2016 Annual Report

China LotSynergy

China LotSynergy Holdings Limited

華彩控股有限公司*

(Incorporated in Bermuda with limited liability)

Stock code: 1371

* For identification purpose only

Contents

Corporate Information

DIRECTORS

Executive Directors

Ms. LAU Ting *(Chairperson and Chief Executive Officer)*
Mr. WU Jingwei *(President)*
Ms. CHAN Tan Na, Donna *(Chief Financial Officer)*
Mr. LI Zi Kui

Non-executive Director

Mr. HOONG Cheong Thard

Independent Non-executive Directors

Mr. HUANG Shenglan
Mr. CHAN Ming Fai
Mr. CUI Shuming

COMPANY SECRETARY

Mr. WONG Hiu Wong

AUTHORISED REPRESENTATIVES

Ms. CHAN Tan Na, Donna
Mr. WONG Hiu Wong

AUDIT COMMITTEE

Mr. HUANG Shenglan
Mr. CHAN Ming Fai
Mr. CUI Shuming

REMUNERATION COMMITTEE

Ms. LAU Ting
Mr. HUANG Shenglan
Mr. CHAN Ming Fai

NOMINATION COMMITTEE

Ms. LAU Ting
Mr. HUANG Shenglan
Mr. CHAN Ming Fai

AUDITOR

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 3308, 33rd Floor
Office Tower, Convention Plaza
1 Harbour Road, Wanchai, Hong Kong
Tel: (852) 2136 6618
Fax: (852) 2136 6608

COMPANY WEBSITE

www.chinalotsynergy.com

PRINCIPAL SHARE REGISTRARS

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
Bermuda

BRANCH SHARE REGISTRARS IN HONG KONG

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

LEGAL ADVISERS

Appleby
Baker & McKenzie

PRINCIPAL BANKERS

Hang Seng Bank Limited
The Hongkong and Shanghai Banking Corporation Limited
China Construction Bank (Asia) Corporation Limited

Financial Summary

A summary of results and the assets and liabilities of China LotSynergy Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") are as follows:

RESULTS

	Year ended 31 December				
	2016 HK$'000	2015 HK$'000	2014 HK$'000	2013 HK$'000	2012 HK$'000
Turnover	**200,319**	643,748	1,034,769	743,756	607,255
(Gross loss)/gross profit	**(6,931)**	359,472	725,864	543,981	482,506
Share option expenses	**(18,998)**	(92,230)	(12,378)	(7,031)	(1,015)
Finance costs	**(56,904)**	(61,412)	(55,600)	(22,656)	(19,825)
(Loss)/Profit before income tax	**(441,700)**	(370,124)	435,752	349,202	271,529
Income tax expense	**(37,901)**	(46,006)	(93,433)	(87,000)	(69,196)
(Loss)/Profit for the year	**(479,601)**	(416,130)	342,319	262,202	202,333
(Loss)/Profit attributable to:					
Owners of the Company	**(297,967)**	(497,654)	100,010	88,556	67,513
Non-controlling interests	**(181,634)**	81,524	242,309	173,646	134,820
	(479,601)	(416,130)	342,319	262,202	202,333

ASSETS AND LIABILITIES

	As at 31 December				
	2016 HK$'000	2015 HK$'000	2014 HK$'000	2013 HK$'000	2012 HK$'000
Total current assets	**1,382,954**	1,988,385	2,621,235	1,169,688	938,338
Total assets	**2,225,288**	3,161,389	3,934,211	2,381,534	1,998,308
Total liabilities	**(952,368)**	(1,344,021)	(1,728,446)	(925,358)	(743,763)
Net assets	**1,272,920**	1,817,368	2,205,765	1,456,176	1,254,545

Management Discussion and Analysis

The Group is engaged in the provision of technology and operations services for lottery systems, terminal equipment and gaming products in China's lottery market. The principal businesses of the Group cover various lottery products ranging from video lottery ("VLT"), computer-generated ticket games ("CTG") and KENO-type lottery to new media lottery. By building up its technical competencies, expanding into new markets and upholding high standards of corporate governance, the Group has established a solid foundation and an outstanding corporate brand name, providing it with comprehensive capabilities for sustainable development.

CHINA'S LOTTERY MARKET

According to figures published by the Ministry of Finance ("MOF"), China's lottery sales rebounded and achieved record high in 2016, with total lottery sales of RMB394.64 billion, representing a year-on-year ("YOY") growth of 7.3%. Welfare Lottery sales grew 2.5% YOY to RMB206.49 billion, whereas Sports Lottery sales rose 13.1% YOY to RMB188.15 billion. Lotto, which is the industry's main source of revenue, up 3.8%, and accounted for 62.0% of total lottery sales. Single Match Games ("SMG") sales surged 29.8% YOY, driven by the sport events during the year, accounting for 19.4% of total lottery sales. VLT, with sales increased by 4.9% YOY, and accounted for 11.3% of total lottery sales, albeit no provision of new terminal for the last 20 months. The sales of Paper-based Scratch Card dropped 5.9% YOY and accounted for 7.2% of total lottery sales. It is the only lottery category posted declining sales figure.

BUSINESS REVIEW AND OUTLOOK

Video Lottery Business

China Welfare Lottery Video Lottery ("Welfare VLT") Business

As a technology-rich product, Welfare VLT plays a vital role in China's lottery industry. Welfare VLT terminal equipments have been provided exclusively by the Group. Welfare VLT sales amounted to RMB44.54 billion, and accounted for 11.3% of the nation's total lottery sales in 2016. It was the fastest growing welfare lottery type with sales growth of 4.9% YOY.

Dongguan Tianyi Electronic Company Limited ("DGTY"), a subsidiary of the Group, has been the supplier of Welfare VLT terminals since 2003. It has unique and unmatched experience, capabilities and qualification given its continual investment in Welfare VLT terminal manufacturing and R&D. The terminals developed and manufactured by DGTY is the only Welfare VLT terminal approved and confirmed by all three ministries including the MOF, the Ministry of Public Security and the Ministry of Civil Affairs. DGTY has made three generations of Welfare VLT terminal replacements and upgrades, supplying a total number of over 70,000 units of terminals. For the year ended 31 December 2016, approximately 41,500 units of the third-generation terminals have been placed in over 1,900 Welfare VLT halls across 28 provinces, cities, autonomous regions and municipalities in China, supporting the entire Welfare VLT sales nationwide.

Management Discussion and Analysis

DGTY's Welfare VLT supply contract expired on 28 June 2015. According to the supply contract, DGTY has the full ownership of the approximately 41,500 units of terminals generating all the sales of Welfare VLT, and has first right of refusal in the renewal of the Welfare VLT supply contract. The Group had not received notification from China Welfare Lottery Issuance and Administration Centre ("CWLC") regarding a suspension of Welfare VLT sales after the expiry of the supply contract. The Group decided to maintain the Welfare VLT terminals it provided in fully operational condition for Welfare VLT's continued use after the expiry of the supply contract, so as to support the sustained and healthy growth of Welfare VLT. This ensured the consistent and steady sales growth of Welfare VLT after the expiry of the supply contract. According to legally binding documents that the Group sent to CWLC and Beijing China Lottery Online Technology Company Limited ("CLO"), the Group shall be paid for the provision of these terminals for Welfare VLT's continued use after the expiry of the supply contract. The Group is striving willfully to achieve its goal. It is the genuine wish of the Group to continue to supply terminals and related services for Welfare VLT to ensure the steady, consistent and rapid growth of the lottery category, and contribute to the China lottery business as a whole.

CTG BUSINESS

On the Welfare Lottery CTG side, Guangdong province, which is served by the Group, remained the largest provincial Welfare Lottery market in China with sales up 7.0% YOY to RMB13.56 billion in 2016. Chongqing Welfare CTG and Shanghai Welfare CTG, both are served by the Group, recorded sales of approximately RMB1.74 billion and RMB3.13 billion respectively, with CTG sales growth of 10.4% and 17.8% YOY respectively. Furthermore, the Group is developing a new generation lottery information management system for Guangdong Welfare Lottery and Shanghai Welfare Lottery, which is expected to launch in 2017, taking their electronic management to a new level.

The Group's Sports Lottery CTG terminal business grew at an accelerated pace in 2016. The Group successively won bids for the Sports Lottery CTG terminal procurement programmes of Yunnan, Shaanxi, Jiangsu, Guizhou, Henan, Heilongjiang, Guangxi and Guangdong, achieved a total order number of over 8,000 units of terminals, expanding its business to 16 provinces. Meanwhile, the Group actively expanded into new Sports Lottery space and successively won bids for terminal information display device programmes of Shaanxi, Zhejiang, Jilin and Heilongjiang provinces, with a total order number of over 7,000 units of devices, and has become the leading Sports Lottery terminal supplier in China.

The Group will leverage its unique technology and product advantages to earn business from more provinces. At the same time, the Group will continue to maintain its collaboration with domestic and international terminal manufacturers to provide lottery terminals and core components such as scanners.

Management Discussion and Analysis

NEW MEDIA LOTTERY BUSINESS

2016 is the first year of China's 13th Five-Year Plan. New channels such as telephone and internet related product incubation has been highlighted in the 13th Five-Year Plan for Sports Lottery and Welfare Lottery, expanding new development pattern and enhancing innovation force. In addition, related technical preparations have been speeded up. The launch of New Media Lottery is clearly in order.

In 2016, the Group continued to maintain its close ties with several provincial lottery authorities, constantly refined and upgraded the telephone lottery sales management system and related products, enhanced and upgraded the workflow optimization and monitoring function of its telephone lottery sales business in accordance with the business management and operational requirements of the provincial lottery authorities by perfecting the functions of data mining, sales and marketing, with the aim of providing better support for telephone lottery sales activities of lottery authorities.

At the same time, the Group proactively optimized and enhanced the new media lottery management system and products, as part of the technical and operating preparations for further expansion of its new media lottery business.

The Group will be the forerunner of the new media lottery space when the market is fully opened up, riding on its well-rounded leading edges in terms of technical experience, games, marketing strategy and veteran. The Group also actively assisted lottery authorities with exploration in new business model, providing lottery players with whole new experiences that are fast, convenient, and have self-help features. Meanwhile, the Group is establishing business cooperation with various industry leaders, so as to expand the lottery sales scale by cross-industry resources and innovative concepts. The Group has a reserve of highly creative and technology-rich games to generate new business opportunities to meet players' needs.

OVERSEAS MARKETS EXPANSION

In addition to the expansion in Chinese markets, the Group will capitalize on its resources and China's "One Belt One Road" initiative to expand into overseas markets.

In 2016, the Welfare Lottery instant scratch card project, in collaboration with Khmer Pool Welfare Lottery Co., Ltd, has developed along the right lines, and recorded encouraging sales together with the CTG project, which has been launched in the first half of 2016. The parties are extending their collaboration to jointly develop mobile and internet lottery business in Cambodia with an objective to bring players more convenient betting service.

At the same time, breakthroughs in new game and sale channels are anticipated in 2017, on the cooperation with National Sports Lottery Company Limited in Cambodia.

Management Discussion and Analysis

CONCLUSION

Looking forward, China's lottery sales is expected to exceed RMB500 billion, synchronizing with the economic growth, while the total lottery sales will exceed RMB2,000 billion during the 13th Five-Year Plan period. There is enormous potential in China's lottery market, with pressing demand to breathe new life into the market by developing new channels and new games.

The Group's focus on building its own technology and product offering has enabled it to cover Video Lottery terminal, CTG terminal, CTG core transaction system, CTG management system, CTG game development and design, Scratch Card integrated management system, New Media Lottery sales system, New Media Lottery big data analysis system, and New Media Lottery game development and design. In addition, the Group has developed extensive operations and service capabilities for Video Lottery, CTG and New Media Lottery.

For over a decade, the Group has showed its dedication to the lottery industry with extensive investment, accountability and responsiveness to earn recognition as a leading market participant. Exploring new opportunities in the market with caution and prudence, the Group believes its efforts will pay off in the long run. Meanwhile, the Group will shape its strategies and execution in response to prevalent market trend and development as part of its preparation for opportunities brought by China lottery's 13th Five-Year Plan, contributing its share to the achievement of a sound China's lottery ecosystem in terms of sales channels, gaming products, lottery security, supporting systems, operating systems and technical support, among others.

FINANCIAL REVIEW

The Group recorded a turnover of approximately HK$200.3 million (2015: HK$643.7 million) for the year ended 31 December 2016, representing a decrease of approximately 69% over 2015. The decrease in turnover is mainly due to expiry of Welfare VLT supply contract on 28 June 2015. Loss attributable to owners of the Company for the year ended 31 December 2016 amounted to approximately HK$298 million (2015: HK$497.7 million), and is mainly due to impairment of property, plant and equipment regarding to the year-end net book value of Welfare VLT terminals of approximately HK$188.1 million (2015: Nil) and staff costs (excluding employee share option benefits) of approximately HK$126.4 million (2015: HK$143.9 million).

