The Nomination Committee reviews the Board Diversity Policy from time to time to ensure its continued effectiveness.

Nomination Policy

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

(a) diversity in all its aspects, including but not limited to skills, knowledge, gender, age, ethnicity, cultural and educational background, professional experience and other personal qualities of the candidate;

(b) ability to exercise sound business judgment and possess proven achievement and experience in directorship including effective oversight of and guidance to management;

(c) commitment of the candidate to devote sufficient time for the proper discharge of the duties of a Director. In this regard, the number and nature of offices held by the candidate in public companies or organisations, and other executive appointments or significant commitments will be considered;

(d) potential/actual conflicts of interest that may arise if the candidate is selected;

(e) independence of the independent non-executive director candidates must satisfy the independence requirements under the GEM Listing Rules; and

(f) in the case of a proposed re-appointment of an independent non-executive director, the number of years he/she has already served.

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

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

Securities Dealings by Directors and Employees

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

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

Directors' Induction and Continuing Professional Development

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

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

Board Meetings

The Board met four times during the year ended 31 December 2019. In addition, the chairman of the Board met with the independent non-executive Directors once without the presence of other Directors present during the Year.

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

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

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

The Company has arranged appropriate insurance cover in respect of potential legal actions against its Directors and officers. The coverage and the amount insured are reviewed annually by the Company. In 2019, no claims under the insurance policy were made.

DELEGATION BY THE BOARD

Management Functions

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

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

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

CORPORATE GOVERNANCE REPORT

Board Committees and Corporate Governance Functions

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

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

(1) Audit Committee

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

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

- Reviewed the Group's financial results and reports on a quarterly basis;
- Reviewed the approach and methodology applied with respect to the key audit matters included in the year end auditor's report;
- Reviewed the continuing connected transactions of the Group;
- Reviewed and approved the external auditors' audit services and non-audit services fees;
- Reviewed the effectiveness of the Group's internal audit functions;
- Reviewed the Group's risk register and discussed the enhancement procedures;
- Recommended to the Board on the re-appointment of the external auditor at the 2019 AGM;
- Reviewed the adequacy and effectiveness of the risk management and internal control systems;
- Reviewed the adequacy of the resources, staff qualifications and experience, training programmes and budget of the Group's accounting, financial reporting and internal audit functions;
- Reviewed and approved the internal audit plans; and
- Reviewed the adequacy and effectiveness of the risk management and internal control systems.

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

(2) Remuneration Committee

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

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

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

During the Year, there were no new appointments of Director, hence no service contract for new Director requiring approval by the Remuneration Committee.

Details of remuneration of the Directors, chief executive and senior management are set out in notes 10 and 40 to the consolidated financial statements.

(3) Nomination Committee

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

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

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

Corporate Governance Functions

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

2019 BOARD AND COMMITTEE ATTENDANCE AND TRAINING RECORDS

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

	Meetings attended/eligible to attend in 2019 (Note 2)						
	Board	Audit Committee	Nomination Committee	Remuneration Committee	Annual General Meeting	Extraordinary General Meeting	Type of Training
Directors							
Mr. Pan Zhengming* (Note 1)	4/4		1/1		1/1	2/2	(A)
Mr. Wang Bingzhong#	4/4				1/1	2/2	(A)
Ms. Huang Lilan#	4/4				1/1	2/2	(A)
Mr. Yuan Qiang*	4/4	4/4		1/1	1/1	2/2	(A)
Dr. Lu Haitian+	4/4	4/4	1/1		1/1	2/2	(A)
Mr. Lin Sen+	4/4	4/4		1/1	1/1	2/2	(A)
Mr. Yan Hao+	4/4		1/1	1/1	1/1	2/2	(A)
Number of meetings held in 2019	4	4	1	1	1	2	

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

Notes:

1. Resigned as a non-executive Director and accordingly ceased to be the chairman of the Board and a member and the chairman of the Nomination Committee with effect from 2 January 2020.

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

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

COMPANY SECRETARY

The Company Secretary, Ms. Chow Chiu Man, Mandy, supports the Board and Board committees by ensuring good information flow within the Board and that the Board's policy and procedures and all applicable rules and regulations are followed. The Company Secretary is responsible for advising the Board on corporate governance matters and facilitating the induction and continuous professional development of Directors. During the Year, the Company Secretary undertook not less than 15 hours of relevant professional training to update her skills and knowledge. Her biography is set out on page 12 of this annual report under the section headed "Biographical Details of Directors and Senior Management".

ACCOUNTABILITY AND AUDIT

Financial Reporting

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

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

The statement of the auditors of the Company about its responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditor's Report on pages 56 to 59.

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

Risk Management and Internal Control

Responsibility

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

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

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

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

Risk Management and Internal Control

Risk management

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

Internal Control

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

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

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

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

Audit Committee Supervision

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

The Board, through the Audit Committee, has conducted a review of the effectiveness of the Group's risk management and internal control systems for 2019 covering all material financial, operational and compliance controls and risk management functions, and considers that the systems are adequate and effective. The Board, through the Audit Committee, has also reviewed the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and final reporting functions and considers that they are adequate.

Auditors' Remuneration

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

Services rendered	**Remuneration paid/payable** HK$'000
Audit services	650
Non-audit services (Note)	170
	820

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

Compliance Officer

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

SHAREHOLDERS' RIGHTS

Procedures for Shareholders to Convene an Extraordinary General Meeting

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

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

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

Procedures for Putting Forward Proposal at General Meetings

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

Right to Put Enquiries to the Board

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

Procedures for Nomination of Directors for Election

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

COMMUNICATION WITH SHAREHOLDERS

Dividend Policy

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

Annual General Meeting

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

The Chairman, Board Committees' chairmen (or their delegates) and the Company's auditors attended the 2019 AGM and were on hand to answer questions.

Shareholders' Communication Policy

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

Shareholders' enquiries and concerns will be forwarded to the Board and/or relevant Board Committees of the Company, where appropriate, to answer the shareholders' questions.

Shareholders can also contact Computershare Hong Kong Investor Services Limited, the share registrar of the Company, if they have any enquiries about their shareholdings.

CONSTITUTIONAL DOCUMENTS

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

REPORT OF THE DIRECTORS

The directors (the "Directors") of the Company present their report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2019 (the "Year").

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company acts as an investment holding company. The activities of its principal subsidiaries, associates and a joint venture are set out in notes 19, 20 and 21 respectively to the consolidated financial statements.

An analysis of the Group's performance for the year by operating segments is set out in note 7 to the consolidated financial statements.

Further discussion and analysis of these activities as required by Schedule 5 to the Companies Ordinance, including a fair review of the Group's business, an indication of likely future development in the Group's business as well as particulars of important events affecting the Group that have occurred since the end of the Year can be found in the "Chairman's Statement" and the "Management Discussion and Analysis" set out on page 3 and pages 4 to 9 respectively of this annual report. An analysis of the Group's performance during the Year using financial key performance indicators is set out in the Group's Five-year Financial Summary on page 144 of this annual report. A description of the principal risks and uncertainties facing the Group, discussions on the Group's environmental policies and performance, the compliance with the relevant laws and regulations that have a significant impact on the Group and the account of the Group's key relationships with its employees, suppliers and customers are set out in the sections headed "Key Risks and Uncertainties", "Environmental Policies and Performance", "Compliance with the Relevant Laws and Regulations" and "Relationships with Employees, Suppliers and Customers" on pages 26 to 28. The above discussions form part of the business review as contained in this report of the Directors.

KEY RISKS AND UNCERTAINTIES

Risk relating to the PRC economy

The Group's business operations are materially based in the People's Republic of China (the "PRC") and its products and services are primarily sold and provided for customers in PRC. The Group is exposed to the risks associated with the change in PRC overall economic conditions.

The trade war and technology disputes between the United States and PRC since 2018 have adversely affected the economy of PRC. The slowdown of the PRC economic condition would adversely affect the Group's results of operations.

Risk relating to the supply of and price volatility in electric power

The Group consumes considerable amounts of electricity in operating its big data service centres. The electricity costs incurred by the Group are substantial. In order to provide stable supply of power in the big data centres at competitive costs, the Group has established cooperative relationship with various local subsidiaries of a leading state-owned enterprise in the power energy business in PRC. The Group is charged variable unit prices for supply of electricity during different seasons to reflect its average power supply costs. In the event that the Group is unable to secure new agreements with the utilities suppliers, there is no assurance of a stable and inexpensive electricity supply and the Group's future costs of operation could be adversely affected.

In addition, potential electricity supply interruption at big data centres may occur due to damages of electric power transmission facilities, construction defects and errors in operation. Any electricity interruption may adversely affect the Group's results of operations.

Risk relating to system continuity

As an operator of the big data centres, the Group provides the premises, hardware support, power supply and ancillary supervision and management service to customers. The Group has also developed a software which enables its customers to remotely monitor their data processors and obtain real-time information such as the average computing capacity and operating time. It involves receiving, storage and processing personal information and other privacy data. Any system failure or computer virus attack may result in operational disruption and breach of data privacy. The Group's business and operation results would be adversely affected.

Risk relating to extraordinary events such as natural hazards

The big data centres of the Group are strategically located near the rivers and rural areas for the benefits of obtaining cost effective energy generated by hydroelectric power plants and safeguarding the big data centres from relative ease of access. However, if any natural hazards such as earthquakes, flooding and landslide occur at or near the big data centres, the Group's business, operation results and financial performance could be adversely affected due to the damages of facilities, loss of data processors and operating interruption.

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

More information are provided in the Environmental, Social and Governance Report on pages 41 to 55.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

The Group has adopted internal control measures to monitor the continuous compliance with relevant laws and regulations such as the Companies Law of the Cayman Islands, the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), the SFO, the GEM Listing Rules and other laws and regulations implemented in relevant jurisdictions. During the Year, as far as the Board is concerned, the Group has complied in material aspects with the relevant laws and regulations that have a significant impact on the business and operation of the Group during the Year.

The Group continues to commit to comply with the relevant laws and regulations.

RELATIONSHIPS WITH EMPLOYEES, SUPPLIERS AND CUSTOMERS

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

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

RESULTS AND DIVIDENDS

The results of the Group for the Year and the Group's financial position as at 31 December 2019 are set out in the consolidated financial statements on pages 60 to 61 and pages 62 to 63 respectively.

The Directors do not recommend the payment of a final dividend for the Year (2018: Nil).

CLOSURE OF REGISTER OF MEMBERS

The annual general meeting of the Company is scheduled to be held on Thursday, 7 May 2020. For determining the entitlement to attend and vote at the annual general meeting, the register of members of the Company will be closed from Monday, 4 May 2020 to Thursday, 7 May 2020 (both days inclusive), during which period no share transfers will be registered. In order to be eligible to attend and vote at the above annual general meeting, all transfer forms accompanied by relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 29 April 2020.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the published results, assets and liabilities of the Group for the last five financial years is set out on page 144 of this annual report. This summary does not form part of the audited consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the Year are set out in note 15 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the Year are set out in note 34 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

DISTRIBUTABLE RESERVES

As at 31 December 2019, the Company's reserves available for distribution to the shareholders of the Company are approximately HK$311,161,000 (2018: HK$335,729,000) as calculated in accordance with the provisions of the Companies Law of the Cayman Islands.

MAJOR CUSTOMERS AND SUPPLIERS

In 2019, the Group's largest customer accounted for 33% (2018: 84%) of the Group's total revenue. The five largest customers of the Group in 2019 comprised 77% (2018: 100%) of the Group's total revenue.

In 2019, the Group's largest supplier accounted for 47% (2018: 53%) of the Group's total purchases. The five largest suppliers in 2019 comprised 98% (2018: 100%) of the Group's total purchases.

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

DIRECTORS

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

Ms. Zhang Jing* *(Chairman)*	*(appointed on 2 January 2020)*
Mr. Pan Zhengming*	*(resigned on 2 January 2020)*
Mr. Wang Bingzhong# *(Chief Executive Officer)*	
Ms. Huang Lilan#	
Mr. Yuan Qiang*	
Dr. Lu Haitian+	
Mr. Lin Sen+	
Mr. Yan Hao+	

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

In accordance with Article 86(3) of the Articles, Ms. Zhang Jing, who was appointed as a non-executive director on 2 January 2020 to fill the vacancy occasioned by the resignation of Mr. Pan Zhengming, shall retire at the forthcoming annual general meeting and is eligible to offer herself for re-election.

In accordance with Article 87 of the Articles, Mr. Yuan Qiang and Dr. Lu Haitian, being Directors longest in office since their last election, shall retire from office by rotation at the forthcoming annual general meeting and are eligible to offer themselves for re-election.

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

REPORT OF THE DIRECTORS

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

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

DIRECTORS' SERVICE CONTRACTS

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

PERMITTED INDEMNITY PROVISION

Pursuant to the Articles, each Director shall be entitled to 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 the duties of his/her office or otherwise in relation thereto, save for matters in respect of his fraud or dishonesty. The Company has taken out insurance against the liability and costs associated with defending any proceedings which may be brought against Directors of the Group.

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed above, there were no transaction, arrangement or contract of significance in relation to the Company's business which was entered into between the Company or any of its subsidiaries was a party and in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted during or at the end of the Year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

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

As at 31 December 2019, the interests and short positions of each Director and chief executive of the Company and their respective associates in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the required standard of dealings by the Directors as referred to in Rule 5.46 of the GEM Listing Rules, were as follows:

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

Share options granted by the Company

Name of Director	Number of underlying shares held pursuant to share options	Approximate percentage of total issued shares of the Company
	(Notes 2 & 4)	*(Note 1)*
Mr. Pan Zhengming *(Note 3)*	12,000,000	0.38%
Mr. Wang Bingzhong	62,000,000	1.96%
Ms. Huang Lilan	20,000,000	0.63%
Mr. Yuan Qiang	62,000,000	1.96%
Dr. Lu Haitian	4,000,000	0.13%
Mr. Yan Hao	4,000,000	0.13%
Mr. Lin Sen	4,000,000	0.13%

Notes:

1. As at 31 December 2019, the total number of issued shares of the Company was 3,158,599,836.

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

3. Mr. Pan Zhengming resigned as a Director with effect from 2 January 2020.

4. Details of share options granted to the Directors pursuant to the share option scheme of the Company are set out in the "Share Option Scheme" section of this report and note 36 to the consolidated financial statements.