DGTY's Welfare VLT supply contract expired on 28 June 2015. According to the supply contract, DGTY has the full ownership of the approximately 41,500 units of terminals generating all the sales of Welfare VLT, and has first right of refusal in the renewal of the Welfare VLT supply contract. The Group had not received notification from CWLC regarding a suspension of Welfare VLT sales after the expiry of the supply contract. The Group decided to maintain the Welfare VLT terminals it provided in fully operational condition for Welfare VLT's continued use after the expiry of the supply contract, so as to support the sustained and healthy growth of Welfare VLT. This ensured the consistent and steady sales growth of Welfare VLT after the expiry of the supply contract. According to legally binding documents that the Group sent to CWLC and CLO, the Group shall be paid for the provision of these terminals for Welfare VLT's continued use after the expiry of the supply contract. The Group is striving willfully to achieve its goal. At the end of the reporting period, an impairment assessment was performed for these terminals. Management determined that an impairment charge of approximately HK$188.1 million was required to reduce the value of these terminals to their recoverable amount.

Management Discussion and Analysis

The financial assets at fair value through profit or loss comprised of various categories of securities, they include debt securities listed in Hong Kong and outside Hong Kong, listed equity securities in Hong Kong and outside Hong Kong and unlisted fund investments (the "Financial Assets"). All the Financial Assets are liquid stocks and the Company intends to hold them as short-term investments. The Company has its treasury investment policy in place for the purpose of provision of the authority and guidelines to the Directors and management to undertake investment of surplus funds for the prudent management and control of risk in their investment portfolios. The acquisitions of the Financial Assets were conducted for the purpose of treasury activities of the Group and in accordance with the treasury investment policy of the Company. All the Financial Assets were acquired from respective independent third parties. At 31 December 2016, the assets ratio (as defined in the Listing Rules) of each of the Financial Assets did not exceed 5%.

For the year ended 31 December 2016, the Group recorded a fair value gain on financial assets at fair value through profit or loss amounted to approximately HK$27.8 million, as compared to a fair value loss on financial assets at fair value through profit or loss amounted to approximately HK$103.7 million for the year 2015. The Group has reduced the investment amount of the Financial Assets during year 2016 after taking into account by the Directors of the market conditions, the price trend of the Financial Assets and the liquidity of the Group. At 31 December 2016, financial assets at fair value through profit or loss amounted to approximately HK$315.1 million, representing around 14.2% of the Group's total assets (At 31 December 2015, approximately HK$677.5 million, representing around 21.4% of the Group's total assets).

The Directors consider that the main objective of investing in the Financial Assets is to maximize earnings with acceptable risk tolerance levels while ensuring that the Group has sufficient funds at all time to meet its obligations when they fall due. The Directors would keep close monitoring the performance of the investment of the Financial Assets to ensure consistency with the Group's strategic plans and to respond to any change of market conditions. After the reporting period, the Group has substantially reduced the total investment amounts of the Financial Assets.

The Company continues to carry out discussion on a possible acquisition involving a group of companies engaged in lottery business as set out in the announcement dated 1 November 2016. No concrete terms have been agreed and the Company has not entered into any letter of intent, memorandum of understanding or any legally binding agreement in relation to such possible acquisition. If the acquisition is to proceed, the Company may consider, among others, equity or equity-linked financing to settle part of the consideration for the acquisition.

LIQUIDITY, FINANCIAL RESOURCES, GEARING RATIO AND CAPITAL STRUCTURE

The Group believes that it has adequate financial resources to fund its capital and operating requirements. At 31 December 2016, the Company had an outstanding corporate guarantee for unlimited amount for total banking facilities of property installment loans of approximately HK$153.7 million (2015: HK$153.7 million), an outstanding corporate guarantee limited to approximately HK$17 million (2015: HK$17 million) for a banking facility of a property installment loan of approximately HK$17 million (2015: HK$17 million), an outstanding corporate guarantee for unlimited amount for credit facilities of investment purpose of US$7.5 million (2015: US$20 million) and an outstanding corporate guarantee for unlimited amount for credit facilities of investment purpose of US$5 million (2015: US$5 million) and overdraft for liquidity purpose of US$25 million (2015: US$15 million).

The Group had outstanding bank borrowings at 31 December 2016 of approximately HK$313.4 million (2015: HK$583 million). At 31 December 2016, the bank borrowings and banking facilities of the Group were secured by (i) leasehold land and buildings of the Group with a carrying amount of approximately HK$162.2 million (2015: HK$165.8 million); (ii) standby letters of credit issued by bank for an aggregate amount of Nil (2015: US$32 million); (iii) bank deposits amounting to approximately HK$124.6 million (2015: HK$275.5 million); and (iv) financial assets of approximately HK$300.1 million (2015: HK$635.1 million).

Management Discussion and Analysis

In 2014, the Company has issued 5 per cent. convertible bonds due 2019 in total aggregate principal of HK$650 million (the "Convertible Bonds"). The Convertible Bonds shall be converted into the paid ordinary shares of HK$0.0025 each (the "Shares") of the Company at the applicable conversion price of HK$0.92 each. The Convertible Bonds bear interest at the rate of 5 per cent. per annum payable semi-annually in arrears. During the year under review, no Convertible Bonds had been converted into the Shares by the bondholders and principal amount of HK$100 million of the Convertible Bonds had been repurchased and cancelled by the Company. At 31 December 2016, the principal amount of the Convertible Bonds outstanding was HK$550 million (2015: HK$650 million).

The Group's total equity amounted to approximately HK$1,272.9 million at 31 December 2016 (2015: HK$1,817.4 million). At 31 December 2016, net current assets of the Group amounted to approximately HK$1,007.3 million (2015: HK$1,320.7 million), including approximately HK$374.6 million in cash and deposits with banks and financial institutions (2015: HK$792.6 million).

The gearing ratio (defined as total liabilities over total assets) of the Group at 31 December 2016 was approximately 42.8% (2015: 42.5%).

EXPOSURE TO EXCHANGE RATES FLUCTUATIONS

All the Group's assets, liabilities and transactions are denominated either in Hong Kong dollar, United States dollar or Renminbi. Foreign exchange risk arising from the normal course of operations is considered to be minimal.

PLEDGE OF ASSETS

At 31 December 2016, the Group's leasehold land and buildings at net book value of approximately HK$162.2 million (2015: HK$165.8 million) were pledged to banks to secure the bank borrowings granted to the Group. At 31 December 2016, the Group's time deposits of Nil (2015: HK$253 million) were pledged to secure bank borrowings and banking facilities granted to the Group. At 31 December 2016, the Group's cash deposits and financial assets at an aggregate carrying value of approximately HK$424.7 million (2015: HK$657.6 million) were pledged to financial institutions to secure the credit facilities granted to the Group.

CONTINGENT LIABILITIES

At 31 December 2016, the Group did not have any material contingent liabilities (2015: Nil).

STAFF

At 31 December 2016, the Group employed 329 full time employees (2015: 445). The management believes that the competence of employees is a major contributing factor to the Group's sustained growth and advancement in profitability. Staff remuneration is based on performance and experience. In addition to basic salary, benefits for employees include a performance-related bonus, contributory provident fund, medical insurance and regulated employees' social security program in China. The Group also adopted a share option scheme under which options may be granted to eligible staff based on individual performance. Training programs for staff are provided as and when required. The Group will further strengthen its team buildup, in order to offer enhanced services for China's lottery market.

Biographies of Directors and Senior Management

DIRECTORS

LAU Ting

Board's Chairperson, Executive Director and Chief Executive Officer

Ms. Lau, aged 60, is the Board's Chairperson, an Executive Director and the Chief Executive Officer of the Company. Ms. Lau is the founder of the Group and is responsible for planning and leading the implementation of the Group's overall strategies for operational development. She has over twenty-five years of solid experience in business planning and management, mergers and acquisitions, and financial and human resources management. Ms. Lau was an executive director of Hong Kong listed Burwill Holdings Limited in the previous three years.

WU Jingwei

Executive Director and President

Mr. Wu, aged 45, joined the Group in 2007, and is an Executive Director and the President of the Company. Mr. Wu assists the Board's Chairperson in planning and leading the implementation of the Group's overall strategies for development. Mr. Wu has overall responsibilities for the operations and management of the Group's lottery business with extensive experience in leading the China Welfare Lottery Video Lottery Business, Computer-generated Ticket Games Business, Video Lottery Business and New Media Lottery Business. Mr. Wu has over twenty years of experience in information technology. Prior to joining the Group, Mr. Wu had held senior management positions in PKU Founder Group and Hisense Group. Mr. Wu holds a Bachelor's degree in Mechanical Engineering from Beijing Technology and Business University.

CHAN Tan Na, Donna

Executive Director and Chief Financial Officer

Ms. Chan, aged 36, joined the Group in 2012, and is an Executive Director and Chief Financial Officer of the Company. Ms. Chan is responsible for the management of several departments of the Group including finance, investor relations and company secretarial. She holds a Bachelor's degree in Economics and Finance from the University of Hong Kong and a Master's degree in Economics from Boston University, USA. She is a qualified Chartered Financial Analyst (CFA). From 2005 to early 2012, Ms. Chan held positions at Deutsche Bank's Corporate Finance department and Atlantis Investment Management (Hong Kong) Limited, where she was involved in several initial public offerings, share placements, mergers and acquisitions, and bond issuances. In her capacity as a fund manager, she was in charge of equity investments in listed and unlisted companies in the Greater China region.

LI Zi Kui

Executive Director, Senior Vice President and General Manager of CTG Business Unit

Mr. Li, aged 53, joined the Group in 2011, and is an Executive Director, Senior Vice President of the Group and General Manager of CTG Business Unit of the Company. Mr. Li has over thirty years of solid management experience in the information technology sector. He had been engaged in the China Welfare lottery space as a chief engineer with technical management responsibility for nearly twenty years, gaining extensive experience with proven track record in various lottery segments including video lottery, computer ticket game and instant lottery. Mr. Li holds an EMBA from Beijing Institute of Technology.

Biographies of Directors and Senior Management

HOONG Cheong Thard

Non-executive Director

Mr. Hoong, aged 48, is currently a Non-executive Director and the Consultant of the Company. Mr. Hoong joined the Group in September 2006 and had been an Executive Director and the Chief Executive Officer of the Company until September 2008. Mr. Hoong has over ten years of experience in investment banking and has extensive experience in international capital markets and mergers and acquisitions. Mr. Hoong was a director in Equity Capital Markets at Deutsche Bank responsible for Greater China. He was also previously an executive director in Equity Capital Markets at UBS and has held senior positions in Corporate Finance at Barclays Group and a major international accounting firm where he was involved in auditing. Mr. Hoong is currently the executive director of Far East Consortium International Limited, a company listed in Hong Kong, and the director of AGORA Hospitality Group Co., Ltd., a company listed in Tokyo, Japan. Mr. Hoong is also a non-independent and a non-executive director of Land & General Berhad, a company listed in Malaysia. He is a member of the Institute of Chartered Accountants in England and Wales and holds a Bachelor's degree in Mechanical Engineering from Imperial College, University of London.

HUANG Shenglan

Independent Non-executive Director

Mr. Huang, aged 65, joined the Group in 2002, and is an Independent Non-executive Director of the Company. Mr. Huang was an executive director and the deputy governor of China Everbright Bank, Head Office and was an executive director and the general manager of China Everbright Technology Limited. Mr. Huang holds a Diploma in Arts from Huazhong Normal University and in International Economics from Huadong Normal University and a certificate in International Economic Law from Xiamen University and in Advanced Management Programme from the Harvard Business School, USA. Mr. Huang is also an executive director of Asia Investment Finance Group Limited, a non-executive director of Burwill Holdings Limited and a non-executive director of China Fortune Investments (Holding) Limited, which are listed companies in Hong Kong. Mr. Huang was an independent non-executive director of Symphony Holdings Limited in the previous three years.

CHAN Ming Fai

Independent Non-executive Director

Mr. Chan, aged 55, joined the Group in 2006, and is an Independent Non-executive Director of the Company. Mr. Chan is currently an independent business consultant. Prior to that, he was the chief executive officer of Full Seas Technology Group and the president of Dandelion Capital Group, which is a private financial advisory company. He has over twenty years of experience in investment banking and asset management. Mr. Chan had worked for Jardine Fleming Investment Management with a major responsibility to market unit trusts and asset management products in Hong Kong and subsequently in various Asian markets, and was particularly instrumental in the establishment of Jardine Fleming's investment trust operation in Japan, Korea and Indonesia. Mr. Chan also co-founded the KGI Group, which is a pan-Asian investment bank with shareholders including major investors and institutions in Asia, where he was the head of the asset management operation, which managed about USD400 million in hedge funds and other investment portfolios, and was also a member of the management committee of KGI Group. Mr. Chan is also an independent non-executive director of Burwill Holdings Limited, a company listed in Hong Kong. Mr. Chan holds a Bachelor's degree in Social Sciences with a major in Economics from the University of Hong Kong.

Biographies of Directors and Senior Management

CUI Shuming

Independent Non-executive Director

Mr. Cui, aged 79, joined the Group in 2008, and is an Independent Non-executive Director of the Company. Mr. Cui graduated from Renmin University of China. He was the deputy head of the Bank of China, Jiangsu branch, the executive director of The National Commercial Bank, Ltd. and the general manager of its Hong Kong branch, a director and the executive vice president of The Ka Wah Bank Limited and an independent non-executive director of two listed companies in Hong Kong, namely, Cheung Tai Hong Holdings Limited (currently known as ITC Properties Group Limited) and Wah Sang Gas Holdings Limited. Mr. Cui is currently an independent non-executive director of Burwill Holdings Limited and Yue Da Mining Holdings Limited, both are listed companies in Hong Kong. He has over forty years of experience in international finance and corporate planning and management.

SENIOR MANAGEMENT

LAN Jianzhang

Senior Vice President and General Manager of New Type Lottery Business Unit

Mr. Lan, aged 45, joined the Group in 2009. He is currently the Senior Vice President of the Group and General Manager of New Type Lottery Business Unit. Mr. Lan previously held a senior position at China Lottery Online Technology Co., Ltd, and was responsible for the strategy, product and business development. He has extensive and proven experience in the lottery industry including video lottery segment. Mr. Lan has over twenty years' experience in the information technology and internet sector. He previously held management positions at leading companies in the sector including the PKU Founder Group, where he was responsible for the development of high-end information technology and household appliances. Mr. Lan holds a Bachelor's degree from Beijing University of Aeronautics & Astronautics, a Master's degree in Physics from Chinese Academy of Sciences, and an EMBA from Beijing Institute of Technology.

HE Ying

Senior Vice President and General Manager of Mobile and Internet Services Business Unit

Ms. He, aged 47, joined the Group in 2007. She is currently the Senior Vice President of the Group, General Manager of Mobile and Internet Services Business Unit and General Manager of the Marketing Department. Ms. He had been the general manager of the marketing department at Founder Technology Group Corporation and vice general manager at Hisense Cyber Product Limited. Ms. He has been engaged in the information technology industry for twenty years, and has extensive experience in marketing and corporate management. Ms. He holds a Bachelor's degree in Computer Science from the Beijing University of Technology.

ZHU Xinxin

Senior Vice President and Director of the Group's Human Resource and Administrative Department

Ms. Zhu, aged 37, joined the Group in 2008. She is currently the Senior Vice President of the Group and Director of the Group's Human Resource and Administrative Department. Ms. Zhu had been the operation manager of Protiviti Independent Risk Consulting, China, a global business consulting and internal audit firm. Ms. Zhu had also worked in Accenture, a global leading management consulting, information technology services and outsourcing company. At Accenture, she participated in various projects including the CNOOC SAP implementation project, Robert Half International PeopleSoft Implementation project and BP Finance & Accounting Outsourcing project. Ms. Zhu holds a Bachelor's degree in Business and Finance from the University of Westminster and a Master's degree in Development Finance from the University of Manchester. Ms. Zhu also holds the Chief Human Resource Officer certificate, conducted by the Business School at Renmin University of China and ILR School at Cornell University.

Biographies of Directors and Senior Management

CHEN Hengben

Vice President

Mr. Chen, aged 77, joined the Group in 2008. He is currently the Vice President of the Group. Mr. Chen, who is among the pioneers in China engaged in the development of lottery systems and equipment, has over forty-five years of practical experience in computer and electronic engineering. He was a member of the Guangdong Provincial Committee of the Chinese People's Political Consultative Conference, a senior engineer for the Research Institute of China Ordnance Industry and the vice president covering technology for the Computer Center of Guangdong Provincial Science and Technology Commission; In 1992, he took part in establishing the Guangzhou Horse Racecourse and assumed the position of vice chief commander for the project construction of the Real Time Racing Lottery Bidding System for Guangzhou Horse Racecourse; In 1999, he was appointed as chief commander for the project construction of Macau Greyhound Racing Club's Real Time Lottery Bidding System. Afterwards Mr. Chan founded Guangzhou San Huan Yong Xin Technology Company Limited and Guangzhou Lottnal Terminal Technology Company Limited. Mr. Chen holds a Bachelor's degree in Computer Science from South China University of Technology.

JI Youjun

Vice President and the General Manager of the Group's Technology Management Center

Mr. Ji, aged 44, joined the Group in 2007. He is currently the Vice President of the Group and the General Manager of the Group's Technology Management Center. Mr. Ji had been the head of household product development at Founder Technology Group Corporation and vice general manager at Hisense Cyber Product Limited. Mr. Ji has extensive experience in the development and management of information technology software and hardware products. He holds a Bachelor's degree in Mechanical Engineering and Manufacturing from Harbin University of Science and Technology.

ZHANG Yi

Vice President and Financial Controller (China)

Mr. Zhang, aged 40, joined the Group in 2008. He is currently the Vice President of the Group and Financial Controller (China), responsible for the overall financing and investment management of the Group's China region. Prior to joining the Group, Mr. Zhang had previously been the Investment Head of Investment Development Department of Fosun Group. Fosun Group is one of the largest non-state-owned corporations in China with operations in pharmaceutical, property development, steel, mining, retail, services and strategic investment. Mr. Zhang had also worked for Yongjin Group and Jiuzhitang Co., Ltd, both of which are famous corporations in China. Mr. Zhang has nearly sixteen years of experience in the financial management and investment management fields. Mr. Zhang holds a Bachelor's degree in Economics from Peking University's Guanghua School of Management and a Master's degree of International Business Administration. Mr. Zhang is also a non-practicing member of the Chinese Institute of Certified Public Accountants (CICPA) and a member of the Association of Chartered Certified Accountants (ACCA).

Biographies of Directors and Senior Management

TAN Yung Kai, Richard
Financial Controller of the Group
Mr. Tan, aged 45, joined the Group in 2000. He is currently the Group's Financial Controller, responsible for the overall financial accounting of the Group. Mr. Tan has over twenty years of experience in the audit and the accounting fields. He had worked for Deloitte Touche Tohmatsu, an international accounting firm involved in the various auditing and due diligence activities. He holds a Bachelor's degree in Commerce from McGill University, Canada and a Master's degree in Corporate Finance from the Hong Kong Polytechnic University. Mr. Tan is a member of the Hong Kong Institute of Certified Public Accountants and American Institute of Certified Public Accountants.

SONG Xiaojun
Head of the Group's Legal Department
Ms. Song, aged 50, joined the Group in 2007. She is currently the Head of the Group's Legal Department. Ms. Song obtained her lawyer qualification certificate in Mainland China and has over twenty years of experience in legal areas, specialising in business matters, dispute resolutions and intellectual property. Ms. Song has worked at the China University of Political Science and Law, law firms in Mainland China and Hong Kong respectively. Ms. Song holds a Bachelor's degree in Law from the China University of Political Science and Law and a Master's degree (Magister Juris) in European and Comparative Law from Oxford University.

WONG Hiu Wong
Company Secretary of the Group
Mr. Wong, aged 33, joined the Group in 2009. He is currently the Group's Company Secretary, responsible for the overall compliance matters within the Group and providing advice to its corporate exercise and adaptation of latest corporate governance policies. Prior to joining the Group, Mr. Wong had worked for a Hong Kong listed group, responsible for the compliance issues of its companies listed on Main Board and GEM Board respectively. Mr. Wong is an associate member of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries and a member of The Hong Kong Institute of Directors. He holds a Bachelor's degree in Business from LSE, the University of London and a Master's degree in Corporate Governance and Directorship from the Hong Kong Baptist University.

Report of the Directors

The board of Directors of the Company (the "Board") presents to the shareholders their report together with the audited financial statements of the Group for the year ended 31 December 2016.

FINANCIAL RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 31 December 2016 are set out in the consolidated statement of profit or loss on page 42.

No interim dividend was paid during the year.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2016 (2015: Nil).

PRINCIPAL ACTIVITIES AND SEGMENT INFORMATION

The principal activity of the Company is investment holding.

The Group is principally engaged in the business of provision of technology and services for lottery systems, terminal equipment and gaming products and their operations in China's lottery market. The principal businesses of the Group cover various lottery products ranging from video lottery, computer-generated ticket games and KENO-type lottery to new media lottery.

Analysis of the Group's turnover and segment information for the year ended 31 December 2016 are set out in Note 5 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The Group's five largest customers accounted for about 70% of its turnover for the year. In addition, the largest customer of the Group accounted for about 41% of the Group's turnover.

The percentage of the Group's purchases attributable to the Group's five largest suppliers was about 43%. In addition, the largest supplier of the Group accounted for about 10% of the Group's purchases.

Save as disclosed above, none of the Directors, their respective associates nor shareholders (which to the knowledge of the Directors owned more than 5% of the Company's share capital) had any interest in the above customers and suppliers at any time during the year.

PROPERTY, PLANT AND EQUIPMENT

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

SUBSIDIARIES

The particulars of the Company's principal subsidiaries as at 31 December 2016 are set out in Note 17 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in share capital during the year are set out in Note 31 to the consolidated financial statements.

Report of the Directors

RESERVES

Details of movements in reserves during the year are set out in Note 33 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2016, the distributable reserves to the shareholders in accordance with the Company's Bye-laws was Nil (As at 31 December 2015: HK$83,612,000).

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws although there is no statutory restriction against the granting of such rights under the laws of Bermuda.

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

The Company had repurchased partial of the convertible bonds due 2019 (the "Convertible Bonds") in principal amount of HK$100,000,000 with the price of HK$96,125,000 on 29 November 2016 at over-the-counter market and the same had been cancelled on 9 December 2016 (the "Event"). As at 31 December 2016, the total outstanding principal amount of the Convertible Bonds was HK$550,000,000. The maximum number of shares of the Company that will be issued upon conversion of all the outstanding Convertible Bonds before and after the Event is 706,521,739 Shares and 597,826,086 shares respectively, representing a decrease of 108,695,653 shares of the Company issuable under the Convertible Bonds. For the year ended 31 December 2016, there were no Convertible Bonds had been converted by holders of the Convertible Bonds. The Convertible Bonds are currently listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year ended 31 December 2016.

SHARE OPTION SCHEME

As at 31 December 2016, there were no outstanding options granted by the Company pursuant to the share option scheme adopted by the shareholders of the Company on 30 July 2002 (the "2002 Option Scheme"). At the annual general meeting of the Company held on 18 May 2012, an ordinary resolution has be passed for the Company to terminate the operation of the 2002 Option Scheme in accordance with its terms (such that no further options could thereafter be offered under the 2002 Option Scheme but in all other respects the provisions of the 2002 Option Scheme shall remain in full force and effect and all options granted prior to such termination and not exercised at the date of termination shall remain valid) and a new share option scheme (the "2012 Option Scheme") has been adopted by the shareholders of the Company at the same day. On 27 May 2015, a resolution has been approved by the Company's shareholders to refresh the limit of granting option under the 2012 Option Scheme. More information can be referred in the Company's circular dated 28 April 2015. As at 31 December 2016, there were options for 875,625,000 shares of HK$0.0025 each in the share capital of the Company granted by the Company pursuant to the 2012 Option Scheme, were valid and outstanding. 1,135,305,733 shares are available for issue (being the options were granted, including those granted before and after the refreshment of limit, and outstanding plus the options may be granted) under the 2012 Option Scheme, representing approximately 13.27% of the issued shares of the Company on the date of this report.

Report of the Directors

SHARE OPTION SCHEMES *(Cont'd)*

Summary of the principal terms of the 2012 Option Scheme is as follows:

(i) Purpose of the Option Scheme

The purpose of the option scheme is to provide incentives to Participants (as stated in paragraph (ii)) to contribute to the Group and to enable the Group to recruit high-calibre employees and attract resources that are valuable to the Group.

(ii) Participants

Any person being an employee, officer, buying agent, selling agent, consultant, sales representative, marketing representative, business representative of, or supplier or provider of goods or services to, the Group or its holding company or subsidiary, including any executive or non-executive director of the Group or its holding company or subsidiary.

(iii) Maximum number of shares

The limit on the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the option scheme and any other share option schemes of the Company and/or its holding company and/or its subsidiary must not exceed 30% of the number of issued shares from time to time.

(iv) Maximum entitlement of each Participant

Unless approved by shareholders of the Company in general meeting, no Participant shall be granted an option which would result in the total number of shares issued and to be issued upon exercise of all options granted and to be granted (including options exercised, cancelled and outstanding) to such Participant in any 12-month period up to and including the proposed date of grant for such options would exceed 1% of the number of shares in issue as at the proposed date of grant.

(v) Option period

An option may be exercised in accordance with the terms of the option scheme at any time during a period of not exceeding ten years to be notified by the Board to the grantee, such period to commence on the date of grant or such later date as the Board may determine and expiring on the last day of the said period. Under the Option Scheme, the Board may, at its discretion, prescribe a minimum period for which an option must be held before it can be exercised.

(vi) Payment on acceptance of option

HK$1.00 in cash is payable by the Participant who accepts the grant of an option in accordance with the terms of the option scheme on acceptance of the grant of an option.

(vii) Subscription price

The subscription price for the shares under the options to be granted under the option scheme will be a price determined by the Board and notified to a Participant at the time the grant of the options is made to (and subject to acceptance by) the Participant and will be at least the highest of: (a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheets on the date of the grant (subject to acceptance) of the option, which must be a business day; (b) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of the grant (subject to acceptance) of the option; and (c) the nominal value of the shares.

(viii) The life of the Option Scheme

The option scheme shall be valid and effective for a period of ten years commencing on 18 May 2012, after which period no further options will be granted or accepted but the provisions of the option scheme shall remain in full force and effect in all other respects.