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

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

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

Name of Director	Number of ADS held	Approximate percentage of total issued and outstanding shares of 500.com
	(Note 2)	*(Note 1)*
Mr. Pan Zhengming *(Note 3)*	335,000	0.76%
Ms. Huang Lilan	5,151	0.01%
Mr. Yuan Qiang	34,706	0.08%

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

Name of Director	Number of underlying shares held pursuant to ADS Options	Approximate percentage of total issued and outstanding shares of 500.com
	(Notes 2 & 4)	*(Note 1)*
Mr. Pan Zhengming *(Note 3)*	268,333	0.61%
Ms. Huang Lilan	15,500	0.04%
Mr. Yuan Qiang	26,667	0.06%

Notes:

1. As at 31 December 2019, the total number of issued and outstanding shares of 500.com was 44,024,595.

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

3. Mr. Pan Zhengming resigned as a Director with effect from 2 January 2020.

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

   – 99,333 ADS Options granted on 19 June 2014 at exercise price of US$10.00 may be exercised from 19 June 2016 to 19 June 2020

   – 149,000 ADS Options granted on 19 June 2014 at exercise price of US$10.00 may be exercised from 19 June 2017 to 19 June 2020

   – 10,000 ADS Options granted on 6 January 2016 at exercise price of US$18.51 may be exercised from 21 November 2016 to 22 November 2020

   – 10,000 ADS Options granted on 16 December 2016 at exercise price of US$13.50 may be exercised from 21 November 2017 to 22 November 2020

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

   – 167 ADS Options granted on 19 June 2014 at exercise price of US$10.00 may be exercised from 19 June 2015 to 19 June 2020

   – 2,000 ADS Options granted on 19 June 2014 at exercise price of US$10.00 may be exercised from 19 June 2016 to 19 June 2020

   – 8,333 ADS Options granted on 19 June 2014 at exercise price of US$10.00 may be exercised from 19 June 2017 to 19 June 2020

   – 5,000 ADS Options granted on 19 June 2014 at exercise price of US$10.00 may be exercised from 19 June 2018 to 19 June 2020

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

   – 1,667 ADS Options granted on 19 June 2014 at exercise price of US$10.00 may be exercised from 19 June 2016 to 19 June 2020

   – 25,000 ADS Options granted on 19 June 2014 at exercise price of US$10.00 may be exercised from 19 June 2017 to 19 June 2020

Save as disclosed above, as at 31 December 2019, none of the Directors or chief executive of the Company and their respective associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by the Directors.

SHARE OPTION SCHEME

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

A summary of the principal terms of the 2012 Share Option Scheme are set out in note 36 to the consolidated financial statements.

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

	Number of share options									
Type of participants	As at 1 January 2019	Granted during the Year *(Note 4)*	Reclassified during the Year *(Note 5)*	Exercised during the Year *(Note 6)*	Lapsed during the Year	Cancelled during the Year	As at 31 December 2019	Date of grant	Exercise price (HK$)	Exercise period *(Note)*
Directors										
Mr. Pan Zhengming	6,000,000	–	–	–	–	–	6,000,000	05.01.2018	0.20	1
(Note 3)	–	6,000,000	–	–	–	–	6,000,000	01.04.2019	0.11	2
	6,000,000	6,000,000	–	–	–	–	12,000,000			
Mr. Wang Bingzhong	31,000,000	–	–	–	–	–	31,000,000	05.01.2018	0.20	1
	–	31,000,000	–	–	–	–	31,000,000	01.04.2019	0.11	2
	31,000,000	31,000,000	–	–	–	–	62,000,000			
Ms. Huang Lilan	10,000,000	–	–	–	–	–	10,000,000	05.01.2018	0.20	1
	–	10,000,000	–	–	–	–	10,000,000	01.04.2019	0.11	2
	10,000,000	10,000,000	–	–	–	–	20,000,000			
Mr. Yuan Qiang	31,000,000	–	–	–	–	–	31,000,000	05.01.2018	0.20	1
	–	31,000,000	–	–	–	–	31,000,000	01.04.2019	0.11	2
	31,000,000	31,000,000	–	–	–	–	62,000,000			
Dr. Lu Haitian	2,000,000	–	–	–	–	–	2,000,000	05.01.2018	0.20	1
	–	2,000,000	–	–	–	–	2,000,000	01.04.2019	0.11	2
	2,000,000	2,000,000	–	–	–	–	4,000,000			

Type of participants	As at 1 January 2019	Granted during the Year *(Note 4)*	Reclassified during the Year *(Note 5)*	Exercised during the Year *(Note 6)*	Lapsed during the Year	Cancelled during the Year	As at 31 December 2019	Date of grant	Exercise price (HK$)	Exercise period *(Note)*
	Number of share options									
Mr. Yan Hao	2,000,000	–	–	–	–	–	2,000,000	05.01.2018	0.20	1
	–	2,000,000	–	–	–	–	2,000,000	01.04.2019	0.11	2
	2,000,000	2,000,000	–	–	–	–	4,000,000			
Mr. Lin Sen	2,000,000	–	–	–	–	–	2,000,000	05.01.2018	0.20	1
	–	2,000,000	–	–	–	–	2,000,000	01.04.2019	0.11	2
	2,000,000	2,000,000	–	–	–	–	4,000,000			
Sub-total:	84,000,000	84,000,000	–	–	–	–	168,000,000			
Employees	1,800,000	–	300,000	–	–	–	2,100,000	05.01.2018	0.20	1
	–	800,000	300,000	–	–	–	1,100,000	01.04.2019	0.11	2
Sub-total:	1,800,000	800,000	600,000	–	–	–	3,200,000			
Others *(Note 7)*	67,600,000	–	(300,000)	–	–	–	67,300,000	05.01.2018	0.20	1
	–	70,300,000	(300,000)	(12,664,000)	–	–	57,336,000	01.04.2019	0.11	2
Sub-total:	67,600,000	70,300,000	(600,000)	(12,664,000)	–	–	124,636,000			
Total:	**153,400,000**	**155,100,000**	**–**	**(12,664,000)**	**–**	**–**	**295,836,000**			

Notes:

1. The share options granted on 5 January 2018 are divided into 3 tranches exercisable from 5 January 2018, 5 January 2019 and 5 January 2020 respectively to 4 January 2028.

2. The share options granted on 1 April 2019 are divided into 3 tranches exercisable from 1 April 2019, 1 April 2020 and 1 April 2021 respectively to 31 March 2029.

3. Mr. Pan Zhengming resigned as a Director with effect from 2 January 2020.

4. During the Year, the Company granted a total of 155,100,000 share options to the directors, certain employees and consultants of the Company under the 2012 Share Option Scheme on 1 April 2019. The validity period of the options is ten years, from 1 April 2019 to 31 March 2029. The options will entitle the grantees to subscribe for a total of 155,100,000 new shares at an exercise price of HK$0.11 per share of the Company. The closing price of the shares of the Company immediately before the date on which the share options were granted was HK$0.102.

5. To better reflect certain grantee's position in relation to the Group, the type of participant has been reclassified from others to employee.

6. During the Year, no share options were lapsed and cancelled under 2012 Share Option Scheme. In respect of the share options exercised during the Year, the weighted average closing price of the shares of the Company immediately before and on the dates on which the share options were exercised were HK$0.208 and HK$0.206 respectively.

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

CONTINUING CONNECTED TRANSACTIONS

1. On 15 May 2017, Beijing Huancai Information Technology Ltd. (北京環彩信息技術有限公司) ("Beijing Huancai"), a subsidiary of the Company, entered into a purchase agreement (the "Purchase Agreement") with Wu Sheng Computer Technology (Shanghai) Co., Ltd. (伍盛計算機科技（上海）有限公司) ("Wu Sheng"), pursuant to which, Beijing Huancai agreed to purchase from Wu Sheng the lottery terminals and parts for a term of three years commencing from 15 May 2017 and ending on 14 May 2020. Wu Sheng is an indirect wholly-owned subsidiary of GoReward Limited ("GoReward"), which is owned as to 50.002% by Global Crossing Holdings Ltd. and 49.998% by Intralot International Limited ("Intralot"). Intralot also holds 49% of Precious Success Holdings Limited ("Precious Success"), a subsidiary of the Company. Intralot is therefore a connected person of the Company under the GEM Listing Rules by virtue of its being a substantial shareholder of Precious Success. Wu Sheng, being a subsidiary of GoReward, is an associate of Intralot and, therefore, is also a connected person of the Company under the GEM Listing Rules.

   The entering into of the Purchase Agreement and the transactions contemplated thereunder constituted continuing connected transactions of the Company. Further details of the transactions were set out in the announcement of the Company dated 15 May 2017.

2. On 3 August 2018, Loto Interactive Information Technology (Shenzhen) Limited ("Loto Shenzhen"), an wholly-owned subsidiary of the Company, entered into the cooperation agreement (the "Cooperation Agreement") pursuant to which, Loto Shenzhen conditionally agreed to provide the services to Shenzhen E-Sun Sky Network Technology Co., Ltd. (深圳市易訊天空網絡技術有限公司) ("E-Sun Sky") subject to the terms and conditions provided therein for the period from the 8 October 2018 to 5 March 2021. E-Sun Sky is a wholly-owned subsidiary of 500.com Limited, which is interested in 1,278,714,329 shares of the Company, representing approximately 40.48% of the total issued share capital of the Company, and is a controlling shareholder of the Company. Accordingly, E-Sun Sky is a connected person of the Company pursuant to the GEM Listing Rules and the transactions contemplated under the Cooperation Agreement constituted continuing connected transactions of the Company.

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

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

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

RELATED PARTY TRANSACTIONS

During the Year, the Group entered into certain transactions with "related parties" as defined under the applicable accounting standards. These related party transactions, which are disclosed in note 40 to the consolidated financial statements, did not fall under the definition of connected transactions or continuing connected transaction under the GEM Listing Rules.

CONTROLLING SHAREHOLDER'S INTERESTS IN SIGNIFICANT CONTRACTS

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

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2019, the interests and short positions of the persons (other than the Directors and chief executive of the Company) in the shares and underlying shares of the Company which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO or required to be recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Long positions in the shares of the Company

Name	Capacity	Number of shares held	Approximate percentage of total issued shares of the Company
			(Note)
500.com Limited	Beneficial owner	1,278,714,329	40.48%

Note:

As at 31 December 2019, the total number of issued shares of the Company was 3,158,599,836.

Save as disclosed above, as at 31 December 2019, the Company has not been notified of any other interests or short positions in the shares or underlying shares of the Company which had been recorded in the register required to be kept under Section 336 of the SFO.

EQUITY-LINKED AGREEMENTS

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

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

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

MANAGEMENT CONTRACTS

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

SUFFICIENCY OF PUBLIC FLOAT

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

CORPORATE GOVERNANCE

Information on the Company's corporate governance practices is set out in the Corporate Governance Report on pages 13 to 25 of this annual report.

EMOLUMENT POLICY

The employees of the Group are selected, remunerated and promoted on the basis of their merit, qualifications and competence.

The emoluments of the Directors are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market standards. Particulars of the emoluments of Directors on a named basis for the Year are set out in note 10 to the consolidated financial statements.

The Company has adopted the share option scheme as an incentive to Directors, employees and consultants. Details of the scheme are set out in note 36 to the consolidated financial statements.

AUDIT COMMITTEE

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

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

CHARITABLE CONTRIBUTIONS

During the Year, the Group had made approximately HK$1,011,000 charitable and/or other donations.

AUDITORS

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

The consolidated financial statements for the year ended 31 December 2019 have been audited by ZHONGHUI ANDA CPA Limited, who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company. A resolution for the re-appointment of ZHONGHUI ANDA CPA Limited as the auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

On behalf of the Board

Wang Bingzhong
Chief Executive Officer and Executive Director

Hong Kong, 20 March 2020

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

Loto Interactive Limited (the "Company") and its subsidiaries (collectively referred to as the "Group" or "we") is pleased to present its report on the environmental, social, and governance (the "ESG") aspects, in accordance with the guidelines of Appendix 20 to the Rules Governing the Listing of Securities on GEM (the "GEM Listing Rules") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). This environmental, social and governance report (the "ESG Report") covers the overall performance of the Group in ESG aspects during the period from 1 January 2019 to 31 December 2019 (the "Reporting Period" or the "Year").

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

ESG Aspects	**Issues**
Environmental	– Emissions – Use of Resources – The Environment and Natural Resources
Social	
Employment and Labour Practices	– Employment – Health and Safety – Development and Training – Labour Standards
Operating Practices	– Supply Chain Management – Product Responsibility – Anti-corruption
Community Investment	– Social Responsibility

For details of corporate governance, please refer to the "Corporate Governance Report" as set out on pages 13 to 25 of the Annual Report 2019.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group is committed to maintaining a sustainable development of its business as well as supporting environmental protection and the communities where it operates. The Company is an investment holding company. Its subsidiaries are principally engaged in (i) provision of data analysis and storage services; (ii) distribution of mobile gaming; and (iii) trading of lottery terminals and parts and the provision of lottery-related technologies, systems and solutions to two state-run lottery operators in the People's Republic of China (the "PRC").

In the Year, the Group has established big data centre services and has been actively expanding this segment to explore business opportunities. The Group constructed two big data centres in Sichuan, the PRC. The big data centres provide the premises, hardware support, power supply and ancillary supervision and management services to clients.

This report will focus on the environmental and social aspects of the office in Hong Kong and the office and big data centres located in Sichuan, the PRC.

STAKEHOLDER ENGAGEMENT

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

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

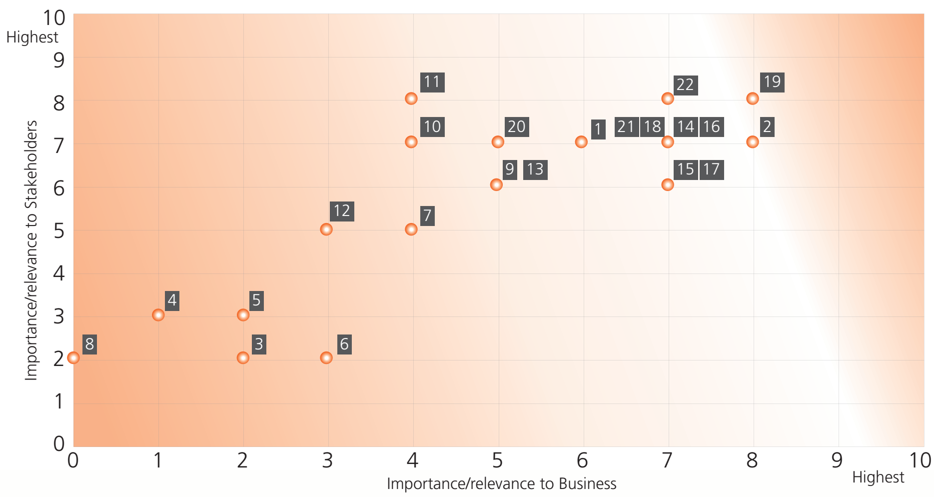
Stakeholders	Probable Points of Concern	Communication and Response
The Stock Exchange	• Compliance with GEM Listing Rules • Timely and accurate announcements	• Meetings, training, workshops and programs • Website updates and announcements
Government	• Compliance with laws and regulations • Preventing tax evasion	• Interaction and visits and compliance operation • Tax returns and other information
Suppliers	• Payment schedule • Business ethics and credibility • Supply stability	• Fulfillment of payment obligation • Performing contracts in accordance with the law • Site investigation

Stakeholders	Probable Points of Concern	Communication and Response
Investors and shareholders	• Corporate governance	• Optimising internal control and risk management
	• Business strategies	• Organising and participating in seminars, interviews and shareholders' meetings
	• Performance and investment returns	• Issuance of financial reports or operation reports for investors and analysts
Media and Public	• Corporate governance	• Issuance of newsletters on the Company's website
	• Environmental protection	• Using environmental protection and energy saving equipment
	• Human rights	• Providing equal employment opportunities
Customers	• Service quality, service delivery schedule, reasonable prices and service value	• Quality products and services
	• Customer information security	• Personal data protection
Employees	• Rights and benefits of employees	• Conducting union activities
	• Training and development	• Training, interviews with employees and internal memos
	• Compensation, work hours, and working environment	• Setting up employee suggestion boxes
	• Occupational health and safety	• Conducting regular occupational health and safety training to increase staff awareness
Community	• Community environment	• Developing community activities
	• Employment opportunities	• Providing employment opportunities
	• Community development, and social welfare	• Employee voluntary activities and community welfare subsidies and donations

MATERIALITY ASSESSMENT

In the Year, the Company undertook its annual materiality assessment exercise, which includes conducting interviews and/or surveys with internal and external stakeholders to identify the most significant operating, environmental and social impacts towards its business.

Materiality matrix for Environmental, Social and Governance Aspects



Environmental	Social	Operating practices
1. Greenhouse gas emissions	9. Local community engagement	17. Economic value generated
2. Energy consumption	10. Community investment	18. Corporate governance
3. Water consumption	11. Occupational health and safety	19. Anti-corruption
4. Waste	12. Labour standards in supply chain	20. Supply chain management
5. Saving energy measures	13. Training and development	21. Customer satisfaction
6. Use of raw materials and packaging materials	14. Employee welfare	22. Customer privacy
7. Utilisation of energy resources	15. Inclusion and equal opportunities	
8. Use of chemicals	16. Talent attraction and retention	

ENVIRONMENTAL

The Group understands that the greenhouse gases, sewage, solid wastes and other pollutants generated in its daily operation cause damage to the environment and it is the responsibility of all corporations to ensure that emission of pollutants and consumption of resources are minimised and carbon footprints are produced. For such purpose, the Group has identified the following goals to reduce consumption of resources:

Goals

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

A1 Emissions

During the Reporting Period, the Group constructed two big data centres in Sichuan, the PRC, with an aggregate gross floor area of 6,760 square metres. As an operator of the big data centres, the Group provides storage places, hardware support, power supply, ancillary supervision and management services to customers.

Electricity consumed by the big data centres, fuels consumed by motor vehicles and air conditioners in offices are the main sources of nitrogen oxides ("NO_X"), sulphur oxides ("SO_X") and particulate matter ("PM") and greenhouse gas ("GHG") emissions.

The Group recognises that the use of electricity contributes to the emission of air pollutants and greenhouse gas. Since the operation of big data centres requires consumption of enormous amount of energy and electricity, the Group has taken conscious efforts to select operating location. The Group has developed location strategy to build the big data centres near hydroelectric plants where it can utilise renewable energy sources. In addition, energy efficient fans and wet curtain paper in the data centres as cooling facilities to maintain the centres at an ideal temperature in order to prevent the data processors and network technology equipment from overheating.

The Group owns 8 motor vehicles which are strictly used for transporting management team members, guests and clients and business activities. Most of the vehicles are running on unleaded automotive fuel, which is, in comparison to other fuels, cleaner and emitting less pollutant into the air. All vehicles are under regular maintenance check to enhance fuel consumption efficiency, ensure road safety and keep carbon dioxide emission at a minimum.

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

The key environmental performance indicators of the Group's emissions in the Year are shown in the table below:

Environmental Indicators	Unit	2019	2018
Emissions			
Nitrogen oxides (NO_X) emissions	Kg	9.26	2.65
Sulphur oxides (SO_X) emissions	Kg	0.22	0.15
Particulate matter (PM) emissions	Kg	0.68	0.20
Greenhouse gas Emissions			
Direct emissions from use of motor vehicles	Kilogram of Carbon dioxide equivalent ("Kg of CO_{2e}")	40,214	28,197
Indirect emissions from electricity consumption	Kg of CO_{2e}	328,419,905 (Note 1)	19,732 (Note 2)
Other indirect emissions from water consumption and disposal of paper waste at landfills	Kg of CO_{2e}	3,611	N/A
Total GHG emissions	Kg of CO_{2e}	328,463,730 (Note 1)	47,929 (Note 2)
Floor area	Square meter ("M^2")	7,720 (Note 3)	559 (Note 4)
GHG emissions intensity	Kg of CO_{2e}/M^2	42,547	86 (Note 5)

Note 1: The significant increase in indirect emissions from electricity consumption as compare with last year due to the Group's core business in the Year has been changed to provision of big data centre services which requires substantial consumption of electricity.

Note 2: The figure is restated.

Note 3: The total floor area in 2019 includes the floor areas of Hong Kong office, Sichuan office, the 2 big data centres and an apartment in Sichuan, the PRC.

Note 4: The floor area in 2018 only includes Hong Kong office.

Note 5: The figure is restated as the intensity basis used for the calculation of GHG emissions intensity is changed in order to be in line with the calculation of the figure in the Year. GHG emissions intensity comprises total GHG emissions over total floor area which is considered to be a more appropriate intensity basis to reflect the Group's new core business in the Year.

No hazardous waste is generated in the operations of the offices and big data centres. Non-hazardous waste produced from the operations of the Group is mainly comprised of general office consumables and obsolete electronic equipment and parts, which are considered as minimal.

Environmental Indicators	Unit	2019	2018
Waste			
Non-hazardous wastes produced in total	Kg	N/A	N/A
Intensity of non-hazardous wastes produced per square meter of floor area	Kg/M^2	N/A	N/A
Hazardous wastes produced in total	Kg	N/A	N/A
Intensity of hazardous wastes produced per square meter of floor area	Kg/M^2	N/A	N/A

Solid waste of the Group is mainly produced in the daily business operation, including defective or obsolete electric cords and cables and processor unit cooling fans, daily paper consumption, office paper waste and food waste made by employees. All domestic waste is collected and disposed by the property management office of the office buildings on a regular basis.

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

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

During the Reporting Period, the Group complied with national and local laws and regulations relating to environmental protection and pollutant emissions during its course of operation, including but not limited to, Air Pollution Control Ordinance (Cap. 311) and Waste Disposal Ordinance (Cap. 354) in Hong Kong and the Environmental Protection Law of the PRC. The Group was not aware of any material non-compliance with the relevant laws and regulations that have a significant impact relating to air and greenhouse gas emissions, discharges into water and land, generation of hazardous and non-hazardous waste. In addition, there was no fine or non-monetary sanction for non-compliance with relevant laws and regulations had been reported in the Year.

A2 Use of Resources

The Group acknowledges that its business activities have impact to the environment. The Group strives to achieve efficient utilization of resources and attaches great importance to employees' environmental awareness, and thus has put forth a number of initiatives with the goal of "green office", educating employees about how to fully utilise the resources and save energy. The Group aims at maximising the efficiency of its resources in commercial aspect while eliminating waste and contributing to the society in social aspect.

The Group also embraces its responsibility in environmental protection throughout the course of daily business operation and office administration. Apart from adhering to the principle of recycling and reducing use, the Group is committed to creating green offices to minimise the impact on the environment.

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

- Electricity consumed by big data centres is generated from renewable energy source;
- Installing environmental protection and energy-saving equipment such as evaporative cooling pads in big data centres in order to reduce the electricity consumption;
- Adopting double-sided printing and promoting use of recycled paper;
- Widespread adoption of multi-function photocopiers (with printing, scanning and fax functions);
- Switching off unused lights and electric appliances to reduce energy consumption;
- Keeping the room temperature at a comfortable level and switching off the air conditioners when not necessary;
- Requiring employees to turn their computers and other devices to the sleep mode or switch them off when leaving the office; and
- Conducting regular maintenance for office equipment (such as air conditioners, computers, lights, refrigerators and paper shredders) to ensure normal operation.

The Group has installed energy efficient fans and wet curtain paper in the big data centres as cooling facilities to maintain the centres at an ideal temperature. The wet curtain paper utilise the natural water aiming to achieve energy saving.

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

The major use of resources of the Group is electricity consumption for offices and big data centres. The below table shows the key environmental performance indicators regarding the Group's use of resources during the Year are shown in the table below:

Environmental Indicators	Unit	2019	2018
Use of resources			
Electricity consumption in total	kWh	541,670,099 (Note 1)	24,664
Electricity consumption intensity (per square meter of floor area)	kWh/M^2	70,165 (Note 1)	45
Water consumption in total	Cubic metre ("M^3")	566 (Note 1)	N/A
Water consumption intensity (per square meter of floor area)	M^3/M^2	0.07	N/A
Packaging materials used for finished products	Kg	N/A (Note 2)	N/A (Note 2)
Packaging materials consumption intensity	Kg/unit produced	N/A	N/A

Note 1: The significant increase in electricity consumption as compare with last year due to the Group's core business in the Year has been changed to provision of big data centre services which requires substantial consumption of electricity. Water consumption has also increased accordingly.

Note 2: No packaging material is consumed by the Group.

During the Reporting Period, the Group adopted a series of initiatives for efficient energy use and energy conservation. Details of such measures and the related results achieved are listed as follows:

Energy saving measures	Details and results achieved
Installation of evaporative cooling pad	The Group has installed wet curtain paper in the big data centres as cooling facilities to maintain the centres at an ideal temperature to reduce energy consumption.
Water conservation	The evaporative cooling pad installed in big data centres using same natural water which can reduce electricity consumption for processing water.

A3 The Environment and Natural Resources

The Group aims to conserve natural resources and is concerned with the environmental impact of its activities. As an ongoing commitment to good corporate citizenship, the Group recognises the responsibility in minimising the negative environmental impact of its business operations and its investment portfolio, in order to achieve a sustainable development for generating long-term values to its stakeholders and community as a whole.

The Group encourages all employees to participate in different kinds of recycling activities and minimizing the use of natural resources. The Group regularly assesses the environmental risks of its business, review the environmental practices and adopt preventive measures as necessary to reduce the risks, and ensure the compliance with relevant laws and regulations.

SOCIAL

EMPLOYMENT AND LABOUR PRACTICES

B1 Employment

Human Resources Practices

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

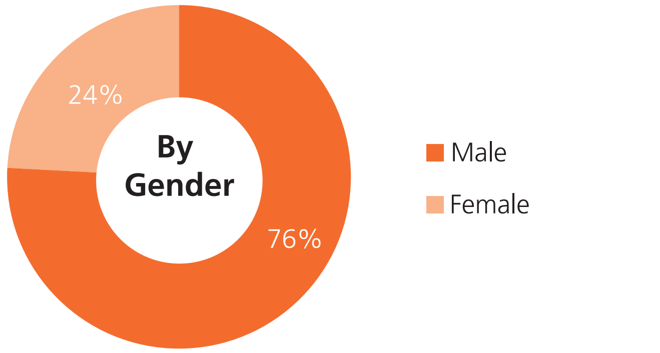
The Group offers competitive remuneration packages to its employees, with discretionary bonuses issued based on individual performance and its business performance. A wide range of benefits including comprehensive medical and life insurance and retirement schemes are also provided to employees.

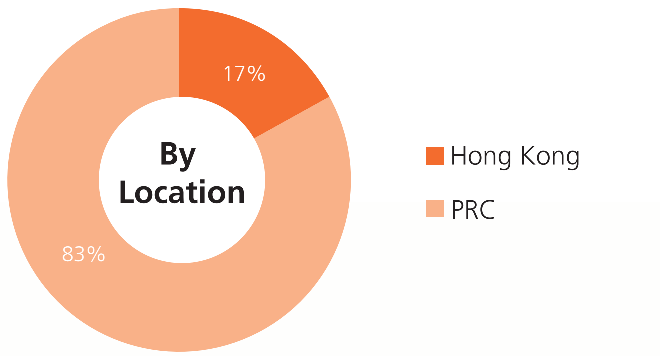
Equal Opportunity

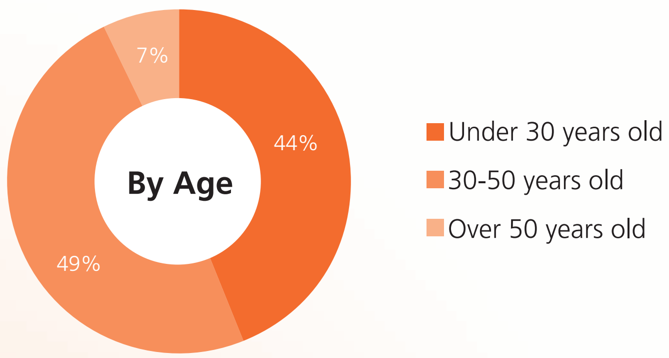
The Company respects cultural and individual diversity. It believes that no one should be treated less favourably on his/her personal characteristics (i.e. gender, pregnancy, marital status, disability, family status, race, etc.). Opportunities for employment, training and career development are equally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

Employee Structure

As at 31 December 2019, the Group had a total of 90 employees (As at 31 December 2018: 27 employees). The distribution of workforce classified by different catalogues is as follows:







During the Reporting Period, the Group has strictly complied with all applicable laws and regulations of labour practices, including but not limited to the (i) Employment Ordinance (Cap. 57); (ii) Minimum Wage Ordinance (Cap. 608); (iii) Employees' Compensation Ordinance (Cap. 282); (iv) Labour Law of the PRC; and (v) Law of the PRC on Employment Contracts. In addition, there was no report of heavy fines or sanctions as the result of non-compliance with relevant laws and regulations.