Report of the Directors

SHARE OPTION SCHEMES *(Cont'd)*

Movements of share options granted under the 2002 Option Scheme and 2012 Option Scheme during the year ended 31 December 2016:

	Date of grant	Exercise price per Share HK$	Exercise period from	Exercise period until	No. of Shares under the options: outstanding at the beginning of the year	granted during the year	exercised during the year	cancelled during the year	lapsed during the year	outstanding at the end of the year	Closing price per Share at the date of grant of the options during the year HK$
2002 Option Scheme											
Name of Director											
Mr. HOONG Cheong Thard	30/06/2006	0.285	16/08/2008	29/06/2016	17,200,000	–	(12,000,000)	–	(5,200,000)	–	–
Total:					17,200,000	–	(12,000,000)	–	(5,200,000)	–	
2012 Option Scheme											
(i) Name of Director											
Mr. WU Jingwei	14/07/2014	0.690	14/07/2017	13/07/2018	10,000,000	–	–	–	–	10,000,000	–
Ms. CHAN Tan Na, Donna	14/07/2014	0.690	14/07/2017	13/07/2018	10,000,000	–	–	–	–	10,000,000	–
Mr. LI Zi Kui	14/07/2014	0.690	14/07/2017	13/07/2018	5,000,000	–	–	–	–	5,000,000	–
Mr. HOONG Cheong Thard	14/07/2014	0.690	14/07/2017	13/07/2018	100,000	–	–	–	–	100,000	–
Mr. HUANG Shenglan	14/07/2014	0.690	14/07/2017	13/07/2018	100,000	–	–	–	–	100,000	–
Mr. CHAN Ming Fai	14/07/2014	0.690	14/07/2017	13/07/2018	100,000	–	–	–	–	100,000	–
Mr. CUI Shuming	14/07/2014	0.690	14/07/2017	13/07/2018	100,000	–	–	–	–	100,000	–
(ii) Continuous contract employees	13/11/2012	0.109	13/05/2014	12/05/2016	11,500,000	–	(11,500,000)	–	–	–	–
	14/07/2014	0.690	14/07/2017	13/07/2018	85,100,000	–	–	–	(3,000,000)	82,100,000	–
(iii) Other participants	14/07/2014	0.690	14/07/2017	13/07/2018	75,525,000	–	–	–	–	75,525,000	–
	29/10/2014	0.840	29/10/2015	28/10/2018	46,000,000	–	–	–	–	46,000,000	–
	29/10/2014	0.840	29/10/2017	28/10/2020	11,600,000	–	–	–	–	11,600,000	–
	02/01/2015	0.600	02/01/2015	01/01/2017	40,000,000	–	–	–	–	40,000,000	–
	10/07/2015	0.400	10/07/2015	09/07/2017	170,000,000	–	–	–	–	170,000,000	–
	29/10/2015	0.460	29/10/2015	28/10/2017	425,000,000	–	–	–	–	425,000,000	–
Total:					890,125,000	–	(11,500,000)	–	(3,000,000)	875,625,000	

Report of the Directors

SHARE OPTION SCHEMES *(Cont'd)*

Notes:

1. The options are recognised as expenses in the accounts in accordance with Hong Kong Financial Reporting Standard 2. Other details of share options granted by the Company are set out in Note 32 to the consolidated financial statements.

2. For the share options exercised under 2002 Option Scheme during the year, the weighted average closing price of Share immediately before the date on which the options for 12,000,000 Shares were exercised was approximately HK$0.318. For the share options exercised under 2012 Option Scheme during the year, the weighted average closing price of Share immediately before the date on which the options for 11,500,000 Shares were exercised was approximately HK$0.308.

DIRECTORS

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

Executive Directors

Ms. LAU Ting
Mr. WU Jingwei
Ms. CHAN Tan Na, Donna
Mr. LI Zi Kui

Non-executive Director

Mr. HOONG Cheong Thard

Independent Non-executive Directors

Mr. HUANG Shenglan
Mr. CHAN Ming Fai
Mr. CUI Shuming

In accordance with bye-law 99 of the Bye-laws of the Company, Mr. WU Jingwei, Mr. HOONG Cheong Thard and Mr. HUANG Shenglan shall retire from office by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Biographical details of the Directors of the Company are set out on pages 10 to 12.

SENIOR MANAGEMENT

Biographical details of the senior management of the Group are set out on pages 12 to 14.

Report of the Directors

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

As at 31 December 2016, the interests and short positions of the Directors and chief executive of the Company (including those interests and short positions which were taken or deemed to have interests and short positions under the provisions of the Securities and Futures Ordinance (the "SFO")) in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Rules Governing the Listing of Securities of the Stock Exchange (the "Listing Rules") (the "Model Code"), were as follows:

(1) Interests in the Shares of the Company

	Number of Shares					Approximate percentage of the Company's issued share capital
Name of Director	Beneficial interests	Family interests	Corporate interests	Security interests in Shares	Total	
Ms. LAU Ting	37,974,373(L)	242,486,426(L)	727,213,326(L)	229,000,000(L)	1,236,674,125(L) *(Note 1)*	14.46%(L)
Mr. WU Jingwei	82,200,000(L)	–	–	–	82,200,000(L)	0.96%(L)
Ms. CHAN Tan Na, Donna	40,000,000(L)	–	–	–	40,000,000(L)	0.47%(L)
Mr. LI Zi Kui	28,000,000(L)	–	–	–	28,000,000(L)	0.33%(L)
Mr. HOONG Cheong Thard	6,000,000(L)	–	–	–	6,000,000(L)	0.07%(L)
Mr. HUANG Shenglan	1,100,000(L)	–	–	–	1,100,000(L)	0.01%(L)
Mr. CUI Shuming	2,000,000(L)	–	–	–	2,000,000(L)	0.02%(L)

Notes:

1. For the corporate interests, 75,052,874 shares were held by Hang Sing Overseas Limited ("Hang Sing") which was wholly owned by Orient Strength Limited ("Orient Strength"), a company which was wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 137,735,546 shares were held by Strong Purpose Corporation ("Strong Purpose"), a company which was wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 512,492,594 shares were held by Glory Add Limited ("Glory Add") which was wholly owned by Favor King Limited, a company which was wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 1,932,312 shares were held by Burwill Holdings Limited of which Ms. LAU Ting and Mr. CHAN Shing were the controlling shareholders. The shares of the family interests were owned by Mr. CHAN Shing. As Mr. CHAN Shing is the spouse of Ms. LAU Ting, the interests of each of Ms. LAU Ting and Mr. CHAN Shing were deemed to be the interests of each other.

2. The letter "L" denotes long position(s).

(2) Interests in Underlying Shares of the Company

As at 31 December 2016, certain Directors of the Company had the interests in respect of options to subscribe for the shares of the Company under the option schemes. Details of their interests in the share options of the Company are separately disclosed in the section "Share Option Schemes" of this report.

Save as disclosed above, as at 31 December 2016, none of the Directors or chief executive of the Company had, or were deemed under the SFO to have, any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) which were required to be recorded in the register kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

As at 31 December 2016, according to the register required to be kept by the Company under Section 336 of the SFO, the following persons (other than the Directors and chief executive of the Company) had interests and short positions in the shares and underlying shares of the Company:

Interests in the Shares and Underlying Shares of the Company

Name of Shareholder	Number of Shares				Approximate percentage interest in the Company's issued share capital
	Beneficial interests	Family interest	Corporate interests	Total	
Mr. CHAN Shing	242,486,426(L)	266,974,373(L)	727,213,326(L)	1,236,674,125(L) *(Note 1)*	14.46%(L)
Tencent Holdings Limited	–	–	594,034,513(L)	594,034,513(L) *(Note 2)*	6.94%(L)
MIH TC Holdings Limited	–	–	594,034,513(L)	594,034,513(L) *(Note 2)*	6.94%(L)
Naspers Limited	–	–	594,034,513(L)	594,034,513(L) *(Note 2)*	6.94%(L)
Favor King Limited	–	–	512,492,594(L)	512,492,594(L) *(Note 1)*	5.99%(L)

Notes:

1. For the corporate interests, 75,052,874 shares were held by Hang Sing Overseas Limited ("Hang Sing") which was wholly owned by Orient Strength Limited ("Orient Strength"), a company which was wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 137,735,546 shares were held by Strong Purpose Corporation ("Strong Purpose"), a company which was wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 512,492,594 shares were held by Glory Add Limited ("Glory Add") which was wholly owned by Favor King Limited, a company which was wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 1,932,312 shares were held by Burwill Holdings Limited of which Ms. LAU Ting and Mr. CHAN Shing were the controlling shareholders. The shares of the family interests were owned by Mr. CHAN Shing. As Mr. CHAN Shing is the spouse of Ms. LAU Ting, the interests of each of Ms. LAU Ting and Mr. CHAN Shing were deemed to be the interests of each other.

2. These are the same lot of shares.

3. The letter "L" denotes long position(s).

Save as disclosed above, as at 31 December 2016, there was no person (other than the Directors and chief executive of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and/or who were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

Report of the Directors

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the option holdings disclosed above, at no time during the year was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in the financial statements, there was no contracts of significance (as defined in Rule 15 of Appendix 16 of the Listing Rules) in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which any Directors of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONTRACTS WITH DIRECTORS

None of the Directors offering themselves for re-election at the forthcoming Annual General Meeting has an unexpired service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

FINANCIAL SUMMARY

A summary of results and assets and liabilities of the Group is set out on page 3.

EMPLOYEE RETIREMENT BENEFIT

Details of the retirement benefit schemes of the Group and the employee retirement benefit costs charged to the consolidated statement of profit or loss for the year are set out in Note 36 to the consolidated financial statements.

COMPETING INTERESTS

The Directors believe that none of the Directors or their respective associates has any interest in any business which competes or potentially competes, either directly or indirectly, with the business of the Group.

PUBLIC FLOAT

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

CONTROL CONTRACTS

History and background

In the early of 2008, with the objective to expand into the New Media Business, the Group acquired 北京華彩贏通科技有限公司 ("OPCO") in the form of loan extended to Ms. HE Ying and Mr. JI Youjun (collectively referred to as the "Nominees") and entered into the Control Contracts with the Nominees to control and extract all economic benefits from OPCO for the benefit of the Group. The Nominees were appointed as directors of OPCO or their subsidiaries respectively to oversee its operation under the instruction of the Company. The New Media Business, as the current business of OPCO, involves mobile value-added telecommunications business activities. According to the relevant PRC laws and regulations, a wholly foreign-owned enterprise is prohibited from engaging in any value-added telecommunications business. Therefore, a wholly foreign-owned enterprise is ineligible to apply for and obtain a value-added telecommunications business operation permit. The Control Contracts were entered into in order for the Group to manage and operate the business of OPCO, under which all the business, financial and operating activities of OPCO are managed by the Group and all economic benefits and risks arising from the business, financial and operating activities of OPCO are transferred to the Group by means of consulting fees payable by OPCO.

Report of the Directors

Principal terms of the agreements under the Control Contracts

The Control Contracts comprise (i) the Loan Agreement; (ii) the Equity Pledge Agreement; (iii) the Exclusive Equity Transfer Agreement; (iv) the Consulting and Servicing Agreement; and (v) the Agency Agreement. The principal terms of which are set out below:

Loan Agreement

Pursuant to the Loan Agreement, 北京優昌源科技有限公司 ("WFOE") (as lender) provided loans to the Nominees (as borrowers) respectively, among others:

— the Nominees were required to pledge their equity interests in OPCO to WFOE, respectively;

— the loans have a term of 20 years;

— under any circumstances, the repayment of the loans by the Nominees (in part or in full) can only be satisfied by the transfer of the equity interests in the respective OPCO (in part or in full) to the WFOE (or the nominees of the WFOE). For avoidance of doubt, regardless of whether the repayment is made upon the expiry of the loans, upon the request of the WFOE or under any other circumstances, save for the aforesaid repayment method, any other repayment methods adopted by the Nominees shall be invalid;

— the Nominees do not have the right to repay the loans prior to its expiry without the written consent of the WFOE; and

— in the event that the consideration for the transfer of the equity interests in the OPCO (please refer to the Exclusive Equity Transfer Agreement) is not more than the aggregated principal amount of the loans extended to the respective Nominees, the loans will be interest-free. However, if the consideration exceeds the aggregated principal amount of the loans extended to the respective Nominees, the interest of the loans shall be the difference between the consideration and the aggregated principal amount of the loans. Upon the completion of the transfer of the equity interests in the OPCO, the Nominees shall be deemed to have satisfied all of their repayment obligations under the Loan Agreements.

Equity Pledge Agreement

Pursuant to the Equity Pledge Agreement entered into by the Nominees, OPCO and WFOE, among others:

— the Nominees have pledged whole of the equity interest in OPCO owned by them to WFOE to guarantee the Nominees' obligations and liabilities owed to WFOE, including those under the Loan Agreements; and

— WFOE can exercise its rights under the Equity Pledge Agreement and enforce the right to the equity pledge, including, in the event of a breach, requiring the Nominees to dispose of the equity interest in OPCO, or asking the Nominees to transfer the equity interest in OPCO to WFOE to discharge the Nominees' obligations and liabilities towards WFOE if agreed by the parties.

Report of the Directors

Exclusive Equity Transfer Agreement

Pursuant to the Exclusive Equity Transfer Agreement entered into by the Nominees, OPCO and WFOE, among others:

— the Nominees and OPCO irrevocably grant the WFOE with the exclusive right to acquire or to designate a qualified entity to acquire, the equity interest in OPCO (in part or in whole) or the assets owned by the OPCO (in part or in whole) at any time. Subject to the full compliance of the relevant PRC laws and regulations, WFOE has the full discretion over the exercise time and manner of the aforesaid purchase option. The consideration under the purchase option is RMB50 million. Shareholders of OPCO shall not grant any parties, other than WFOE or the designated entity, the same or similar rights;

— subject to the full compliance of the relevant PRC laws and regulations, upon the exercise of the rights attached to the purchase option, WFOE or the designated entity has the right to acquire the entire equity interest in OPCO or all the assets owned by OPCO, and the consideration for the transfer will be offset against the total outstanding amount of loans under the Loan Agreement (details of which are set out above); and

— in the event that, subject to the relevant PRC laws, the consideration for the entire equity interest in OPCO or all the assets owned by OPCO exceeds the outstanding amount of the loans, the loans shall bear interest and the consideration shall be offset against the principal of the loans and the accrued interest.

Consulting and Servicing Agreement

OPCO and WFOE entered into the Consulting and Servicing Agreement. Pursuant to which, among others:

— OPCO engages WFOE to provide exclusive sales and consultancy services for a period of twenty years with an automatic extension for a further ten years in absence of a written termination notice from WFOE;

— unless WFOE consents in writing, OPCO shall not accept sales and consultancy services provided by any third party;

— OPCO warrants that OPCO will not transfer, dispose, lease, encumber its assets (including tangible and intangible, existing and assets to be acquired), unless it is within the normal course of business of OPCO; and

— OPCO shall not distribute any dividend to its shareholders.

Agency Agreement

Pursuant to the Agency Agreement between OPCO, the Nominees and WFOE, the Nominees unconditionally and irrevocably authorise the natural persons designated by WFOE to exercise the rights of the Nominees as the shareholders of OPCO, including but not limited to, the right to attend shareholders' meetings and exercise the voting rights attached to the equity interest in OPCO held by the Nominees. The Nominees also agree to appoint the personnel recommended by WFOE as director(s), general manager, finance director and other senior management of the OPCO. The Nominees also agree to act on the recommendations of the aforesaid appointees. In addition, the Nominees and OPCO shall grant to WFOE the rights to manage all the assets of OPCO in the event of liquidation, termination of business, deregistration and any business termination related procedures. The Agency Agreement has a term of twenty years with an automatic extension for a further one year. WFOE can terminate the Agency Agreement by serving a 30-day prior written notice.

Report of the Directors

Dispute Resolution

Each of the Control Contracts is governed by PRC laws and provides for the resolution of disputes through arbitration in accordance with the arbitration rules of the China International Economic and Trade Arbitration Commission (中國國際經濟貿易仲裁委員會). The arbitration shall take place in Beijing and the outcome of the arbitration shall be final and binding. The Control Contracts provide that arbitrators may award remedies in rem over the equity interests in or assets of OPCO in arbitration. They also provide that courts in the places where the parties of the Control Contracts are located shall have the power to grant interim remedies (such as property reservation and evidence reservation) in support of the arbitration pending formation of the arbitral tribunal or on appropriate time. The PRC Legal Adviser of the Company has also advised that the tribunal has no power to grant injunctive relief or winding up order under the PRC laws. Therefore, the dispute resolution provisions of the Control Contracts do not include the provision that an arbitral tribunal has the power to grant injunctive relief as remedy.

Succession

As advised by the PRC Legal Adviser of the Company, the provisions set out in the Control Contracts are also binding on the Nominees' successors. Under the Succession Law of the PRC, the statutory successors include the spouse, children, parents, brothers, sisters, paternal grandparents and the maternal grandparents and any breach by the successors would be deemed to be a breach of the Control Contracts. In case of a breach, the Group can enforce its rights against the successors. Therefore, the PRC Legal Adviser is of the view that (i) the Control Contracts are sufficient for the protection of the Group even in the event of death of any Nominee; and (ii) the death of any Nominee would not affect the validity of the Control Contracts, and the Group can enforce its right under the Control Contracts against the successors of the Nominees. The PRC Legal Adviser also confirmed that under the PRC law, a natural person cannot declare bankruptcy. Furthermore, pursuant to the Exclusive Equity Transfer Agreement, the WFOE can exercise the purchase option to acquire or to designate a qualified entity to acquire, the equity interest in the OPCO (in part or in whole) or the assets owned by the OPCO (in part or in whole) at any time. Subject to the full compliance of the relevant PRC laws and regulations, the WFOE shall have the full discretion over the exercise time, manner and exercise price of the aforesaid purchase option.

Financial Information of OPCO

The revenue, profit/loss and net assets attributable to the OPCO are set out in Note 17(c) to the consolidated financial statements.

The Control Contracts in place during the Year

The Control Contracts entered into between the Group, OPCO and Nominees are continuously in place during the year.

Risk Factors

For the year ended 31 December 2016, there is no unwinding of the Control Contract as the restrictions that led to the adoption of the Control Contracts are not removed. As disclosed in the Company's announcement dated 4 October 2013, risk factors in connection with the Control Contracts are listed below (terms used in this section shall have the same meanings as defined in the Company's announcement dated 4 October 2013 unless otherwise stated):

— If the PRC Government determines that the Control Contracts are not in compliance with applicable PRC laws and regulations, our business, financial condition or results of operations could be adversely affected.

  In the opinion of the PRC Legal Adviser of the Company, the Control Contracts are in compliance with existing PRC laws and regulations. There are, however, substantial uncertainties regarding the interpretation and application of current and future PRC laws and regulations. Accordingly, there is no assurance that the PRC regulatory authorities will not take a view contrary to that of the PRC Legal Adviser. In such event, the payment of services fee from the OPCO to the WFOE as stipulated under the Control Contracts could be hampered or even terminated.

Report of the Directors

The Group may have to rationalise or restructure the operations of the OPCO under the Control Contracts or terminate the New Media Business operated by the OPCO in extreme circumstances where (i) the existing Control Contracts are invalidated by the PRC courts for non-compliance of applicable laws and regulations; and/or (ii) the Company is unable to satisfy the then applicable PRC laws and regulations, which may include but not limited to "The Regulations for the Administration of Foreign-Invested Telecommunications Enterprises". Such rationalisation or restructuring or termination of the New Media Business could result in the diversion of management attention and the incurrence of substantial operating and production costs which could adversely affect the Group's business, financial condition or results of operations.

— The Control Contracts may not be as effective as direct ownership in providing operational control.

The Group relies on the Control Contracts with the OPCO and its shareholders to operate the OPCO's businesses. These Control Contracts may not be as effective as direct equity ownership in providing the Group with control and security over the OPCO.

However, under the Control Contracts, if the OPCO or its registered shareholders fail to perform its, his or her respective obligations under these Control Contracts, the Group may have to incur substantial costs and expend significant resources and time to enforce those arrangements and rely on legal remedies under the PRC laws.

— The Nominees may not act in the interests of the Group and they may breach their contracts with the Group.

The Nominees may breach their contracts with the Group or otherwise have disputes with the Group, the Group may have to initiate legal proceedings, which involve significant uncertainties. Such disputes and proceedings may significantly disrupt the business operations of the Group, adversely affect the Group's ability to control the OPCO and/or otherwise result in negative publicity, and the Group cannot provide assurance that the outcome of such disputes and proceedings will be in the favour of the Group.

— The Control Contracts may be subject to scrutiny by the PRC tax authorities, which may result in a finding that the Group owes additional taxes than calculated or are ineligible for tax exemptions, or both, which could substantially increase the Group's taxes and thereby reduce the Group's net income in the future.

Arrangements and transactions among related parties may be subject to audits or challenges by the PRC tax authorities. If any transactions of the Group entered into between subsidiaries of the Group in the PRC, any of the OPCO and their respective shareholders are determined by the PRC tax authorities not to be on an arm's length basis, or found to result in an impermissible reduction in taxes, the PRC tax authorities may adjust the profits and losses of such OPCO, which may result in additional taxes payable. In addition, the PRC tax authorities may impose late payment fees and other penalties to such OPCO for under-paid taxes. Thus, the Group's net income may be adversely and materially affected if the tax liabilities of any the OPCO increase or if it is found to be subject to late payment fees or other penalties.

In order to mitigate the risk as above mentioned, actions have been taken by the Company, including but not limited to, the following:

As disclosed in the Company's announcement dated 4 October 2013, the PRC Legal Adviser of the Company is of the opinion that each of the Control Contracts complies with, and is not in breach of, the PRC laws and regulations (including the Contract Law and the General Principles of Civil Code). The Company has continually monitored the development of PRC laws and regulations in relation to the Control Contracts. The Company noticed that the Ministry of Commerce of PRC published a discussion draft of the proposed new Foreign Investment Law for public comments at the beginning of 2015. The Company will closely monitor the progress of the drafting of the proposed new Foreign Investment Law. Once there is substantive change on the relevant law and regulation, the Group will use its reasonable endeavors to fulfill the relevant requirement including but not limited to the restructuring of the OPCO's corporate structure and Control Contracts or unwinding the Control Contracts.

Report of the Directors

Pursuant to the Agency Agreement, the Nominees agree to appoint the personnel recommended by the Group as director(s), general manager, finance director and other senior management of the OPCO. The Nominees also agree to act on the recommendations of the aforesaid appointees. The OPCO's senior management reports regularly to the Group's management about the operation of the OPCO to improve the effective control of the OPCO by the Group.

Each of the Control Contracts is governed by PRC laws and provides for the resolution of disputes through arbitration in accordance with the arbitration rules of the China International Economic and Trade Arbitration Commission (中國國際經濟貿易仲裁委員會). The arbitration shall take place in Beijing and the outcome of the arbitration shall be final and binding. The Control Contracts provide that arbitrators may award remedies in rem over the equity interests in or assets of OPCO in arbitration. They also provide that courts in the places where the parties of the Control Contracts are located shall have the power to grant interim remedies (such as property preservation and evidence preservation) in support of the arbitration pending formation of the arbitral tribunal or at an appropriate time.

The Company considers that tax risk of OPCO is low as the current revenue and tax expense of OPCO are in small size when compared to the whole Group as a whole. The Group has maintained close contact with the relevant tax authorities and, if needed, will use its reasonable endeavors to discuss with the relevant tax authorities and explain to them in order to minimize the associated risks.

Independent Non-executive Directors' Confirmation

Independent Non-executive Directors have reviewed the Control Contracts during the year and confirmed that:

— the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Control Contracts, so that the profits generated by the OPCO have been retained by WFOE;

— no dividends or other distributions have been made by the OPCO to the holders of their respective equity interests which are not otherwise subsequently assigned or transferred to the Group; and

— any new contracts entered into, renewed or reproduced between the Group and the OPCO during the relevant financial period are fair and reasonable, or advantageous, so far as the Group is concerned and in the interests of the Shareholders as a whole.

AUDITOR

HLB Hodgson Impey Cheng Limited, the auditor of the Company, will hold office until the conclusion of the next annual general meeting of the Company and retire. A resolution for its reappointment as auditor of the Company will be proposed at the forthcoming Annual General Meeting.

On behalf of the Board
LAU Ting
Chairperson

Hong Kong, 10 March 2017

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Directors believe that good corporate governance is an essential element in enhancing the confidence of shareholders, investors, employees, business partners and the community as a whole and also the performance of the Group. The Board will review the corporate governance structure and practices from time to time and shall make necessary arrangements to ensure business activities and decision-making processes are made in a proper and prudent manner.

In the opinion of the Directors, the Company, at each applicable time, has complied with all the applicable code provisions of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules (the "Code") for the financial year ended 31 December 2016, except for the deviations as disclosed in this report.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as its code of conduct for dealings in securities of the Company by the Directors. Having made specific enquiry of all Directors, all Directors confirmed that they had complied with the required standard of dealings set out in the Model Code throughout the financial year ended 31 December 2016.

BOARD OF DIRECTORS

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

Executive Directors

Ms. LAU Ting
Mr. WU Jingwei
Ms. CHAN Tan Na, Donna
Mr. LI Zi Kui

Non-executive Director

Mr. HOONG Cheong Thard

Independent Non-executive Directors

Mr. HUANG Shenglan
Mr. CHAN Ming Fai
Mr. CUI Shuming

As at the date of this report, the Board comprised eight Directors, four of whom are Executive Directors, one is a Non-executive Director and three of whom are Independent Non-executive Directors. Details of backgrounds and qualifications of each Director are set out on the section headed "Biographies of Directors and Senior Management" of this annual report. The Company has arranged appropriate insurance cover in respect of legal actions against the Directors.

The Board is responsible for the overall strategic development of the Group. It also monitors the financial performance and the internal controls of the Group's business operations. Executive Directors are responsible for running the Group and executing the strategies adopted by the Board. The day-to-day running of the Company is delegated to the management with department heads responsible for different aspects of the business/functions.

The Non-executive Directors (including the Independent Non-executive Directors) serve the relevant function of bringing independent judgement on the development, performance and risk management of the Group.

Corporate Governance Report

BOARD OF DIRECTORS *(Cont'd)*

Code provision A.1.1 stipulates that the Board should be held the Board should meet regularly and Board meetings should be held at least four times a year at approximately quarterly intervals. The relevant Code provision had not been fully complied with as the Company did not announce its quarterly results and that two regular Board meetings were held during the year. Board meetings will be held on other occasions when Board decisions are required. Notice of at least 14 days is given to all Directors for all regular Board meetings to give all Directors an opportunity to attend. All regular Board meetings adhere to a formal agenda in which a schedule of matters is addressed to the Board. All Directors have access to Board papers and related materials, and are provided with adequate information which enables the Board to make an informed decision on the matters to be discussed and considered at the Board meetings. Minutes of Board meetings are kept by the Company Secretary and are open for inspection at any reasonable time on reasonable notice by any Director.