B2 Health and Safety

The Group is committed to providing and maintaining a safe, healthy, and hygienic workplace for all employees. To foster and maintain a good, comfortable and healthy working environment, the Group has implemented a series of policies:

- Provide tailored-made safety training to the staff in carrying out the electrical works and machines;
- Provide and ensure the use of appropriate tools and personal protective equipment such as safety helmets to enable them to perform their task safely;
- Post safety procedures/signs and operation instructions in the office(s) and big data centre sites;
- Exercise adequate monitoring and effective supervision to ensure that the safety precautionary measures are strictly implemented;
- Maintain obstruction-free emergency exits in the workplace;
- Provide sufficient light at the workplace;
- Provide a workplace with moderate temperature; and
- Conduct regular safety inspection and training of fire prevention.

In order to manage environmental and social risks of the operation at big data centre sites, the Group has implemented Safety Policy & Procedures《安全制度及流程》covering the areas including (i) operation and working safely; (ii) reporting incidents that have led or may led to damage or injury; and (iii) health and safety education and training policies.

The Company installed protective screens on monitors to reduce eye damage that may be caused by computer screens. Employees also constantly reminds each other to maintain appropriate viewing distance between their eyes and computer screens, maintain good posture when working and do stretching exercises during rest breaks.

The Group has installed closed-circuit televisions (the "CCTV") at the big data centres. All these security systems and CCTV are controlled by the security team worked at the big data centre sites.

The Group strictly regulates the operation of its business to ensure the compliance with local laws and regulations relating to health and safety during the course of operation. During the Reporting Period, no serious work injury incidents and none of work-related fatalities occurred in the Group. The Group was not aware of any material non-compliance with the relevant laws and regulations of Hong Kong and the PRC including but not limited to Occupational Safety and Health Ordinance of Hong Kong (Cap.509) and Work-Related Injury Insurance Regulation of the PRC that have a significant impact on the Group relating to providing a safe working environment and protecting employees from occupational hazards of the Group in the Year.

No non-compliance with law that resulted in significant fines or sanctions had been reported in the Year.

B3 Development and Training

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

B4 Labour Standards

The Group strictly abides by the labour laws in PRC and Hong Kong, including the Labour Law of the PRC, the Labour Contract Law of the PRC, Employment Ordinance of Hong Kong, and other related labour laws and regulations in PRC and Hong Kong. To combat against illegal employment of child labour, underage workers and forced labour, the human resources department is responsible for recruitment requires the job applicants to provide valid identity documents prior to confirmation of employment, to ensure that all applicants are lawfully employable. The human resources department is responsible for monitoring and ensuring the compliance of the relevant laws and regulations including those that prohibit child labour and forced labour.

During the Reporting Period, the Group was not aware of any material non-compliance with the relevant laws and regulations including but not limited to the (i) Labour Law of the PRC; (ii) Law of the PRC on Employment Contracts; (iii) the Law of the PRC on the Protection of Minors; (iv) the Provisions on the Prohibition of Using Child Labour; (v) Employment Ordinance (Hong Kong); and (vi) Employment of Children Regulations (Hong Kong) that preventing from employment of child or forced labour by the Group. In addition, there was no fine or non-monetary sanction for non-compliance with relevant laws and regulations had been reported in the Year.

OPERATING PRACTICES

B5 Supply Chain Management

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

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

In the Year, the major suppliers for operations of big data centres are supply of electricity, electronic and IT equipment. The Group has signed agreements with its electricity suppliers which are mainly the local subsidiaries of the state-owned enterprise in stringent compliance with contractual requirements and applicable laws including Electric Power Law of the PRC and Regulations on Supply and Use of Electric Power. In order to ensure full-load operation of the big data centres, the Group maintains regular communication with local utility service providers in respect of resources allocation and application for increase or decrease in utility supply.

During the Reporting Period, the Group was not aware that any key suppliers had any significant actual and potential negative impact on business ethics, environmental protection, human rights and labour practices, nor any of them had any non-compliance incident in respect of human rights issues.

B6 Product Responsibility

The Group is principally engaged in distribution of mobile gaming and the provision of data analysis and storage services. The provision of data analysis and storage services covering a full range from monitoring the average utilisation rate and working status of data processors to supervising the overall safety and security of both physical environment and internet connection in the big data centres. The Group adheres to the highest standards of business ethics, while policies to assure that products and services responsibility are securely in place. These ethics underpin how the Group conducts business with its customers. Each customer is provided with a monthly report on operation results of its data processors. In the event of any unusual condition reported on the data processors, the relevant customer will receive an immediate notification and follow-up inspection and maintenance services upon request. The Group's comprehensive management software for the operation of big data centres enables its customers to remotely monitor their data processors and obtain real-time information on the average computing capacity and utilization and operating time of their data processors.

The safety and quality of the products and services are the Group's primary strategic objective. The Group consistently reassesses the relevance of, and continually refines, its standards throughout the entire services and supply chain.

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

During the Reporting Period, the Group was not aware of any material non-compliance of laws and regulations that have a significant impact relating to the quality, health and safety and privacy matters relating to products and services provided. No significant fines had been reported in the Year.

B7 Anti-corruption

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

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

The Group is not aware of any material non-compliance with the Anti-Unfair Competition Law of the PRC, Prevention of Bribery Ordinance of Hong Kong and other applicable laws and regulations that has a significant impact relating to bribery, extortion, fraud and money laundering in the Year. In addition, there was no report of heavy fines or sanctions as the result of non-compliance with relevant laws and regulations.

B8 Community Investment

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

During the Reporting Period, the Group made a donation of HK$1 million to support the development fund as to the Asia Global Institute of the University of Hong Kong which carries out researches directly relevant to business decisions, business strategy and global issues from Asian perspectives aiming to inform global policy and actions towards a prosperous and sustainable future for all.

INDEPENDENT AUDITOR'S REPORT

中汇 ZHONGHUI

TO THE SHAREHOLDERS OF LOTO INTERACTIVE LIMITED

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Loto Interactive Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 60 to 143, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 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 (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Property, plant and equipment

Refer to Note 15 to the consolidated financial statements.

The Group tested the amount of property, plant and equipment for impairment. This impairment test is significant to our audit because the balance of property, plant and equipment of approximately HK$164,520,000 as at 31 December 2019 is material to the consolidated financial statements. In addition, the Group's impairment test involves application of judgement and is based on assumptions and estimates.

Our audit procedures included, among others:

- Assessing the identification of the related cash generating units;
- Assessing the arithmetical accuracy of the value-in-use calculations;
- Assessing the reasonableness of the key assumptions (including revenue growth, profit margins, and discount rates); and
- Checking input data to supporting evidence.

We consider that the Group's impairment test for property, plant and equipment is supported by the available evidence.

Loan receivables

Refer to Note 23 to the consolidated financial statements.

The Group tested the amount of loan receivables for impairment. This impairment test is significant to our audit because the balance of loan receivables of approximately HK$60,881,000 as at 31 December 2019 is material to the consolidated financial statements. In addition, the Group's impairment test involves application of judgement and is based on estimates.

Our audit procedures included, among others:

- Assessing the Group's relationship and transaction history with the borrower;
- Evaluating the Group's impairment assessment;
- Assessing ageing of the debts;
- Checking subsequent settlements from the borrowers; and
- Assessing the disclosure of the Group's exposure to credit risk in the consolidated financial statements.

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

Goodwill

Refer to Note 17 to the consolidated financial statements.

The Group is required to annually test the amount of goodwill for impairment. This annual impairment test is significant to our audit because the balance of goodwill of approximately HK$10,996,000 as at 31 December 2019 is material to the consolidated financial statements. In addition, the Group's impairment test involves application of judgement and is based on assumptions and estimates.

Our audit procedures included, among others:

– Assessing the identification of the related cash generating units;

– Assessing the arithmetical accuracy of the value-in-use calculations;

– Assessing the reasonableness of the key assumptions (including revenue growth, profit margins, terminal growth rates and discount rates); and

– Checking input data to supporting evidence.

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

Trade receivables

Refer to Note 25 to the consolidated financial statements.

The Group tested the amount of trade receivables for impairment. This impairment test is significant to our audit because the balance of trade receivables of approximately HK$19,949,000 as at 31 December 2019 is material to the consolidated financial statements. In addition, the Group's impairment test involves application of judgement and is based on estimates.

Our audit procedures included, among others:

– Assessing the Group's procedures on granting credit limits and credit periods to customers;

– Assessing the Group's relationship and transaction history with the customers;

– Evaluating the Group's impairment assessment;

– Assessing ageing of the debts;

– Assessing creditworthiness of the customers;

– Checking subsequent settlements from the customers; and

– Assessing the disclosure of the Group's exposure to credit risk in the consolidated financial statements.

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

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises all the information in the Company's annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

A further description of our responsibilities for the audit of the consolidated financial statements is located at the HKICPA's website at:

http://www.hkicpa.org.hk/en/standards-and-regulations/standards/auditing-assurance/auditre/

This description forms part of our auditor's report.

ZHONGHUI ANDA CPA Limited
Certified Public Accountants
Wan Ho Yuen
Audit Engagement Director
Practising Certificate Number P04309

Hong Kong, 20 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
REVENUE	7	**64,556**	6,034
Cost of sales and service rendered		**(51,237)**	(5,312)
Gross profit		**13,319**	722
Interest income		**8,045**	9,665
Other income and gains	8	**4,705**	1,262
Selling expenses		**(1,098)**	(1,786)
Administrative expenses		**(46,819)**	(43,329)
Other expenses		**(2,344)**	(617)
Share of losses of associates		**(9,415)**	(698)
Finance costs	9	**(1,269)**	–
LOSS BEFORE TAX		**(34,876)**	(34,781)
Income tax credit	11	**105**	–
LOSS FOR THE YEAR	12	**(34,771)**	(34,781)
OTHER COMPREHENSIVE INCOME			
Other comprehensive (loss)/income for the year, net of tax:			
Items that will not be reclassified to profit or loss:			
Fair value changes of equity investments at fair value through other comprehensive income		**(12,696)**	126
		(12,696)	126
Items that may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations		**1,572**	(1,986)
		1,572	(1,986)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX		**(11,124)**	(1,860)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(45,895)**	(36,641)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
LOSS FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Company		**(33,618)**	(34,087)
Non-controlling interests		**(1,153)**	(694)
		(34,771)	(34,781)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Company		**(44,678)**	(36,323)
Non-controlling interests		**(1,217)**	(318)
		(45,895)	(36,641)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY (HK$ cents)	14		
– Basic and diluted		**(1,066)**	(1.084)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**164,520**	6,486
Right-of-use assets	16	**4,537**	–
Goodwill	17	**10,996**	–
Intangible assets	18	**5,655**	–
Investments in associates	20	**3,384**	12,959
Investment in a joint venture	21	**–**	–
Equity investments at fair value through other comprehensive income	22	**5,140**	10,126
		194,232	29,571
CURRENT ASSETS			
Loan receivables	23	**60,881**	94,221
Structured notes	24	**–**	50,371
Trade receivables	25	**19,949**	9,273
Prepayments, deposits and other receivables	26	**41,823**	8,283
Cash and cash equivalents	27	**95,030**	198,221
		217,683	360,369
CURRENT LIABILITIES			
Trade payables	28	**24,300**	7,557
Accruals and other payables	29	**24,720**	7,914
Lease liabilities	30	**3,747**	–
Amount due to the holding company	31	**1**	39
Amount due to a related company	32	**11,380**	–
Tax payable		**3,297**	3,278
		67,445	18,788
NET CURRENT ASSETS		**150,238**	341,581
TOTAL ASSETS LESS CURRENT LIABILITIES		**344,470**	371,152
NON-CURRENT LIABILITIES			
Lease liabilities	30	**692**	–
Deferred tax liabilities	33	**1,031**	–
		1,723	–
NET ASSETS		**342,747**	371,152

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
EQUITY			
Equity attributable to owners of the Company			
Share capital	34	**31,586**	31,459
Reserves	35	**298,285**	333,414
		329,871	364,873
Non-controlling interests		**12,876**	6,279
TOTAL EQUITY		**342,747**	371,152

The consolidated financial statements on pages 60 to 143 were approved and authorised for issue by the board of directors on 20 March 2020 and are signed on its behalf by:

Approved by:

Wang Bingzhong
Director

Huang Lilan
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Attributable to owners of the Company									
	Issued capital HK$'000	Share premium# HK$'000	Share-based payment reserve# HK$'000	Other reserve*# HK$'000	Exchange reserve# HK$'000	Equity investment revaluation reserve# HK$'000	(Accumulated losses)/ retained earnings# HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2018	31,459	327,928	–	(5,255)	4,418	–	29,854	388,404	6,597	395,001
Loss for the year	–	–	–	–	–	–	(34,087)	(34,087)	(694)	(34,781)
Other comprehensive loss for the year	–	–	–	–	(2,362)	126	–	(2,236)	376	(1,860)
Total comprehensive loss for the year	–	–	–	–	(2,362)	126	(34,087)	(36,323)	(318)	(36,641)
Equity-settled share-based payment expense	–	–	12,792	–	–	–	–	12,792	–	12,792
Lapsed of share option scheme	–	–	(194)	–	–	–	194	–	–	–
At 31 December 2018	31,459	327,928	12,598	(5,255)	2,056	126	(4,039)	364,873	6,279	371,152
At 1 January 2019	**31,459**	**327,928**	**12,598**	**(5,255)**	**2,056**	**126**	**(4,039)**	**364,873**	**6,279**	**371,152**
Non-controlling interests arising from establishment of a new subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**7,814**	**7,814**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**(33,618)**	**(33,618)**	**(1,153)**	**(34,771)**
Other comprehensive loss for the year	**–**	**–**	**–**	**–**	**1,636**	**(12,696)**	**–**	**(11,060)**	**(64)**	**(11,124)**
Total comprehensive loss for the year	**–**	**–**	**–**	**–**	**1,636**	**(12,696)**	**(33,618)**	**(44,678)**	**(1,217)**	**(45,895)**
Issue of ordinary shares upon exercise of share options	**127**	**1,266**	**–**	**–**	**–**	**–**	**–**	**1,393**	**–**	**1,393**
Equity-settled share-based payment expense	**–**	**–**	**8,283**	**–**	**–**	**–**	**–**	**8,283**	**–**	**8,283**
At 31 December 2019	**31,586**	**329,194**	**20,881**	**(5,255)**	**3,692**	**(12,570)**	**(37,657)**	**329,871**	**12,876**	**342,747**

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	2019 HK$'000	2018 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	**(34,876)**	(34,781)
Adjustments for:		
Equity-settled share-based payment expense	**8,283**	12,792
Depreciation	**14,357**	2,078
Amortisation of intangible assets	**1,063**	–
Depreciation of right-of-use assets	**4,838**	–
Share of losses of associates	**9,415**	698
Interest income	**(8,045)**	(9,665)
Finance costs	**1,269**	–
Loss on disposal of items of property, plant and equipment	**19**	53
Gain on deregistration of a subsidiary	**–**	(1,034)
Exchange difference, net	**(1,098)**	317
Operating cash flows before working capital changes	**(4,775)**	(29,542)
Change in trade receivables	**12,511**	10,425
Change in prepayments, deposits and other receivables	**(15,294)**	(2,999)
Change in trade payables	**(20,442)**	(10,598)
Change in accruals and other payables	**16,161**	(5,883)
Cash used in operating activities	**(11,839)**	(38,597)
Income taxes paid	**(203)**	(191)
Lease interest paid	**(323)**	–
Net cash flows used in operating activities	**(12,365)**	(38,788)
CASH FLOWS FROM INVESTING ACTIVITIES		
Withdrawal of structured notes	**50,371**	50,116
Purchase of property, plant and equipment	**(176,131)**	(6,582)
Proceeds from disposal of items of property, plant and equipment	**948**	8
Purchase of intangible assets	**(2,125)**	–
Purchase of equity investments at fair value through other comprehensive income	**(7,710)**	(10,000)
Acquisition of subsidiaries	**(11,646)**	–
Acquisition of associates	**–**	(11,374)
Interest received	**4,859**	9,373
Repayment from loan receivables	**44,503**	–
Grant of loan receivables	**(11,163)**	–
Net cash flows (used in)/generated from investing activities	**(108,094)**	31,541

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	2019 HK$'000	2018 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment to holding company	**(38)**	(1,408)
Advance from a related company	**11,380**	–
Repayment of lease liabilities	**(3,418)**	–
Contributions from non-controlling shareholders	**7,814**	–
Proceeds from exercise of share options	**1,393**	–
Interest paid	**(946)**	–
Net cash flows generated from/(used in) financing activities	**16,185**	(1,408)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(104,274)**	(8,655)
Cash and cash equivalents at beginning of year	**198,221**	208,138
Net foreign exchange difference	**1,083**	(1,262)
Cash and cash equivalents at end of year	**95,030**	198,221
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**95,030**	198,221

1. GENERAL INFORMATION

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

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 19 to the consolidated financial statements.

In the opinion of the directors of the Company, as at 31 December 2019, the substantial shareholder of the Company is 500.com Limited (the "Holding Company"), which is incorporated in the Cayman Islands and listed in the New York Stock Exchange (stock code: WBAI).

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

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for its accounting year beginning on 1 January 2019. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting policies and amounts reported for the current year and prior years except as stated below.

Except for HKFRS 16, Leases, none of the developments have had a material effect on how the Group's results and financial position for the current or prior years have been prepared or presented in this financial report. The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Directors of the Company anticipate that the application of the other new or revised standards, amendments or interpretations will have no material impact on the consolidated financial statements.

HKFRS 16 "Leases"

The group has initially applied HKFRS 16 from 1 January 2019. The group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HKFRS 16 "Leases" *(continued)*

Further details of the nature and effect of the changes to previous accounting policies and the impacts on transition are set out below:

(a) Changes in the accounting policies

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain re-measurements of the lease liability. The group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019.

At the date of transition to HKFRS 16, the group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 5.4%.

As a lessee, the Group's leases are mainly rentals of offices. The right-of-use assets were measured at the amount equal to the lease liability and there were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application. The adjustments recognized are as follows:

	HK$'000
At 1 January 2019:	
Increase in right-of-use assets	7,857
Increase in lease liabilities	7,857

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HKFRS 16 "Leases" *(continued)*

(b) Impacts on transition

On transition to HKFRS 16, the Group recognised additional right-of-use assets and additional lease liabilities. The reconciliation of operating lease commitment to lease liabilities is set out below:

	HK$'000
Operating lease commitments at 31 December 2018	18,695
Less: commitment relating to a lease agreement jointly signed by the Group and a substantial shareholder and shared by the substantial shareholder	(9,348)
Less: commitments relating to leases exempt from capitalisation:	
– short-term leases and other leases with remaining lease term ending on or before 31 December 2019	(1,143)
Gross operating lease obligations at 1 January 2019	8,204
Discounting	(347)
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019	7,857

3. SIGNIFICANT ACCOUNTING POLICIES

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

HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations.

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

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

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

(a) Consolidation

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(a) Consolidation *(continued)*

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

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

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

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

(b) Business combination and goodwill

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The cost of acquisition is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and contingent consideration. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Identifiable assets and liabilities of the subsidiary in the acquisition are measured at their acquisition-date fair values.

The excess of the cost of acquisition over the Company's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss as a gain on bargain purchase which is attributed to the Company.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Business combination and goodwill *(continued)*

In a business combination achieved in stages, the previously held equity interest in the subsidiary is remeasured at its acquisition-date fair value and the resulting gain or loss is recognised in consolidated profit or loss. The fair value is added to the cost of acquisition to calculate the goodwill.

If the changes in the value of the previously held equity interest in the subsidiary were recognised in other comprehensive income (for example, equity investments at fair value through other comprehensive income), the amount that was recognised in other comprehensive income is recognised on the same basis as would be required if the previously held equity interest were disposed of.

Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is measured at cost less accumulated impairment losses. The method of measuring impairment losses of goodwill is the same as that of other assets as stated in the accounting policy (all) below. Impairment losses of goodwill are recognised in consolidated profit or loss and are not subsequently reversed. Goodwill is allocated to cash-generating units that are expected to benefit from the synergies of the acquisition for the purpose of impairment testing.

The non-controlling interests in the subsidiary are initially measured at the non-controlling shareholders' proportionate share of the net fair value of the subsidiary's identifiable assets and liabilities at the acquisition date.

(c) Associates

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Associates *(continued)*

The Group's share of an associate's post-acquisition profits or losses is recognised in consolidated profit or loss, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

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

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

(d) Foreign currency translation

(i) Functional and presentation currency

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Foreign currency translation *(continued)*

(iii) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

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

– Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

– All resulting exchange differences are recognised in the foreign currency translation reserve.

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

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(e) Property, plant and equipment

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Property, plant and equipment *(continued)*

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

Leasehold improvement	40% – 45%
Machinery and equipment	20% – 33.33%
Furniture, fixtures and equipment	25% – 33.33%
Motor vehicles	10% – 20%

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

Construction in progress represents plant and machinery pending installation, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

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

(f) Leases

The Group as lessee

Leases are recognised as right-of-use assets and corresponding lease liabilities when the leased assets are available for use by the Group. Right-of-use assets are stated at cost less accumulated depreciation and impairment losses. Depreciation of right-of-use assets is calculated at rates to write off their cost over the shorter of the asset's useful life and the lease term on a straight-line basis. The principal annual rates are as follows:

Land use rights	50%
Land and buildings	33.33% – 58.53%

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Leases *(continued)*

The Group as lessee (continued)

Right-of-use assets are measured at cost comprising the amount of the initial measurement of the lease liabilities, lease payments prepaid, initial direct costs and the restoration costs. Lease liabilities include the net present value of the lease payments discounted using the interest rate implicit in the lease if that rate can be determined, or otherwise the Group's incremental borrowing rate. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the lease liability.

Payments associated with short-term leases and leases of low-value assets are recognised as expenses in profit or loss on a straight-line basis over the lease terms. Short-term leases are leases with an initial lease term of 12 months or less. Low-value assets are assets of value below US$5,000.

(g) Recognition and derecognition of financial instruments

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Financial assets

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

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

– Financial assets at amortised cost; and

– Equity investments at fair value through other comprehensive income;

(i) Financial assets at amortised cost

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

– the assets are held within a business model whose objective is to hold assets in order to collect contractual cash; and

– the contractual terms of the assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Loss allowances for expected credit losses

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

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

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

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

(j) Cash and cash equivalents

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

(k) Financial liabilities and equity instruments

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

(l) Trade and other payables

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Equity instruments

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

(n) Revenue from contracts with customers

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

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

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

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

(o) Other revenue

Interest income is recognised using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Employee benefits

(i) Employee leave entitlements

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

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

(ii) Pension obligations

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

(iii) Termination benefits

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

(q) Share-based payments

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(r) Taxation

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Segment reporting

Operating segments and the amounts of each segment item reported in the financial statements are identified from the financial information provided regularly to the Group's most senior executive management for the purpose of allocating resources and assessing the performance of the Group's various lines of business.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of productions processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

(t) Related parties

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

(a) A person or a close member of that person's family is related to the Group if that person:

(i) has control or Joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Company or of a parent of the Company.

(b) An entity is related to the Group (reporting entity) if any of the following conditions applies:

(i) The entity and the Company are members of the same group (which means that each parent, subsidiaries and fellow subsidiaries is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) Related parties *(continued)*

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to a parent of the Company.

(u) Impairment of assets

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(v) Provisions and contingent liabilities

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

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

(w) Events after the reporting period

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

4. KEY ESTIMATES

Key sources of estimation uncertainty

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

(a) Impairment of property, plant and equipment

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount. The recoverable amount is determined with reference to the present value of estimated future cash flows. Where the future cash flows are less than expected or there are unfavourable events and change in facts and circumstance which result in revision of future estimate cash flows, a material impairment loss may arise.

4. KEY ESTIMATES *(continued)*

Key sources of estimation uncertainty *(continued)*

(b) Impairment of loan receivables

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

(c) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. The carrying amount of goodwill at the end of the reporting period was approximately HK$10,996,000 was recognised during 2019. Details of the impairment loss calculation are provided in note 17 to financial statements.

(d) Recoverability of associates

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

(e) Impairment loss for bad and doubtful debts

The Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade and other receivables, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed.

5. FINANCIAL RISK MANAGEMENT

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

(a) Foreign currency risk

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

(b) Credit risk

At 31 December 2019, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to the perform an obligation by the counterparties arise from the carrying amounts of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise credit risk, the directors have delegated a team to be responsible for the determination of credit limits, credit approvals and other monitoring procedures. In addition, the directors review the recoverable amount of each individual trade debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, the directors consider that the Group's credit risk is significantly reduced.

The Group has concentration of credit risk as 89.5% (2018: 82.0%) of the Group's trade receivables are due from the Group's one (2018: two) customers which operate in the PRC. The principal activities of the Group are mainly provision of big data centre services and use of storage places. In respect of these customers, given their good repayment history, the directors of the Company consider that the credit risk associated with the balances of the customers is low.

5. FINANCIAL RISK MANAGEMENT *(continued)*

(b) Credit risk *(continued)*

The Group also has concentration of credit risk as 82% (2018: 100%) of the Group's loan receivable is a loan granted to an independent third party which is secured by a personal guarantee and a collateral of 95% of the entire equity interests in another company. In view of the fair value of the collateral exceeds the principal amount of the loan, the directors of the Company consider that the credit risk associated with the balance of loan receivable is low.

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

– internal credit rating;

– actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations; and

– significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers.

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

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

5. FINANCIAL RISK MANAGEMENT *(continued)*

(b) Credit risk *(continued)*

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

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

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

(c) Liquidity risk

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

The maturity analysis, based on undiscounted cash flows, of the Group's financial liabilities is as follows:

	Less than 1 year HK$'000	Total HK$'000
At 31 December 2019		
Trade payables	24,300	24,300
Accruals and other payables	24,720	24,720
Amount due to the holding company	1	1
Amount due to a related company	11,380	11,380
	60,401	60,401

5. FINANCIAL RISK MANAGEMENT *(continued)*

(c) Liquidity risk *(continued)*

	Less than 1 year HK$'000	Total HK$'000
At 31 December 2018		
Trade payables	7,557	7,557
Accruals and other payables	7,914	7,914
Amount due to the holding company	39	39
	15,510	15,510

(d) Interest rate risk

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

(e) Price risk

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

At 31 December 2019, if the share prices of the investments increase/decrease by 10%, the equity investment revaluation reserve would have been approximately HK$514,000 (2018: HK$1,012,000) higher/lower, arising as a result of the fair value gain/loss of the investments.

5. FINANCIAL RISK MANAGEMENT *(continued)*

(f) Categories of financial instruments at 31 December 2019

	2019 HK$'000	2018 HK$'000
Financial assets:		
Equity investments at fair value through other comprehensive income	**5,140**	10,126
Financial assets at amortised cost:		
Loan receivables	**60,881**	94,221
Structured notes	**–**	50,371
Trade receivables	**19,949**	9,273
Financial assets included in prepayments, deposits and other receivables	**30,656**	5,958
Cash and cash equivalents	**95,030**	198,221
Total	**211,656**	368,170
Financial liabilities:		
Financial liabilities at amortised cost:		
Trade payables	**24,300**	7,557
Financial liabilities included in accruals and other payables	**24,720**	7,914
Amount due to the holding company	**1**	39
Amount due to a related company	**11,380**	–
Total	**60,401**	15,510

(g) Fair value

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

6. FAIR VALUE MEASUREMENTS

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

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

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

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

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

(a) Disclosures of level in fair value hierarchy at 31 December 2019:

Description	Fair value measurements using: Level 1 HK$'000	Fair value measurements using: Level 3 HK$'000	2019 Total HK$'000
Recurring fair value measurements:			
Equity investments at fair value through other comprehensive income			
Listed securities in US	5,140	–	5,140
Total recurring fair value measurements	5,140	–	5,140

6. FAIR VALUE MEASUREMENTS *(continued)*

(a) *(continued)*

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

Description	Fair value measurements using: Level 1 HK$'000	Fair value measurements using: Level 3 HK$'000	2018 Total HK$'000
Recurring fair value measurements:			
Equity investments at fair value through other comprehensive income			
Private equity investments	–	10,126	10,126
Total recurring fair value measurements	–	10,126	10,126

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

Description	**Equity investments at fair value through other comprehensive income** **Equity investments HK$'000**	**2019 Total HK$'000**
At 1 January	**10,126**	**10,126**
Total losses recognised in other comprehensive income	**(10,126)**	**(10,126)**
At 31 December	–	–

6. FAIR VALUE MEASUREMENTS *(continued)*

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

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

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

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 31 December 2019:

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

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

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

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

6. FAIR VALUE MEASUREMENTS *(continued)*

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 31 December 2019: *(continued)*

Level 3 fair value measurements

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

7. REVENUE AND OPERATING SEGMENT INFORMATION

(a) Reportable segments

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

The Group has three (2018: two) reportable segments. The segments are managed separately as each business segment offers different products and requires different business strategies. The following summary describes the operations in each of the Group's reportable segments:

– Trading of lottery terminals and parts and provision of services and solutions for the distribution of lottery products ("Lottery business")

– Distribution of mobile gaming ("Online game business")

– Provision of big data centre services ("Big data centre services")

The accounting policies of the operating segments are the same as those described in note 3 to the financial statements. Segment profits or losses do not include dividend income, and gains or losses from investments and derivative instruments. Segment assets do not include amounts due from related parties, investments and derivative instruments. Segment liabilities do not include convertible loans and derivative instruments. Segment non-current assets do not include financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts.