The Board considers that each Independent Non-executive Director of the Company is independent in character and judgement. The Company has received from each Independent Non-executive Director a written confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. To the best knowledge of the Directors, there is no financial, business and family relationship among the members of the Board except that Ms. CHAN Tan Na, Donna is the daughter of Ms. LAU Ting.

The attendance of the Board Meeting, Committee Meetings and Annual General Meeting during the year are as follows:

	Number of meetings attended/eligible to attend				
	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	Annual General Meeting
Executive Directors					
Ms. LAU Ting	1/2	–	1/1	1/1	0/1
Mr. WU Jingwei	2/2	–	–	–	1/1
Ms. CHAN Tan Na, Donna	2/2	–	–	–	1/1
Mr. LI Zi Kui	2/2	–	–	–	0/1
Non-executive Director					
Mr. HOONG Cheong Thard	2/2	–	–	–	0/1
Independent Non-executive Directors					
Mr. HUANG Shenglan	2/2	2/2	1/1	1/1	1/1
Mr. CHAN Ming Fai	2/2	2/2	1/1	1/1	1/1
Mr. CUI Shuming	2/2	2/2	–	–	1/1

Corporate Governance Report

CHAIRPERSON AND CHIEF EXECUTIVE OFFICER

The Chairperson of the Company, Ms. LAU Ting, currently also assumes the role of the Chief Executive Officer. Although the Code provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual, the Board considers that given the nature of the Group's businesses which requires considerable market expertise, the vesting of the two roles provides the Group with stable and consistent leadership and allows for more effective planning and implementation of long term business strategies. The Board will from time to time review the effectiveness of the structure to balance the power and authority of the Board and the management.

NON-EXECUTIVE DIRECTORS

Although more than half of the Non-executive Directors of the Company are not appointed for a specific term as is stipulated in Code provision A.4.1, all of them are subject to retirement by rotation in accordance with the Bye-laws of the Company. The Board will ensure the retirement of each Director, other than the one who holds the office as Chairperson or Managing Director, by rotation at least once every three years. The Chairperson is not subject to retirement by rotation as is stipulated in Code provision A.4.2 as the Board considers that the continuity of office of the Chairperson provides the Group a strong and consistent leadership and is of great importance to the smooth operations of the Group. Mr. WU Jingwei, Mr. HOONG Cheong Thard and Mr. HUANG Shenglan are subject to retirement by rotation at the forthcoming annual general meeting in accordance with the Company's Bye-laws.

REMUNERATION COMMITTEE

The Remuneration Committee was established on 10 August 2006 with specific written terms of reference which deal with its authority and duties. The terms of reference of the Remuneration Committee has been posted on the Company's website and is made available on request. The Remuneration Committee mainly responsible for determining the policy for the remuneration of Directors and the senior management, and on the establishment of a formal and transparent procedure for developing remuneration policy. The Remuneration Committee has the delegated responsibility to determine the remuneration packages, in consultation with the Chairman, the Deputy Chairman, the Managing Director or the Chief Executive Officer of the Company, of individual Executive Directors and Senior Management. The Remuneration Committee currently consists of three members, namely Ms. LAU Ting, the Executive Director, and Mr. HUANG Shenglan and Mr. CHAN Ming Fai, both being Independent Non-executive Directors. The chairperson of the Remuneration Committee is Mr. HUANG Shenglan.

In determining the emolument payable to Directors, the Remuneration Committee took into consideration factors such as time commitment and responsibilities of the Directors, abilities, performance and contribution of the Directors to the Group, the performance and profitability of the Group, the remuneration benchmark in the industry, the prevailing market/employment conditions and the desirability of performance-based remuneration. A meeting of the Remuneration Committee were held during the year.

Corporate Governance Report

NOMINATION COMMITTEE

The Nomination Committee was established on 15 March 2012 with specific written terms of reference which deal with its authority and duties. The terms of reference of the Nomination Committee has been posted on the Company's website and is made available on request. The Nomination Committee mainly responsible for making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors and identifying individuals suitably qualified to become Board members and making recommendations to the Board on the selection. The Nomination Committee currently consists of three members, namely Ms. LAU Ting, the Executive Director, and Mr. HUANG Shenglan and Mr. CHAN Ming Fai, both being Independent Non-executive Directors. The chairperson of the Nomination Committee is Ms. LAU Ting.

The Nomination Committee will identify suitable candidates for members of the Board when there is a vacancy or an additional director is considered necessary and will propose the appointment of such candidates to the Board for consideration. The Board will review the qualifications of the relevant candidates for determining the suitability to the Group on the basis of his qualifications, experience and background. A meeting of the Nomination Committee were held during the year.

The Nomination Committee have a policy concerning diversity of Board members in designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

AUDIT COMMITTEE

The Audit Committee was established in 2001 and currently comprises three members, Mr. HUANG Shenglan, Mr. CHAN Ming Fai and Mr. CUI Shuming. All of them are Independent Non-executive Directors. The chairman of the Audit Committee is Mr. HUANG Shenglan. The Board considers that each Audit Committee member has broad commercial experience and there is a suitable mix of expertise in business, accounting and financial management in the Audit Committee.

The Audit Committee's functions include:

- to review and monitor financial reporting and the reporting judgement contained in them;
- to review financial and internal controls, accounting policies and practices with management and external auditor; and
- to oversight of the Company's financial reporting system, risk management and internal control system.

The Audit Committee held two meetings during the year under review and the external auditor, HLB Hodgson Impey Cheng Limited, has attended those two meetings.

The Audit Committee has reviewed and discussed with the management the accounting principles and practices adopted by the Group and auditing, internal controls and financial reporting matters. The audited financial results of the Group for the financial year ended 31 December 2016 have been reviewed by the Audit Committee. The terms of reference of the Audit Committee has been posted on the Company's website and is made available on request.

Corporate Governance Report

SENIOR MANAGEMENT'S REMUNERATION

The annual remuneration range of the Senior Management are set out as below:

	Number of Employees
From HK$0 to HK$1,000,000	6
From HK$1,000,001 to above	3

AUDITOR'S REMUNERATION

For the year ended 31 December 2016, the Group had engaged the Company's external auditor, HLB Hodgson Impey Cheng Limited, to provide the following services and the respective fees charged are set out as below:

	Fee Charged for the year ended 31 December	
	2016 HK$	2015 HK$
Types of Services		
Audit for the Group	**980,000**	950,000

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR ACCOUNTS

The Directors' responsibilities for the accounts and the responsibilities of the external auditor to the shareholders are set out on pages 40 to 41.

CORPORATE GOVERNANCE FUNCTION

The Board is to perform the corporate governance duties with written terms of reference which include the applicable code provisions as set out in the Code. The Board has reviewed the compliance with the Code and disclosure of the Company in this Corporate Governance Report and review the policy for corporate governance of the Company and duties performed by the Board. All Directors are able to make further enquiries and they may seek independent professional advice and consultation when necessary. To enhance proper and up-to-date understanding of the Company's operations and business, legal and other regulatory requirements and appropriate emphasis on the roles, functions and duties of Directors, the Company has provide relevant reading materials as professional development programs to the Directors. The Company has received training records of all Directors who have participated in continuous professional development to develop and refresh their knowledge and skills during the year as below:

	Training Records Received*
Executive Directors	
Ms. LAU Ting	✓
Mr. WU Jingwei	✓
Ms. CHAN Tan Na, Donna	✓
Mr. LI Zi Kui	✓
Non-executive Director	
Mr. HOONG Cheong Thard	✓
Independent Non-executive Directors	
Mr. HUANG Shenglan	✓
Mr. CHAN Ming Fai	✓
Mr. CUI Shuming	✓

* Finished the professional development programs including those provided by the Company in relation to the Corporate Governance, Ordinance Updating, Market Information Updating and Case Study.

Corporate Governance Report

INTERNAL CONTROL

The Board is responsibility for establishing, maintaining and monitoring effective risk management and internal control systems of the Group. The management is delegated with the responsibility from time to time to implement the Board's policies on risk management and internal control. Detailed procedures are developed by the management. Each department is responsible for the assessment of individual types of risks arising under their areas of responsibilities and is also required to keep the senior management informed of material developments of the department's business and implementation of the policies and strategies set by the Board on a regular basis. The Group's internal control system is designed to provide cost-effectiveness and reasonable protection, which safeguards the Group's assets and maintains the integrity of the accounting and reporting systems. The Board periodically evaluates major controls and risks and where necessary, retain external professional services to evaluate or seek improvements to the internal control system. The Group has not maintained an internal audit department. The Board considers that the existing systems enable to carry out enough analysis and appraisal of the adequacy and effectiveness of the Group's risk management and internal control systems. The Board will continuously (at least annually) review the necessity of setting up an internal audit department. The Group's risk management and internal control systems include a well-established organisational structure with clearly defined lines of responsibility and authority of departments. Such systems are designed 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.

The Board had reviewed once the effectiveness of the risk management and internal control systems of the Group for the year ended 31 December 2016. The review covered all material control areas including financial, compliance, operational and risk management functions. The Board is satisfied that the Group has maintained effective and adequate internal controls in all major areas.

The Executive Directors assess and decide whether the relevant information of the Group is considered inside information and needs to be disclosed as soon as reasonably practicable pursuant to the Listing Rules and the SFO.

INVESTOR RELATIONS

The Company is committed to maintain an open and effective investor relations policy and to update investors on relevant information/developments in a timely manner, subject to relevant regulatory requirements. Briefings and meetings with institutional investors and analysts are conducted from time to time. The Company also replied the enquiries from shareholders timely. The Directors host the annual general meeting each year to meet the shareholders and answer their enquiries. Mr. HOONG Cheong Thard and Ms. LAU Ting were absent from the 2016 annual general meeting of the Company as is stipulated in Code provision A.6.7 and E.1.2 respectively due to their other important engagement.

Shareholders may whenever it thinks fit require a special general meeting to be called. Pursuant to Section 74 of the Bermuda Companies Act 1981, the Board, notwithstanding anything in its Bye-laws shall, on the requisition of members of the Company holding at the date of the deposit of the requisition not less than one-tenth of such of the paid-up capital of the Company as at the date of the deposit carrying the right of voting at general meetings of the Company, forthwith proceed duly to convene a special general meeting of the Company. The requisition must state the purposes of the meeting, and must be signed by the requisitionists and deposited at the registered office of the Company, and may consist of several documents in like form each signed by one or more requisitionists. The Company arranges for the notice to its shareholders to be sent at least 10 clear business days before each of the general meetings of the Company in accordance with Code Provision E.1.3. To put forward proposals at an annual general meeting or a special general meeting, the shareholders shall submit a written notice of those proposals with the detail contact information to the Company Secretary at the Principal Place of Business. The request will be verified with the Company's Branch Share Registrars and Transfer Office in Hong Kong and upon its confirmation that the request is proper and in order, the Company Secretary will ask the Board to include the resolution in the agenda for the general meeting.

The corporate website of the Company (http://www.chinalotsynergy.com) provides an effective communication platform via which the public and investor community can enjoy fast, easy access to up-to-date information regarding the Group. Enquiries to the Board or the Company are welcome and can be addressed to the Investor Relations Department by mail to Unit 3308, 33rd Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong or by fax to (852) 2136 6608.

Environmental, Social and Governance Report

This report covers the Group's overall performance in two subject areas, namely, Environmental and Social of the head office in Hong Kong and office in Beijing from 1 January 2016 to 31 December 2016, unless otherwise stated and is prepared with reference to the Environmental, Social and Governance Reporting Guide as set out in Appendix 27 of the Listing Rules.

ENVIRONMENT

Emissions

The Group aims to reduce the energy consumption and carbon emissions and always seeks less harmful ways to the environment in the operations. Regular assessments are conducted on the Group's air and greenhouse gas emissions, as well as the generation and disposal of hazardous and non-hazardous waste. Relevant departments are required to collect and analyze relevant data and summarize their respective findings on a regular basis, as well as to take specific measures to reduce or avoid emissions.

The Group also implements clear guidelines as to business uses and maintenance of corporate vehicles, recording and monitoring the consumption of fuel on a continuing basis and periodically reviewing adherence to vehicle emission standards for existing corporate vehicles, so as to enhance efficiency in their deployment and reduce emissions.

Use of Resources

The Group is committed to building an environmental friendly working environment that conserve natural resources. The Group strives to minimize the environmental impact by office electricity control and office consumables consumption management.

For office electricity control, the Group encourages employees to set optimal temperature on the air-conditioning, require them to switch off the lighting and air-conditioning after office hours, computers and other office equipment when not utilized to reduce energy consumption and carbon emissions, also energy consumption of an electronic appliance will be the priority consideration before purchase.

For office consumables consumption management, the Group encourages employees to handle documents electronically. Paper-saving measures, such as two-sided printing, using smaller sheets for sundry uses and paperless internal correspondences etc. are also adopted. In addition, the Group will arrange telephone conferences or video conferences instead of face-to-face meetings where possible.

Environment and Natural Resources

The Group seeks to work toward environmental best practice. This involves giving careful consideration to various operational aspects and activities within the value chain to minimize any environmental impact. Green messages and practical tips for green living are regularly circulated amongst employees to achieve environmental sustainability.