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

(a) Reportable segments *(continued)*

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

Year ended 31 December 2019	**Lottery business HK$'000**	**Online game business HK$'000**	**Big data centre services HK$'000**	**Total HK$'000**
Revenue from external customers	**111**	**2,020**	**62,425**	**64,556**
Segment (loss)/profit	**(2,593)**	**(1,571)**	**6,637**	**2,473**
Depreciation	**4**	**59**	**11,641**	**11,704**
Additions to segment non-current assets	**188**	**–**	**175,383**	**175,571**
As at 31 December 2019				
Segment assets	**4,216**	**673**	**286,668**	**291,557**
Segment liabilities	**(936)**	**(933)**	**(56,206)**	**(58,075)**

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

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

(a) Reportable segments *(continued)*

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

	2019 HK$'000	2018 HK$'000
Revenue		
Total revenue of reportable segments	**64,556**	6,034
Consolidated revenue	**64,556**	6,034
Profit or loss		
Total profit/(loss) of reportable segment	**2,473**	(12,387)
Other loss	**(2,913)**	(1,781)
Unallocated amounts:		
Share of losses of associates	**(9,415)**	(698)
Equity-settled share option expense	**(8,283)**	(12,792)
Salaries and other benefits	**(11,139)**	(7,123)
Depreciation charge of right-of-use assets	**(4,599)**	–
Donation	**(1,000)**	–
Consolidated loss before tax for the year	**(34,876)**	(34,781)
Assets		
Total assets of reportable segments	**291,557**	16,653
Other assets	**13,881**	9,413
Unallocated amounts:		
Right-of-use assets	**3,258**	–
Investments	**3,384**	12,959
Equity investments at fair value through other comprehensive income	**5,140**	10,126
Cash and cash equivalents	**44,977**	196,197
Loan receivables	**49,718**	94,221
Structured notes	**–**	50,371
Consolidated total assets	**411,915**	389,940
Liabilities		
Total liabilities of reportable segments	**(58,075)**	(4,622)
Other liabilities	**(2,136)**	(8,554)
Unallocated amounts:		
Amount due to a shareholder of a joint venture	**(2,334)**	(2,334)
Tax payable	**(3,278)**	(3,278)
Lease liability	**(3,345)**	–
Consolidated total liabilities	**(69,168)**	(18,788)

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

(b) Geographical information

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

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

	2019	2018
	HK$'000	HK$'000
Non-current assets, excluding financial assets		
The PRC	**182,255**	263
Hong Kong	**6,812**	6,197
British Virgin Island ("BVI")	**25**	26
	189,092	6,486

(c) Information about major customers

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

	2019	2018
	HK$'000	HK$'000
Customer A (Note 1)	**–**	5,059
Customer B (Note 2)	**21,250**	–
Customer C (Note 2)	**11,624**	–
Customer D (Note 2)	**7,889**	–
	40,763	5,059

Note 1: Revenue is generated from lottery business segment.

Note 2: Revenue is generated from big data centre services segment.

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

(d) Disaggregation of revenue from contracts with customers:

Segments

	Lottery business HK$'000	Online game business HK$'000	Big data centre services HK$'000	2019 Total HK$'000
Geographical markets				
The PRC	111	2,020	62,425	64,556
Major products/service				
Provision of services and solutions for the distribution of lottery products	111	–	–	111
Distribution of mobile gaming	–	2,020	–	2,020
Provision of big data centre services	–	–	62,425	62,425
	111	2,020	62,425	64,556
Timing of revenue recognition				
At a point in time	111	2,020	–	2,131
Over time	–	–	62,425	62,425
	111	2,020	62,425	64,556

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

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

Segments

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

Lottery business

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

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

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

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

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

Online game business

The Group is in cooperation with various reputable companies in the online game industry to distribute online mobile games.

Revenue is recognised when the control of the goods is transferred to customers.

Big data centre services

The Group operates big data centres in People's Republic of China, providing data analysis, storage services and ancillary administrative and consulting services.

Revenue generated from the Big Data Centres consists of services fees and/or rental income charged on the users for provision of big data centre services and use of storage places.

Services income is rendered and there is no unfulfilled obligation that could affect the customer's acceptance of the service.

8. OTHER INCOME AND GAINS

	2019 HK$'000	2018 HK$'000
Gain on deregistration of a subsidiary	–	1,034
Gain on bargain purchase	**1,074**	–
Waiver of consideration payables	**2,233**	–
Net exchange gains	**1,098**	–
Others	**300**	228
	4,705	1,262

9. FINANCE COSTS

	2019	2018
	HK$'000	HK$'000
Lease interests	**323**	–
Interests on other borrowings	**682**	–
Interests on amount due to a related company	**264**	–
	1,269	–

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

(a) Directors' and Chief Executive's Emoluments

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

	2019	2018
	HK$'000	HK$'000
Fees	**1,750**	1,750
Other emoluments		
Salaries, allowances and benefits in kind	**2,650**	2,650
Bonus	**282**	250
Pension scheme contributions	**31**	31
Equity-settled share option expense	**4,501**	6,872
	9,214	11,553

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

(a) Directors' and Chief Executive's Emoluments *(continued)*

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

	For the year ended 31 December 2019					
	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Bonus# HK$'000	Pension scheme contributions HK$'000	Equity-settled share-based payment expense HK$'000	Total emoluments HK$'000
Independent non-executive directors:						
Dr. Lu Haitian	250	–	–	–	107	357
Mr. Yan Hao	250	–	–	–	107	357
Mr. Lin Sen	250	–	–	–	107	357
	750	–	–	–	321	1,071
Executive directors:						
Ms. Huang Lilan[2]	250	250	82	13	536	1,131
	250	250	82	13	536	1,131
Non-executive directors:						
Mr. Pan Zhengming[5]	250	–	–	–	322	572
Mr. Yuan Qiang[4]	250	–	–	–	1,661	1,911
	500	–	–	–	1,983	2,483
Chief executive:						
Mr. Wang Bingzhong	250	2,400	200	18	1,661	4,529
	250	2,400	200	18	1,661	4,529
	1,750	2,650	282	31	4,501	9,214

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

(a) Directors' and Chief Executive's Emoluments *(continued)*

For the year ended 31 December 2018

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

There were no other emoluments payable to the independent non-executive directors during the year (2018: Nil).

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

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

(a) Directors' and Chief Executive's Emoluments *(continued)*

Notes:

1. Resigned on 23 March 2018.
2. Appointed on 23 March 2018. Included in remuneration packages under the position of chief financial officer of the Company for the year ended 31 December 2019.
3. Resigned on 2 January 2018.
4. Appointed on 2 January 2018.
5. Resigned on 2 January 2020.

(b) Five Highest Paid Individual Emoluments

The five highest paid employees of the Group during the year included three directors and the chief executive (2018: three directors and the chief executive), details of whose remuneration are included in note 10(a) above. Details of the remuneration for the year of the remaining one (2018: one) highest paid employees who is neither a director nor chief executive of the Company is as follows:

	2019 **HK$'000**	2018 HK$'000
Salaries, allowances and benefits in kind	**600**	600
Bonus	**50**	50
Pension scheme contributions	**18**	18
Equity-settled share-based payment expense	**27**	–
	695	668

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

	Number of employees	
	2019	2018
Nil – HK$1,000,000	**1**	1

11. INCOME TAX CREDIT

No provision for Hong Kong profits tax has been made as the Hong Kong subsidiaries did not generate any assessable profits arising in Hong Kong during the year (2018: Nil).

Pursuant to the PRC Corporate Income Tax Law effective on 1 January 2008, the PRC subsidiaries are subject to corporate income tax ("CIT") at a statutory rate of 25% (2018: 25%) on their respective taxable income for the year ended 31 December 2019. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates.

	2019 **HK$'000**	2018 HK$'000
Current – Mainland China		
Charge for the year	**19**	–
Deferred tax	**(124)**	–
Total tax credit for the year	**(105)**	–

The reconciliation between the income tax credit and the product of profit before tax multiplied by the statutory rates for the countries (or jurisdictions) is as follows:

	2019 **HK$'000**	2018 HK$'000
Loss before tax	**(34,876)**	(34,781)
Tax at the weighted average tax rate of 16.5% to 25% (2018: 16.5% to 25%)	**(6,118)**	(6,812)
One-off tax deduction	**(75)**	–
Loss attributable to a joint venture and associates	**(2,354)**	(175)
Tax effect of income that is not taxable	**(2,325)**	(1,605)
Tax effect of expenses that are not deductible	**1,627**	1,869
Tax effect of tax losses not recognised	**9,140**	6,723
Income tax credit	**(105)**	–

At 31 December 2019, the Group had unused tax losses of HK$267,546,000 (2018: HK$231,367,000) available to offset against future taxable profits. No deferred tax asset has been recognised in respect of unused tax losses due to the unpredictability of future profit streams.

11. INCOME TAX CREDIT *(continued)*

Included in unrecognised tax losses are losses of HK$53,494,000 (2018: HK$52,794,000) that are allowed to be carried forward and utilised against the taxable income of subsequent years. The loss carryforward period cannot exceed 5 years and expires between 2020 and 2024. Other losses of HK$214,052,000 (2018: HK$178,573,000) may be carried forward indefinitely.

At 31 December 2019, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiary established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

12. LOSS FOR THE YEAR

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

	2019 **HK$'000**	2018 HK$'000
Auditors' remuneration	**650**	600
Cost of sales and service rendered	**51,237**	5,312
Minimum lease payments under operating leases (under HKAS 17)	**–**	6,033
Staff costs (including directors' remuneration):		
Salaries and other benefits	**14,363**	8,657
Bonus	**904**	504
Pension scheme contributions	**742**	465
Equity-settled share option expense	**8,283**	12,792
	24,292	22,418
Depreciation	**14,357**	2,078
Depreciation charge of right-of-use assets	**4,838**	–
Loss on disposal of items of property, plant and equipment	**19**	53
Net exchange (gains)/losses	**(1,098)**	317
Gain on deregistration of a subsidiary	**–**	(1,034)

13. DIVIDEND

The Directors do not recommend the payment of any dividend for each of the years ended 31 December 2019 and 2018.

14. LOSS PER SHARE

The calculation of the basic earnings per share amount is based on the loss for the year attributable to ordinary equity holders of the Company and the weighted average number of ordinary shares of approximately 3,155,137,000 (2018: 3,145,936,000) in issue during the year.

No adjustment has been made to the basic loss per share amounts presented for the year ended 31 December 2019 and 2018 in respect of a dilution as the impact of the share options outstanding had an anti-dilutive effect on the basic loss per share amounts presented.

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

	2019 **HK$'000**	2018 HK$'000
Loss		
Loss for the purpose of calculating basic and diluted earnings per share	**(33,618)**	(34,087)

	2019 **'000**	2018 '000
Number of shares		
Weighted average number of ordinary shares in issue during the year for the purposes of the basic and diluted loss per share	**3,155,137**	3,145,936

15. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress HK$'000	Leasehold improvements HK$'000	Machinery and equipment HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
As at 31 December 2019						
COST:						
At 1 January 2019	–	5,850	4,514	318	1,984	12,666
Additions	72,105	791	101,795	193	1,247	176,131
Acquisition of subsidiaries	–	–	–	17	93	110
Disposal	–	–	(390)	(47)	(784)	(1,221)
Exchange realignment	(1,269)	(13)	(1,795)	(3)	(10)	(3,090)
At 31 December 2019	70,836	6,628	104,124	478	2,530	184,596
ACCUMULATED DEPRECIATION:						
At 1 January 2019	–	1,709	4,176	141	154	6,180
Provided during the year	–	2,439	11,649	60	209	14,357
Disposal	–	–	(99)	(37)	(118)	(254)
Exchange realignment	–	(1)	(206)	–	–	(207)
At 31 December 2019	–	4,147	15,520	164	245	20,076
CARRYING AMOUNT:						
At 31 December 2019	70,836	2,481	88,604	314	2,285	164,520

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

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

16. LEASES AND RIGHT-OF-USE ASSETS

Disclosures of lease-related items:

	2019 HK$'000
At 31 December:	
Right-of-use assets	
– Land use rights	235
– Land and buildings	4,302
	4,537
Lease commitments of short-term leases	112

The maturity analysis, based on undiscounted cash flows, of the Group's lease liabilities is as follows:

– Less than 1 year	3,854
– Between 1 and 2 years	477
– Between 2 and 5 years	238
	4,569

16. LEASES AND RIGHT-OF-USE ASSETS *(continued)*

	2019 HK$'000
Year ended 31 December:	
Depreciation charge of right-of-use assets	
– Land use rights	**26**
– Land and buildings	**4,812**
	4,838
Lease interests	**323**
Expenses related to short-term leases	**1,143**
Expenses related to leases of low-value assets that are not short-term leases	**18**
Total cash outflow for leases	**4,902**
Additions to right-of-use assets	**9,371**

The Group leases various land use rights and land and buildings. Lease agreements are typically made for fixed periods of 2 to 3 years. 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 and the leased assets may not be used as security for borrowing purposes.

17. GOODWILL

	HK$'000
Cost	
At 1 January 2019	–
Arising on acquisition of a subsidiary	10,948
Exchange differences	48
At 31 December 2019	10,996
Carrying amount	
At 31 December 2019	10,996

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units ("CGUs") that are expected to benefit from that business combination. The carrying amount of goodwill had been allocated as follows:

	2019 **HK$'000**	2018 HK$'000
Provision of big data service:		
Sichuan Lecaiyuntian Internet Technology Co., Ltd * ("Sichuan Lecaiyuntian")	**10,996**	–

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

The recoverable amounts of the CGUs are determined on the basis of their fair value less costs of disposal using discounted cash flow method. The key assumptions for the discounted cash flow method are those regarding the discount rates, growth rates and budgeted gross margin and revenue during the period. The Group estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on long-term average economic growth rate of the geographical area in which the businesses of the CGUs operate. Budgeted gross margin and revenue are based on past practices and expectations on market development.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by the directors for the next five years with the residual period using the growth rate of 0%. This rate does not exceed the average long-term growth rate for the relevant markets.

The rate used to discount the forecast cash flows from the Group's provision of big data service is 21.64%.

18. INTANGIBLE ASSETS

	Lease benefit HK$'000	Data analysis system (purchased) HK$'000	Total HK$'000
COST:			
At 1 January 2019	–	–	–
Additions	–	2,125	2,125
Acquisition of subsidiaries	4,598	–	4,598
Exchange realignment	14	(37)	(23)
At 31 December 2019	4,612	2,088	6,700
ACCUMULATED AMORTISATION:			
At 1 January 2019	–	–	–
Amortisation for the year	496	567	1,063
Exchange realignment	(9)	(9)	(18)
At 31 December 2019	487	558	1,045
CARRYING AMOUNT:			
At 31 December 2019	4,125	1,530	5,655

The Group's data analysis system is acquired for supporting the Big data service business. The remaining amortisation period of the data analysis system is 11 months.

The lease benefit was arisen from acquisition of subsidiaries. The remaining amortisation period of the lease benefit is 11 months.

19. SUBSIDIARIES

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

Company name	Place of incorporation/ registration	Issued ordinary/ registered share capital	Percentage of equity interests attributable to the Company	Principal activities
Directly held:				
Brighten Express Limited	Hong Kong	HK$1	100%	Investment holding
Rising Move International Limited	BVI	US$100	100%	Investment holding
Interactive Lab Limited	BVI	US$100	100%	Exploring cutting-edge technologies and applications
Indirectly held:				
Precious Success Holdings Limited ("Precious Success")	BVI	US$200	51%	Investment holding
PAL Development Limited	Hong Kong	HK$250,000,000	51%	Investment holding
Global Score Asia Limited	BVI	US$20,000	100%	Investment holding
Trade Express Services Inc.	BVI	US$20,000	100%	Investment holding
Rise Accord Holdings Limited	BVI	US$100	100%	Investment holding
China Excellent Net Technology Investment Limited	Hong Kong	HK$3,194,581	95%	Provision of services for distribution of mobile lottery products
PAL (Beijing) Information Technology Limited*	PRC	HK$150,000,000	51%	Provision of management services for distribution of lottery products

19. SUBSIDIARIES *(continued)*

Company name	Place of incorporation/ registration	Issued ordinary/ registered share capital	Percentage of equity interests attributable to the Company	Principal activities
Indirectly held: *(continued)*				
Beijing Hua Ying Feng Cai Technology Limited*	PRC	RMB18,000,000	51%	Provision of management services for distribution of lottery products
Beijing Huancai Information Technology Limited* ("Beijing Huancai")	PRC	RMB10,000,000	52.5%	Provision of services for distribution of mobile lottery products
Hong Kong Interactive Lab Limited	Hong Kong	HK$1	100%	Exploring cutting-edge technologies and applications
Virtual Asset Ratings Limited	BVI	HK $18,360,001	51%	Exploring cutting-edge technologies and applications
Loto Interactive Information Technology (Shenzhen) Limited*^ ("Loto Shenzhen")	PRC	RMB200,000,000	100%	Investment holding
Shenzhen Lewanwuxian Information Technology Co., Ltd.*# ("Shenzhen Lewanwuxian")	PRC	RMB10,000,000	51%	Operating online games
Beijing Lewanwuxian Information Technology Co., Ltd.*	PRC	RMB10,000,000	51%	Distribution of online games
Zhejiang Keyinghuancai Information Technology Co., Ltd.*	PRC	RMB10,000,000	100%	Developing online games

19. SUBSIDIARIES *(continued)*

Company name	Place of incorporation/ registration	Issued ordinary/ registered share capital	Percentage of equity interests attributable to the Company	Principal activities
Indirectly held: *(continued)*				
Chengdu Keying Interactive Information Technology Limited*	PRC	RMB10,000,000	100%	Providing data analysis, Storage services and ancillary administrative and consulting services
Chengdu Yilaike Technology Co., Ltd.* ("Chengdu Yilaike")	PRC	RMB10,000,000	100%	Providing data analysis, Storage services and ancillary administrative and consulting services
Ganzi Changhe Hydropower Consumption Service Co., Ltd* ("Ganzi Changhe Hydropower")	PRC	RMB83,500,000	91.6%	Providing data analysis, Storage services and ancillary administrative and consulting services
Sichuan Lecaiyuntian @	PRC	RMB60,000,000	100%	Providing data analysis, Storage services and ancillary administrative and consulting services
Interactive Medical Lab Limited	BVI	US$100	100%	Investment holding
Interactive Medical Lab Corporation	Delaware	US$100	100%	Investment holding
Might Winner Limited	Hong Kong	HK$1	100%	Investment holding
H.K CB. Cute Technology Co., Limited	Hong Kong	HK$10,000	100%	Investment holding
Shenzhen Quanjing Financial Leasing Co., Ltd *	PRC	US$20,000,000	100%	Investment holding

19. SUBSIDIARIES *(continued)*

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

^ Loto Shenzhen was established in the PRC with limited liability on 14 December 2017. The registered capital of Loto Shenzhen is RMB200,000,000 of RMB147,996,270.50 has been paid by the Group as at 31 December 2019.

Shenzhen Lewanwuxian was established in the PRC with limited liability on 14 December 2017. The registered capital of Shenzhen Lewanwuxian is RMB10,000,000 of RMB5,100,000 has been paid by the Group as at 31 December 2019.

@ Sichuan Lecaiyuntian was established in the PRC with limited liability on 21 February 2019. The registered capital of Sichuan Lecaiyuntian is RMB60,000,000 of Nil has been paid by the Group as at 31 December 2019.

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

Name	**Precious Success and its subsidiaries ("PS Group")**		**Beijing Huancai**		**Ganzi Changhe Hydropower**	
	2019	2018	**2019**	2018	**2019**	2018
Principal place of business/ country of incorporation	HK and PRC/ HK and PRC		PRC/PRC		PRC/PRC	
% of ownership interests/ voting rights held by NCI	49%/49%		47.5%/47.5%		8.4%/8.4%	

19. SUBSIDIARIES *(continued)*

Name	Precious Success and its subsidiaries ("PS Group") 2019 HK$'000	2018 HK$'000	Beijing Huancai 2019 HK$'000	2018 HK$'000	Ganzi Changhe Hydropower 2019 HK$'000	2018 HK$'000
At 31 December:						
Non-current assets	–	4	–	113	**88**	–
Current assets	**1,874**	3,508	**6,966**	15,995	**94,618**	–
Current liabilities	**(3,032)**	(4,238)	**3,639**	(3,178)	**(2,713)**	–
Net (liabilities)/assets	**(1,158)**	(726)	**10,605**	12,930	**91,993**	–
Accumulated NCI	**(567)**	(356)	**5,037**	6,142	**7,727**	–
Year ended 31 December:						
Revenue	**111**	398	–	5,059	–	–
Total expenses	**(862)**	(1,598)	**(876)**	(5,529)	**(1,244)**	–
Loss for the year	**(549)**	(1,200)	**(2,080)**	(470)	**(1,244)**	–
Other comprehensive income/(loss)	–	1,099	–	(632)	–	–
Total comprehensive loss	**(549)**	(101)	**(2,080)**	(1,102)	**(1,244)**	–
Loss allocated to NCI	**(269)**	(588)	**(988)**	(223)	**(104)**	–
Net cash (used in)/ generated from operating activities	**(385)**	(1,051)	**5,421**	699	**(87,572)**	–
Net cash generated from/(used in) investing activities	**4**	(3)	**113**	8	**(88)**	–
Net cash generated from financing activities	–	–	–	–	**93,215**	–
Effect of foreign exchange rate changes, net	**117**	313	**(245)**	(863)	**22**	–
Net decrease in cash and cash equivalents	**(264)**	(741)	**5,289**	(156)	**5,577**	–

20. INVESTMENTS IN ASSOCIATES

	2019 HK$'000	2018 HK$'000
Unlisted investments		
Share of net assets	**4,111**	5,813
Goodwill	**6,990**	7,146
	11,101	12,959
Impairment losses	**(7,717)**	–
	3,384	12,959

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

Company name	Place of incorporation/ registration	Percentage of equity interests attributable to the Company 2019	2018	Principal activities
ChariLot Company Limited ("ChariLot")	Hong Kong	**40%**	40%	Investment holding and provision of services for the distribution of lottery products
Guangzhou Sentai Information Technology Co., Ltd.* ("Guangzhou Sentai")	PRC	**20%**	20%	Self-media
Shenzhen BlueTech Network Technology Co., Ltd.*# ("BlueTech Network")	PRC	**19.11%**	19.11%	Developing mobile games

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

\# BlueTech Network was deregistered on 16 December 2019.

Guangzhou Sentai is a company mainly engaged in operating a self-media called 世鏈財經 (www.shilian.com) providing updated blockchain information. The Company made provision for impairment on investment in Guangzhou Sentai due to the decline in profitability of Guangzhou Sentai in 2019.

BlueTech Network was deregistered on 16 December 2019. Provision for impairment of investment in BlueTech Network was made by the Company as a result of the deregistration of BlueTech Network.

20. INVESTMENTS IN ASSOCIATES *(continued)*

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

Name	Guangzhou Sentai		BlueTech Network	
	2019	2018	**2019**	2018
Principal place of business/country of incorporation	**PRC/PRC**	PRC/PRC	**PRC/PRC**	PRC/PRC
Principal activities	Self-media		Developing mobile games	
% ownership interests/voting rights held by the Group	20%/20%		19.11%/19.11%	
	HK$'000	HK$'000	**HK$'000**	HK$'000
At 31 December:				
Non-current assets	**20,308**	20,762	**–**	4,622
Current assets	**5,891**	6,359	**38**	4,161
Current liabilities	**(5,644)**	(5,349)	**(1,097)**	(1,153)
Net assets	**20,555**	21,772	**(1,059)**	7,630
Group's share of net assets	**4,111**	4,355	**–**	1,458
Goodwill	**1,203**	1,230	**5,787**	5,916
Impairment losses	**(1,930)**	–	**(5,787)**	–
Group's share of carrying amount of interest	**3,384**	5,585	**–**	7,374
Year ended 31 December:				
Revenue	**1,912**	688	**–**	551
Loss from continuing operations	**(741)**	(609)	**(8,540)**	(3,015)
Total comprehensive loss	**(741)**	(609)	**(8,540)**	(3,015)

20. INVESTMENTS IN ASSOCIATES *(continued)*

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

	2019 **HK$'000**	2018 HK$'000
Unrecognised share of losses of an associate for the year	–	–
Accumulated unrecognised share of losses of an associate	**(290)**	(290)

21. INVESTMENT IN A JOINT VENTURE

Particulars of the Group's joint venture is as follows:

Company name	Place of incorporation and operation	Class of shares held	Proportion of ownership interest held by the Group		Proportion of voting rights held by the Group		Principal activities
			2019	2018	**2019**	2018	
PALTECH Company Limited	Hong Kong	Ordinary	**60%**	60%	**60%**	60%	Inactive

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

	2019 **HK$'000**	2018 HK$'000
Cumulative unrecognised share of total comprehensive loss of joint venture	**(210)**	(210)

22. EQUITY INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019	2018
	HK$'000	HK$'000
Equity security, at fair value		
Listed outside Hong Kong – company A	**5,140**	–
Unlisted equity securities	–	10,126
	5,140	10,126
Analysed as:		
Non-current assets	**5,140**	10,126

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

23. LOAN RECEIVABLES

(a) Yourich Inc Limited

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

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

23. LOAN RECEIVABLES *(continued)*

(a) Yourich Inc Limited *(continued)*

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

As at 31 December 2019, the loan receivable of approximately HK$49,718,000 was still outstanding.

(b) Shenzhen Chipchain Technologies Co., Ltd.

As at 19 June 2019, the Group entered into a convertible note arrangement (the "Convertible Note Agreement") with Shenzhen Chipchain Technologies Co., Ltd. (the "Convertible Note Issuer"), pursuant to which the Group agreed to grant to the Convertible Note Issuer a convertible note (the "Convertible Note") in the principal amount of RMB10,000,000 (equivalent to approximately HK$11,163,000) at an interest rate of 8% per annum for a term of six (6) months, during which the Group is entitled to convert the Convertible Note into 3.33% of the equity interest in the Convertible Note Issuer (the "Conversion").

As at maturity date, the Group did not exercise the right of Conversion and the Convertible Note was subsequently classified under loan receivable. As at 31 December 2019, the loan receivable of the Convertible Note Issuer was at the amount of approximately HK$11,163,000.

24. STRUCTURED NOTES

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

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

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

During the year, all Notes were repaid in full.

25. TRADE RECEIVABLES

	2019 HK$'000	2018 HK$'000
Trade receivables	**19,949**	9,273

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

	2019 HK$'000	2018 HK$'000
Within 30 days	**18,994**	556
31 days to 90 days	**117**	258
91 days to 180 days	**–**	4,144
181 days to 365 days	**1**	915
Over 1 year	**837**	3,400
	19,949	9,273

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

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

25. TRADE RECEIVABLES *(continued)*

	Current HK$'000	Less than 1 month past due HK$'000	1-3 months past due HK$'000	3-6 months past due HK$'000	6-12 months past due HK$'000	Over 1 year past due HK$'000	Total HK$'000
At 31 December 2019							
Weighted average expected loss rate	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	
Receivable amount	**18,906**	**88**	**117**	**–**	**1**	**837**	**19,949**
Loss allowance	**–**	**–**	**–**	**–**	**–**	**–**	**–**
At 31 December 2018							
Weighted average expected loss rate	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	
Receivable amount	27	787	4,144	915	–	3,400	9,273
Loss allowance	–	–	–	–	–	–	–

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2019 HK$'000	2018 HK$'000
Other receivables	**3,139**	2,270
Other tax assets	**9,741**	–
Interest receivables	**3,186**	3,649
Deposits for the construction in progress	**11,163**	–
Utility deposits	**12,782**	–
Other deposits	**386**	39
Prepayments	**1,426**	2,325
	41,823	8,283

27. CASH AND CASH EQUIVALENTS

	2019 HK$'000	2018 HK$'000
Cash and cash equivalents	**95,030**	198,221

Cash and cash equivalents denominated in:		
USD	**31,392**	8,781
RMB (Note)	**45,532**	9,312
HK$	**18,106**	180,128
	95,030	198,221

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

28. TRADE PAYABLES

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

	2019 HK$'000	2018 HK$'000
Within 30 days	**23,793**	–
31 to 90 days	**122**	303
91 to 180 days	**385**	–
181 to 365 days	–	3,007
Over 1 year	–	4,247
	24,300	7,557

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

29. ACCRUALS AND OTHER PAYABLES

	2019 HK$'000	2018 HK$'000
Other payables	**3,423**	2,443
Consideration payables	**–**	2,283
Amount due to a shareholder of a joint venture	**2,334**	2,334
Deposit received from customers	**17,996**	–
Accruals	**967**	854
	24,720	7,914

30. LEASE LIABILITIES

	Lease payments		Present value of lease payments	
	2019 **HK$'000**	2018 HK$'000	**2019** **HK$'000**	2018 HK$'000
Within one year	**3,854**	–	**3,747**	–
In the second to fifth years, inclusive	**715**	–	**692**	–
After five years	**–**	–	**–**	–
	4,569	–		
Less: Future finance charges	**(130)**	–		
Present value of lease liabilities	**4,439**	–	**4,439**	–
Less: Amount due for settlement within 12 months (shown under current liabilities)			**(3,747)**	–
Amount due for settlement after 12 months			**692**	–

At 31 December 2019, the average effective borrowing rate was 5.4%. Interest rates are fixed at the contract dates and thus expose the Group to fair value interest rate risk.

31. AMOUNT DUE TO THE HOLDING COMPANY

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

32. AMOUNT DUE TO A RELATED COMPANY

The advance of RMB10,000,000 (approximately equivalent to HK$11,163,000) is unsecured, interest bearing of 4.35% per annum and has a one-year repayment term. The related company is a wholly-owned subsidiary of the Holding Company.

The others are unsecured, interest-free and have no fixed repayment terms.

33. DEFERRED TAX LIABILITIES

The movements in deferred tax liabilities are as follows:

	Fair value adjustments arising from acquisition of subsidiaries HK$'000	**Total** HK$'000
At 1 January 2019	–	–
Acquisition of subsidiaries	1,150	1,150
Charge to profit or loss	(124)	(124)
Exchange realignment	5	5
At 31 December 2019	1,031	1,031

34. SHARE CAPITAL

	2019	2018
	HK$'000	HK$'000
Authorised		
5,500,000,000 ordinary shares of HK$0.01 each	**55,000**	55,000

	2019	2018
	HK$'000	HK$'000
Issued and fully paid:		
3,158,599,836 (2018: 3,145,935,836) ordinary shares of HK$0.01 each	**31,586**	31,459

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

	Number of shares in issue	**Share Capital** HK$'000
At 1 January 2018, 31 December 2018 and 1 January 2019	3,145,935,836	31,459
Share options exercised (Note a)	12,664,000	127
At 31 December 2019	3,158,599,836	31,586

Note:

(a) In 2019, the subscription rights attaching to 12,664,000 share options were exercised at the subscription price of HK$0.11 per share, resulting in the issue of 12,664,000 new shares of HK$0.01 each, for a total cash consideration, before expenses, of HK$1,393,040.

Details of the Company's share option scheme and the share options issued under the scheme are included in note 36 to the financial statements.

35. RESERVES

(a) Group

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

(b) Company

	Share premium HK$'000	Share-based payment reserve HK$'000	Equity investment revaluation reserve HK$'000	(Accumulated losses)/ retained earnings HK$'000	Total HK$'000
At 1 January 2018	327,928	–	–	20,009	347,937
Loss for the year	–	–	–	(25,000)	(25,000)
Equity-settled share-based payment expense	–	12,792	–	–	12,792
Lapsed of share option scheme	–	(194)	–	194	–
At 31 December 2018 and 1 January 2019	327,928	12,598	–	(4,797)	335,729
Loss for the year	–	–	–	(31,547)	(31,547)
Issue of ordinary shares upon exercise of share options	1,266	–	–	–	1,266
Equity-settled share-based payment expense	–	8,283	–	–	8,283
Fair value changes of equity investments at fair value through other comprehensive income	–	–	(2,570)	–	(2,570)
At 31 December 2019	329,194	20,881	(2,570)	(36,344)	311,161

35. RESERVES *(continued)*

(c) Nature and purpose of reserves

(i) Share premium account

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

(ii) Share-based payment reserve

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

(iii) Exchange reserve

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

36. SHARE-BASED PAYMENTS

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

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

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

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

(a) Purpose of the schemes

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

(b) Participants of the schemes

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

36. SHARE-BASED PAYMENTS *(continued)*

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

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

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

(d) Maximum entitlement of each participant under the schemes

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

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

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

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

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

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

36. SHARE-BASED PAYMENTS *(continued)*

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

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

(h) The basis of determining the exercise price

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

(i) The remaining life of the scheme

The 2012 Share Option Scheme shall be valid and effective for a period of ten years from the date of adoption until 17 May 2022.

36. SHARE-BASED PAYMENTS *(continued)*

The 2012 Share Option Scheme

Movements of the share options under the 2012 Share Option Scheme during the year ended 31 December 2019 are set out below:

Category of participants	Outstanding at 1.1.2018	Granted during the year	Reclassified during the year	Lapsed during the year	Outstanding at 31.12.2018 & 1.1.2019	Granted during the year	Reclassified during the year	Exercise during the year	Outstanding at 31.12.2019	Date of grant of share options	Share price at date of grant of share options HK$	Exercise price of share options HK$
Director[1]	–	80,000,000	10,000,000	(6,000,000)	84,000,000	–	–	–	84,000,000	05.01.2018	0.187	0.20
Director[2]	–	–	–	–	–	84,000,000	–	–	84,000,000	01.04.2019	0.11	0.11
Sub-total:	–	80,000,000	10,000,000	(6,000,000)	84,000,000	84,000,000	–	–	168,000,000			
Employees[1]	–	10,500,000	(8,700,000)	–	1,800,000	–	300,000	–	2,100,000	05.01.2018	0.187	0.20
Employees[2]	–	–	–	–	–	800,000	300,000	–	1,100,000	01.04.2019	0.11	0.11
Sub-total:	–	10,500,000	(8,700,000)	–	1,800,000	800,000	600,000	–	3,200,000			
Others[1,3]	–	68,900,000	(1,300,000)	–	67,600,000	–	(300,000)	–	67,300,000	05.01.2018	0.187	0.20
Others[2,3]	–	–	–	–	–	70,300,000	(300,000)	(12,664,000)	57,336,000	01.04.2019	0.11	0.11
Sub-total:	–	68,900,000	(1,300,000)	–	67,600,000	70,300,000	(600,000)	(12,664,000)	124,636,000			
Total:	–	159,400,000	–	(6,000,000)	153,400,000	155,100,000	–	(12,664,000)	295,836,000			
Weighted average exercise price (HK$)		0.20		0.20	0.20	0.11		0.11	0.16			
Share options exercisable	–				51,108,000				141,228,000			

The fair values of share options granted in 2019 were calculated using the Binomial Tree model. The inputs into the model are as follows:

	2019	2018
Weighted average share price (HK$)	**0.11**	0.20
Weighted average exercise price (HK$)	**0.11**	0.20
Expected volatility	**75.86%**	63.61%
Risk free rate	**1.40%**	1.82%
Expected dividend yield	**0.00%**	0.00%

36. SHARE-BASED PAYMENTS *(continued)*

The total fair values of the share options granted in 2019 were at amount of approximately HK$7,914,000 (2018: HK$15,993,000). During the year, an amount of approximately HK$8,283,000 (2018: HK$12,792,000) was recognised as equity-settled share option expense.

Notes:

1. The share options granted on 5 January 2018 are divided into 3 tranches exercisable from 5 January 2018, 5 January 2019 and 5 January 2020 respectively to 4 January 2028.

2. The share options granted on 1 April 2019 are divided into 3 tranches exercisable from 1 April 2019, 1 April 2020 and 1 April 2021 respectively to 31 March 2029.

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

4. To better reflect certain grantee's position in relation to the Group, the type of participant has been reclassified from others to employee.

The Group recognised equity-settled v-based payment expenses at a total of HK$8,283,000 (2018: HK$12,792,000), included in which of HK$Nil (2018: HK$Nil) was recognised immediately as accelerated vesting due to the cancellation of share options for the year ended 31 December 2019 in relation to share options granted by the Company in the prior years.

During the year ended 31 December 2019, none (2018: 6,000,000) of the share options were lapsed and none (2018: none) of the share options were cancelled under the 2012 Share Option Scheme.

37. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Acquisition of subsidiaries

(i) On 5 March 2019, the Group obtained control of Chengdu Yilaike by acquiring the 100% issued share capital of Chengdu Yilaike for a total consideration of RMB1 which is comprised of a cash consideration RMB1. Chengdu Yilaike was engaged in Big data centre services during the year. The acquisition is for the purpose of expanding Group's contribution in big data service markets and the anticipated future operating synergies from the combination.

The fair value of the identifiable assets and liabilities of Chengdu Yilaike acquired as at its date of acquisition is as follows:

Net assets acquired:	HK$'000
Prepayments, deposits and other receivables	702
Bank and cash balances	82
Trade and other payables	(645)
Other tax assets	935
	1,074
Gain on bargain purchase	(1,074)
	–
Satisfied by:	
Cash (in RMB1)	–
Total consideration transferred	–
Net cash inflow arising on acquisition:	
Cash consideration paid (in RMB1)	–
Cash and cash equivalents acquired	(82)
	(82)

Chengdu Yilaike contributed approximately Nil and HK$1,749,000 to the Group's revenue and loss for the year respectively for the period between the date of acquisition and the end of the reporting period.

37. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Acquisition of subsidiaries *(continued)*

(i) (continued)

If the acquisition had been completed on 1 January 2019, total Group revenue for the year would have been HK$69,074,000, and loss for the year would have been HK$32,686,000. The proforma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2019, nor is intended to be a projection of future results.

(ii) On 22 November 2019, the Group obtained control of Sichuan Lecaiyuntian by acquiring the 100% issued share capital of Sichuan Lecaiyuntian for a total consideration of RMB13,426,200 which is comprised of a cash consideration RMB13,426,200. Sichuan Lecaiyuntian was engaged in Big data centre services during the year. The acquisition is for the purpose of expanding Group's contribution in big data service markets and the anticipated future operating synergies from the combination.

37. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(continued)*

(a) Acquisition of subsidiaries *(continued)*

(ii) (continued)

The fair value of the identifiable assets and liabilities of Sichuan Lecaiyuntian acquired as at its date of acquisition is as follows:

Net assets acquired:	HK$'000
Property, plant and equipment	110
Intangible assets	4,598
Trade receivables	23,187
Prepayments, deposits and other receivables	11,423
Bank and cash balances	3,195
Trade and other payables	(37,185)
Current tax liabilities	(203)
Deferred tax liabilities	(1,150)
	3,975
Goodwill	10,948
	14,923
Satisfied by:	
Cash	14,923
Total consideration transferred	14,923
Net cash outflow arising on acquisition:	
Cash consideration paid	14,923
Cash and cash equivalents acquired	(3,195)
	11,728

The goodwill arising on the acquisition of Sichuan Lecaiyuntian is attributable to the anticipated profitability of the distribution of the Group's products in the big data services markets and the anticipated future operating synergies from the combination.

37. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(continued)*

(a) Acquisition of subsidiaries *(continued)*

(ii) (continued)

Sichuan Lecaiyuntian contributed approximately HK$32,723,000 and HK$2,890,000 to the Group's revenue and profit for the year respectively for the period between the date of acquisition and the end of the reporting period.

If the acquisition had been completed on 1 January 2019, total Group revenue for the year would have been HK$173,573,000, and loss for the year would have been HK$28,526,000. The proforma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2019, nor is intended to be a projection of future results.

(b) Changes in liabilities arising from financing activities

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

	Lease liabilities HK$'000	Amount due to a related company HK$'000	Amount due to the holding company HK$'000	Total liabilities from financing activities HK$'000
At 1 January 2018	–	–	1,447	1,447
Change in cash flows	–	–	(1,408)	(1,408)
At 31 December 2018 and 1 January 2019	–	–	39	39
Change in cash flows	(3,741)	11,380	(38)	7,601
Non-cash changes				
– impact of first adoption of HKFRS 16	7,857	–	–	7,857
– interest charged	323	–	–	323
At 31 December 2019	4,439	11,380	1	15,820

38. CAPITAL COMMITMENTS

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

	2019 **HK$'000**	2018 HK$'000
Property, plant and equipment		
Contracted, but not provided for	**75,788**	22,060

39. LEASE COMMITMENTS

Commitments under operating leases

As lessee

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

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

40. RELATED PARTY TRANSACTIONS

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

	2019 **HK$'000**	2018 HK$'000
Short-term benefits	**4,682**	4,650
Post-employment benefits	**31**	31
Equity-settled share-based payment expense	**4,501**	6,872
	9,214	11,553

Further details of directors' and chief executive's emoluments are included in note 10 to the financial statements.

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2019 HK$'000	2018 HK$'000
NON-CURRENT ASSETS		
Property, plant and equipment	**3,554**	2,057
Investments in subsidiaries	**2**	2
Right-of-use assets	**3,258**	–
Equity investments at fair value through other comprehensive income	**5,140**	–
	11,954	2,059
CURRENT ASSETS		
Loan receivables	**49,718**	94,221
Structured notes	**–**	50,371
Prepayments, deposits and other receivables	**5,209**	6,893
Amount due from subsidiaries	**246,994**	67,938
Cash and cash equivalents	**42,802**	151,053
	344,723	370,476
CURRENT LIABILITIES		
Accruals and other payables	**1,617**	5,300
Lease liabilities	**3,345**	–
Amount due to subsidiaries	**8,967**	8
Amount due to the holding company	**1**	39
	13,930	5,347
NET CURRENT ASSETS	**330,793**	365,129
NET ASSETS	**342,747**	367,188
EQUITY		
Share capital	**31,586**	31,459
Reserves	**311,161**	335,729
TOTAL EQUITY	**342,747**	367,188

42. APPROVAL OF FINANCIAL STATEMENTS

These consolidated financial statements were approved and authorised for issue by the board of directors of the company on 20 March 2020.

FIVE-YEAR FINANCIAL SUMMARY

The following is a summary of the audited results and of the assets and liabilities of the Group for the five years ended 31 December 2019.

RESULTS

	Year ended 31 December				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**64,556**	6,034	48,827	60,281	57,163
Loss for the year	**(34,771)**	(34,781)	(18,573)	(2,912)	(34,504)
Attributable to:					
Owners of the Company	**(33,618)**	(34,087)	(17,929)	(2,303)	(35,934)
Non-controlling interests	**(1,153)**	(694)	(644)	(609)	1,430
	(34,771)	(34,781)	(18,573)	(2,912)	(34,504)

ASSETS AND LIABILITIES

	At 31 December				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**411,915**	389,940	429,586	439,949	526,783
Total liabilities	**(69,168)**	(18,788)	(34,585)	(27,400)	(118,236)
Non-controlling interests	**(12,876)**	(6,279)	(6,597)	(7,900)	(8,796)
Total equity attributable to owners of the Company	**329,871**	364,873	388,404	404,649	399,751