EMPLOYMENT AND LABOUR PRACTICES

Employment

Employees are regarded as the valuable assets and core competitive advantage of the Group and also provide driving force for the continuous innovation of the Group. The Group rewards and recognizes performing employees by providing a competitive remuneration package and implementing a sound performance appraisal system with appropriate incentives, and to promote career development and progression by appropriate training and providing opportunities within the Group for career advancement. Also, in order to provide a good and fair working environment and safeguards the well-being of the employees, the Group seriously considers all those valuable opinions from the employees for enhancing workplace productivity and harmony which can help the Group to build a united and harmonious professional team.

Environmental, Social and Governance Report

The Group strictly complies with the Labor Law of the People's Republic of China, the Labor Contract Law of the People's Republic of China, the Company Law of the People's Republic of China, Employment Ordinance in Hong Kong and other relevant laws and regulations. Recruitment or promotion of personnel will not be affected by their national origin, race, religion, sexual orientation, marital status, pregnancy, disability and political beliefs, thus putting the principle of fairness into practice.

The resting time of the Group's employees is well respected and the employees are also entitled paid holidays pursuant to statutory requirements or otherwise under their respective employment contracts. There is a computerized attendance registration system in place to continuously monitor the working hours of the employees. The Group also adopts zero tolerance policy towards sexual harassment at the workplace to protect its employees from unsolicited sexual advances.

The Group also maintains an appraisal policy which specifies the requirements in related to employees' remuneration and welfare to protect the rights of employees. Besides, the Group also makes statutory pension scheme contributions for the benefit of employees in accordance with the relevant legal requirements in Hong Kong and the PRC, including the mandatory provident fund contributions in Hong Kong and social insurance payments in the People's Republic of China. To enhance overall morale of its employees, the Group also organizes various events, such as Sports Competitions and Outreach Activities to allow the employees to gather outside of work for bonding and team-building.

Health and Safety

The Group has been committed to protect employees' health and safety. Sound management systems have been established in occupational health and safety in strict compliance with the Labor Law of the People's Republic of China, The Occupational Safety and Health Ordinance in Hong Kong and other relevant laws and regulations. It builds a solid foundation for safe operation to avoid accidents and protect employees and co-workers from safety risks.

Development and Training

Skilled employees who are capable to meet the demands of a dynamic industry is crucial to the success of the Group. Training is an important way to improve the overall quality and provide comprehensive development of the employees. The Group has continuously perfected and modified the employee training management system, established a multilevel training system, created various learning opportunities for the employees, in order to enhance their competence, job skills, knowledge and performance. The Group also encourages the employees to identify their own personal objectives for development, allowing them to grow together with the Group.

In daily operations, the Group provides on-board trainings for new employees. Experienced employees will act as mentors to guide the new comers on jobs. Such arrangements can enhance the communication and team spirit, also improve their technical skills and managerial capability and encourage the learning and further development of the employees at all levels. The Group arranges the trainings designated according to the roles and responsibilities of the employees. The Group also updates the latest information of the industry and laws and regulations which is essential to the Group's operation and their job responsibilities from time to time.

Labour Standards

The Group's recruitment management system measures clearly on the employees' age requirement. Review and verification of applicant's identity information is required during the recruitment process, and recruitment of child labor is strictly prohibited. Applicant is also required to provide document proofs of academic qualifications and working experience for verifications, applicant who is suspected to have false academic qualifications and working experience will not be employed. The Group enters employment contract with each of its employee in accordance with relevant laws and regulations in the PRC and Hong Kong.

Environmental, Social and Governance Report

OPERATING PRACTICES

Supply Chain Management

Conformity by suppliers with the relevant industrial standards and ethical business norms in their supply of materials and products to the Group is one of the supplier selection criteria that the Group takes into account. Suppliers' fulfilment of the environment, health and safety requirements of the Group are relevant factors which will be taken into account by the Group in its supplier selection process.

The Group manages the supply chain by performing regular assessments on the environmental and social risks of the supply chain and strengthening the risk management. Suppliers are urged to take measures to reduce their environmental and social risks. The Group values communication with suppliers, including continuous communication with suppliers in routine work and establishing strategic cooperation with suppliers through technical support and unique competitive advantage, which can achieve win-win situation and strengthen the cooperation with each other.

Product Responsibility

The Group encourages employees and business partners to engage in protection of the Group's brand. Employees are encouraged to report any suspected infringement. The Group will take corresponding anti-infringement actions. In addition, the Group's employees are obligated to retain in confidence any and all information obtained in connection with their employment, including, but not limited to, trade secrets, core technology, client information, supplier information and other proprietary information.

Anti-corruption

The Group maintains a high standard of business integrity throughout its operations and tolerates no corruption or bribery in any form. All of the Group's operations comply with local and national legislation on standards of conduct, such as Criminal Law of the People's Republic of China, the Anti-Unfair Competition Law of the People's Republic of China, the Interim Provisions on Banning Commercial Bribery in the People's Republic of China, the Prevention of Bribery Ordinance in Hong Kong and other relevant laws and regulations. The Group also expects its suppliers and business partners to similarly abide by the relevant local anti-corruption laws.

The Group has adopted and circulated internally clear guidelines for employees which strictly prohibit bribery, extortion, fraud, money laundering and other acts, and require its personnel to declare any interests in the Group's business partners, suppliers and advisers that may conflict with the Group's business interests.

The Group also has implemented a whistleblowing policy for encouraging the reporting of suspected business irregularities. When suspected wrongdoings are identified, such as breach of duty, abuse of power, receiving bribes, employees should report to the Board for investigation and verification. The Group will report to the regulator and or to law enforcement authority when necessary.

COMMUNITY

Community Investment and Involvement

The Group believes that the creation of a beautiful and peaceful community relies on the co-operation of people, corporations and the government. By working together with various community partners, the Group believes can bring a tremendous impact on the sustainable development of the communities in which it operates. The Group will also actively encourage employees to volunteer their time and skills to benefit local communities. It gives employees the opportunities to find out more about the issues about the society and environment and reinforce the Group's corporate values. The Group will consider from time to time to donate to charitable organizations where appropriate.

Independent Auditor's Report

HLB 國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

TO THE MEMBERS OF
CHINA LOTSYNERGY HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of China LotSynergy Holdings Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 42 to 118, which comprise the consolidated statement of financial position as at 31 December 2016, 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 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

Independent Auditor's Report

KEY AUDIT MATTERS *(Cont'd)*

Key audit matter	How our audit addressed the key audit matter
Impairment assessment for non-current assets *Refer to Notes 15 and 16 in the consolidated financial statements.* The carrying values of the Group's property, plant and equipment and goodwill as at 31 December 2016 was approximately HK$336 million and HK$235 million, respectively. Management assessed whether there was any impairment of the carrying values of goodwill and other non-current assets as at 31 December 2016 using value-in-use calculations for each smallest identifiable group of assets that generate independent cash flows (a cash-generating unit). Preparing the value-in-use calculations requires management to exercise significant judgement, particularly in relation to revenue forecasts, operating margins and discount rates. An impairment loss of approximately HK$188 million has been recognised in respect of lottery terminals leased to third parties under operating leases for the year ended 31 December 2016. We identified impairment of non-current assets as a key audit matter because of the significant management judgement and estimation required in assessing potential impairment.	Our procedures in relation to management's impairment assessment for non-current assets included: • Assessing management's identification of cash-generating units ("CGUs") and the allocation of assets to each CGU with reference to our understanding of the Group's business and the requirements of the prevailing accounting standards; • Challenging the reasonableness of key assumptions based on our knowledge of the business and industry; • Reconciling input data to supporting evidence, such as approved budgets and considering the reasonableness of these budgets and plans and considered the evidence in support of them, principally in relation to historical trends and actual performance in 2016; • Checking the mathematical accuracy of the value-in-use calculations in the management's impairment assessment; and • Performing sensitivity analysis on the level of cash flows, the discount and growth used in the impairment assessment.

Independent Auditor's Report

KEY AUDIT MATTERS *(Cont'd)*

Key audit matter	How our audit addressed the key audit matter
Capitalisation of internally generated development costs *Refer to Note 16 in the consolidated financial statements.* The Group capitalises a material level of development costs in setting up and development of systems and networks on an annual basis. The carrying value of the internally generated development costs as at 31 December 2016 was approximately HK$179 million. We focused on this area because the decision as to the amounts of development costs to be capitalised requires management judgement.	Our procedures in relation to the capitalisation of development costs included: • Considering the key areas of judgement, including evaluating management's assessment that the necessary criteria for capitalisation under HKFRSs were met at the point of commencement of capitalisation. • Testing costs that were capitalised to supporting evidence to check that these were accurately recorded.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the 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.

Independent Auditor's Report

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The audit committee is responsible for overseeing the Group's financial reporting process.

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

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

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

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

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

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

Independent Auditor's Report

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

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

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

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

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

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

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

The engagement director on the audit resulting in the independent auditor's report is Hui Chun Keung, David.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Hui Chun Keung, David
Practising Certificate Number: P05447

Hong Kong, 10 March 2017

Consolidated Statement of Profit or Loss

For the year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Turnover	5	**200,319**	643,748
Costs of sales and services			
— Depreciation of lottery terminals		**(128,516)**	(118,219)
— Others		**(78,734)**	(166,057)
		(207,250)	(284,276)
(Gross loss)/gross profit		**(6,931)**	359,472
Other income	6	**27,559**	32,908
Other losses — net	7	**(156,809)**	(234,930)
General and administrative expenses		**(227,244)**	(369,852)
Share option expenses		**(18,998)**	(92,230)
Operating loss	8	**(382,423)**	(304,632)
Finance costs	9	**(56,904)**	(61,412)
Share of loss of an associate	18	**(4)**	(7)
Share of loss of a joint venture	19	**(2,369)**	(4,073)
Loss before income tax		**(441,700)**	(370,124)
Income tax expense	10	**(37,901)**	(46,006)
Loss for the year		**(479,601)**	(416,130)
(Loss)/Profit attributable to:			
Owners of the Company		**(297,967)**	(497,654)
Non-controlling interests		**(181,634)**	81,524
		(479,601)	(416,130)
Loss per share attributable to owners of the Company during the year			
— basic	11	**(3.49) HK cents**	(5.85) HK cents
— diluted	11	**(3.49) HK cents**	(5.85) HK cents

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
Loss for the year		**(479,601)**	(416,130)
Other comprehensive expenses:			
Items that may be reclassified to profit or loss			
Fair value loss on available-for-sale financial assets	21	**(2,944)**	(2,810)
Reclassification adjustment on disposal of available-for-sale financial assets		**–**	(9,514)
Reclassification adjustment on impairment of available-for-sale financial assets		**2,944**	4,318
Release of currency translation reserve upon disposal of subsidiaries		**(235)**	–
Currency translation differences		**(80,133)**	(69,659)
Other comprehensive expenses for the year		**(80,368)**	(77,665)
Total comprehensive expenses for the year		**(559,969)**	(493,795)
Attributable to:			
Owners of the Company		**(353,110)**	(555,329)
Non-controlling interests		**(206,859)**	61,534
Total comprehensive expenses for the year		**(559,969)**	(493,795)

Consolidated Statement of Financial Position

At 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Non-current assets			
Property, plant and equipment	15	336,481	668,968
Intangible assets	16	457,183	448,336
Investment in an associate	18	4,460	4,764
Investment in a joint venture	19	28,115	32,534
Available-for-sale financial assets	21	7,056	10,000
Deferred income tax assets	30	9,039	8,402
		842,334	1,173,004
Current assets			
Inventories	22	24,687	58,516
Accounts receivable	23	77,370	88,632
Prepayments, deposits and other receivables	24	591,232	371,134
Financial assets at fair value through profit or loss	25	315,090	677,466
Cash and bank balances	26	374,575	792,637
		1,382,954	1,988,385
Total assets		2,225,288	3,161,389
Current liabilities			
Accounts and bills payable	27	5,736	16,489
Accruals and other payables		39,132	60,278
Amount due to a joint venture	19	7,919	6,766
Tax payable		9,477	1,105
Bank borrowings	28	313,378	583,038
		375,642	667,676
Net current assets		1,007,312	1,320,709
Total assets less current liabilities		1,849,646	2,493,713
Non-current liabilities			
Convertible bonds	29	521,520	602,156
Deferred income tax liabilities	30	55,206	74,189
		576,726	676,345
Net assets		1,272,920	1,817,368

Consolidated Statement of Financial Position

At 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Equity attributable to owners of the Company			
Share capital	31	21,388	21,330
Reserves	33	1,352,856	1,433,762
Accumulated losses		(439,661)	(143,334)
		934,583	1,311,758
Non-controlling interests		338,337	505,610
Total equity		1,272,920	1,817,368

The consolidated financial statements on pages 42 to 118 were approved by the Board of Directors on 10 March 2017 and were signed on its behalf:

LAU TING
Director

CHAN TAN NA, DONNA
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Attributable to owners of the Company				
	Share capital HK$'000 *(Note 31)*	Reserves HK$'000 *(Note 33)*	(Accumulated losses)/ retained profits HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2015	21,131	1,365,162	375,396	444,076	2,205,765
Comprehensive expense					
(Loss)/Profit for the year	–	–	(497,654)	81,524	(416,130)
Other comprehensive (expenses)/income:					
Release of revaluation reserve upon depreciation of leasehold land and building	–	(241)	241	–	–
Fair value loss on available-for-sale financial assets	–	(2,810)	–	–	(2,810)
Reclassification adjustment on disposal of available-for-sale financial assets	–	(9,514)	–	–	(9,514)
Reclassification adjustment on impairment of available-for-sale financial assets	–	4,318	–	–	4,318
Currency translation differences	–	(49,669)	–	(19,990)	(69,659)
Total other comprehensive (expenses)/income	–	(57,916)	241	(19,990)	(77,665)
Total comprehensive (expenses)/income	–	(57,916)	(497,413)	61,534	(493,795)
Share option scheme:					
— value of employee services	–	10,865	–	–	10,865
— value of other participants' services	–	81,365	–	–	81,365
— share options exercised	199	34,286	–	–	34,485
Dividends relating to 2014 (0.25 HK cent per share)	–	–	(21,317)	–	(21,317)
Total contributions by and distributions to owners of the Company, recognised directly in equity	199	126,516	(21,317)	–	105,398
At 31 December 2015	21,330	1,433,762	(143,334)	505,610	1,817,368

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Attributable to owners of the Company				
	Share capital HK$'000 *(Note 31)*	Reserves HK$'000 *(Note 33)*	Accumulated losses HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2016	21,330	1,433,762	(143,334)	505,610	1,817,368
Comprehensive expense					
Loss for the year	–	–	(297,967)	(181,634)	(479,601)
Other comprehensive (expenses)/income:					
Release of revaluation reserve upon depreciation of leasehold land and building	–	(241)	241	–	–
Fair value loss on available-for-sale financial assets	–	(2,944)	–	–	(2,944)
Reclassification adjustment on impairment of available-for-sale financial assets	–	2,944	–	–	2,944
Release of currency translation reserve upon disposal of subsidiaries	–	(235)	–	–	(235)
Currency translation differences	–	(54,908)	–	(25,225)	(80,133)
Total other comprehensive (expenses)/income	–	(55,384)	241	(25,225)	(80,368)
Total comprehensive expenses	–	(55,384)	(297,726)	(206,859)	(559,969)
Share option scheme:					
— value of employee services	–	10,141	–	–	10,141
— value of other participants' services	–	8,857	–	–	8,857
— share options exercised	58	4,615	–	–	4,673
— vested share options expired	–	(1,378)	1,378	–	–
Repurchase of convertible bonds	–	(7,952)	21	–	(7,931)
Reversal of deferred tax previously recognised on equity component of convertible bonds	–	1,810	–	–	1,810
Changes in ownership interests in subsidiaries without change of control	–	(41,615)	–	41,615	–
Disposal of subsidiaries	–	–	–	(2,029)	(2,029)
Total contributions by and distributions to owners of the Company, recognised directly in equity	58	(25,522)	1,399	39,586	15,521
At 31 December 2016	21,388	1,352,856	(439,661)	338,337	1,272,920

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Cash flows from operating activities			
Operating cash flows before changes in working capital	34	(85,232)	148,853
Changes in working capital	34	403,790	333,390
Cash generated from operation	34	318,558	482,243
Income tax paid		(46,446)	(85,216)
Net cash generated from operating activities		272,112	397,027
Cash flows from investing activities			
Purchase of property, plant and equipment		(17,891)	(171,332)
Proceeds from disposal of property, plant and equipment		–	881
Purchase of intangible assets		(27,481)	(30,635)
Capital contribution to an associate		–	(4,876)
Repayment from a joint venture		–	337
(Increase)/Decrease in loan receivables		(229,728)	28,695
Interest received		21,621	33,695
Proceeds from disposal of available-for-sale financial assets		–	22,351
Decrease in pledged time deposits with maturity of more than three months		244,521	219,512
Increase in pledged bank deposits		(102,037)	(10,630)
Disposal of subsidiaries	37	(675)	–
Net cash (used in)/generated from investing activities		(111,670)	87,998
Cash flows from financing activities			
Interest paid		(42,904)	(47,577)
Proceeds from issue of shares		4,673	34,485
Repurchase of convertible bonds		(96,726)	–
Repayment of bank borrowings		(496,247)	(557,918)
Proceeds from bank borrowings		226,587	233,575
Dividends paid to Company's shareholders		–	(21,317)
Net cash used in financing activities		(404,617)	(358,752)
Net (decrease)/increase in cash and cash equivalents		(244,175)	126,273
Cash and cash equivalents at beginning of the year		517,117	407,245
Effect of foreign exchange rate changes		(22,941)	(16,401)
Cash and cash equivalents at end of the year *(Note)*	26	250,001	517,117

Note: Cash and cash equivalents include cash in hand, deposits held at call with banks and financial institutions, other short-term highly liquid investments with original maturities of three months or less.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

1. GENERAL INFORMATION

China LotSynergy Holdings Limited (the "Company") was incorporated in Bermuda on 13 September 2000 as an exempted company with limited liability under the Companies Act of Bermuda. The addresses of its registered office and principal place of business are disclosed in the corporate information section to the annual report.

The Company and its subsidiaries (collectively referred to as the "Group") are technology and operation service providers of lottery systems, terminal equipment and gaming products in the China's lottery market. The principal businesses of the Group cover various lottery products ranging from video lottery, computer ticket game and KENO-type lottery, to new media lottery.

The Company's shares are currently listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets at fair value through profit or loss, which are carried at fair value.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.1 Basis of preparation *(Cont'd)*

2.1.1 Changes in accounting policy and disclosures

(a) *New and amended standards adopted by the Group*

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2016:

- Accounting for acquisitions of interests in joint operations — Amendments to HKFRS 11;
- Clarification of acceptable methods of depreciation and amortisation — Amendments to HKAS 16 and HKAS 38;
- Annual improvements to HKFRSs 2012–2014 cycle; and
- Disclosure initiative — amendments to HKAS 1.

The adoption of these amendments did not have any impact on the current period or any prior period.

(b) *New standards and interpretations not yet adopted*

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016 and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

HKFRS 9, "Financial instruments" addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of HKFRS 9 was issued in July 2014. It replaces the guidance in HKAS 39 that relates to the classification and measurement of financial instruments. HKFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in HKAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. HKFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under HKAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group is yet to assess HKFRS 9's full impact.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.1 Basis of preparation *(Cont'd)*

2.1.1 Changes in accounting policy and disclosures (Cont'd)

(b) *New standards and interpretations not yet adopted (Cont'd)*

HKFRS 15, "Revenue from contracts with customers" deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces HKAS 18 'Revenue' and HKAS 11 'Construction contracts' and related interpretations. HKFRS 15 is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Group is assessing the impact of HKFRS 15.

HKFRS 16, "Leases" will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change. The standard will affect primarily the accounting for Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's result and classification of cash flows. The new standard is mandatory for financial years commencing on or after 1 January 2019.

There are no other HKFRSs or HK(IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Group.

2.2 Subsidiaries

2.2.1 Consolidation

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

(a) *Business combinations*

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.2 Subsidiaries *(Cont'd)*

2.2.1 Consolidation (Cont'd)

(a) Business combinations (Cont'd)

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

Acquisition-related costs are expensed as incurred.

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

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

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

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

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

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

Notes to the Consolidated Financial Statements
For the year ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.2 Subsidiaries *(Cont'd)*

2.2.1 Consolidation (Cont'd)

(c) *Disposal of subsidiaries*

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or finance asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. It means the amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified or permitted by applicable HKFRS.

2.2.2 Separate financial statements

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

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

2.3 Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investment in an associate is accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

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

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to share of loss of an associate in the consolidated statement of profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.3 Associates *(Cont'd)*

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

Gain or losses on dilution of equity interest in associates are recognised in the consolidated statement of profit or loss.

2.4 Joint arrangements

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

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. The Group's investments in joint ventures include goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint venture, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

The Group determines at each reporting date whether there is any objective evidence that the investment in joint venture is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value.

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

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board that makes strategic decisions.

2.6 Foreign currency translation

(a) Functional and presentation currency

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.6 Foreign currency translation *(Cont'd)*

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Changes in the fair value of debt securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale, are included in other comprehensive income.

(c) Group companies

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

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

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

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

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

(d) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate the includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.6 Foreign currency translation *(Cont'd)*

(d) Disposal of foreign operation and partial disposal (Cont'd)

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or joint ventures that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

2.7 Property, plant and equipment

Leasehold land classified as finance lease and all other property, plant and equipment is stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

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

Leasehold land classified as finance lease	Shorter of remaining lease term or useful life
Building	2.5%
Lottery terminals leased to third parties under operating leases	20%
Leasehold improvements	20% – 50% (over the period of leases)
Plant and equipment	10% – 20%
Computer equipment and software	20% – 33%
Office equipment and furniture	10% – 25%
Motor vehicles	10% – 25%

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other losses — net" in the statement of profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.8 Intangible assets

(a) CLO Contract

The CLO Contract acquired in a business combination are recognised at fair value at the acquisition date. The CLO Contract has a finite useful life and is carried at cost less accumulated amortization and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of the CLO Contract over the period of the contract.

(b) Goodwill

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

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

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

(c) Development costs

Development costs represent all direct costs incurred by the Group in setting up systems and networks, including the cost of equipment and development cost. Such assets are recognised as intangible assets only if all of the following conditions are met:

- the technical feasibility of completing the asset so that it will be available for use or sale;
- the intention to complete the asset and use or sell it;
- the ability to use or sell the asset;
- how the asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the asset or the asset itself or, if it is to be used internally, the usefulness of the asset;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the asset; and
- the ability to measure reliably the expenditure attributable to the asset during its development.

Development costs that do not fulfill the above conditions are recognised as expenses in the period in which it is incurred. Development costs which are implemented for its intended use and fulfill the above conditions are amortised on a straight-line basis over their estimated useful lives, which does not exceed ten years.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.8 Intangible assets *(Cont'd)*

(d) *Intellectual properties*

Separately acquired intellectual properties are shown at historical cost. Intellectual properties acquired in a business combination are recognised at fair value at the acquisition date. Intellectual properties have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of intellectual properties over their estimated useful lives of ten to fifteen years.

2.9 Impairment of non-financial assets

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

2.10 Financial assets

2.10.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within twelve months; otherwise, they are classified as non-current.

(b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than twelve months after the end of the reporting period. These are classified as non-current assets.

(c) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within twelve months after the end of the reporting period.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.10 Financial assets *(Cont'd)*

2.10.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the statement of profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the statement of profit or loss within "other losses — net" in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the statement of profit or loss as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the statement of profit or loss.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the statement of profit or loss as part of other income. Dividends on available-for-sale equity instruments are recognised in the statement of profit or loss as part of other income when the Group's right to receive payments is established.

2.11 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.12 Impairment of financial assets

(a) Assets carried at amortised cost

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

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

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

(b) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, if any such evidence exists for the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — is removed from equity and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the statement of profit or loss.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — is removed from equity and recognised in profit or loss. Impairment losses recognised in the statement of profit or loss on equity instruments are not reversed through the statement of profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.14 Trade and other receivables

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

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

2.15 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks and financial institutions, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts (if any).

2.16 Share capital

Ordinary shares are classified as equity.

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

2.17 Trade payables

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

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

2.18 Borrowings

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.18 Borrowings *(Cont'd)*

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

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

Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

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

2.19 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.20 Compound financial instruments

Compound financial instruments issued by the Group comprise convertible bonds that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognised initially at fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component, which is included in shareholders' equity in other reserves. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

The liability component of a convertible instrument is classified as current unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.21 Current and deferred income tax

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

(a) Current income tax

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

(b) Deferred income tax

Inside basis differences

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

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

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

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

(c) Offsetting

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.22 Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual 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.

(b) Bonus plans

The expected cost of bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus plans are expected to be settled within twelve months and are measured at the amounts expected to be paid when they are settled.

(c) Retirement benefits

The Group operates a number of defined contribution plans. The Group's contributions to the defined contribution retirement schemes are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The assets of the scheme are held separately from those of the Group in independently administered funds.

(d) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of HKAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than twelve months after the end of the reporting period are discounted to their present value.

2.23 Share-based payments

(a) Equity-settled share-based payment transactions

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees or consultants as consideration for equity instruments (options) of the Group. The fair value of the services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specified period of time).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.23 Share-based payments *(Cont'd)*

(a) Equity-settled share-based payment transactions (Cont'd)

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

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

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium.

(b) Share-based payment transactions among group entities

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

2.24 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

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

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

2.25 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns and value-added tax. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below.

(a) Income from provision of lottery terminals and lottery sales channels is accounted for in accordance with the terms of the relevant contracts.

(b) Income from provision of consultancy services is recognised when services are rendered.

(c) Income from sale of equipment is recognised when the Group has delivered products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.26 Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognised using the original effective interest rate.

2.27 Dividend income

Dividend income is recognised when the right to receive payment is established.

2.28 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of profit or loss on a straight-line basis over the period of the lease.

2.29 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

Risk management is carried out by a central treasury department (Group Treasury) under policies approved by the Board. Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest-rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investing of excess liquidity.

(a) Market risk

(i) Foreign exchange risk

The Group's foreign exchange risk arising from future commercial transactions, recognised assets and liabilities is considered to be insignificant. This is due to the Group's transactions being generally denominated in the functional currency of the respective group entities.

The Group manages the foreign exchange exposure arising from its normal course of business activities and investments in foreign operations by funding its local operations and investments through cash flow generated from business transactions locally. Management monitors foreign exchange exposure closely and will consider hedging significant foreign currency exposure should the need arise.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. FINANCIAL RISK MANAGEMENT *(Cont'd)*

3.1 Financial risk factors *(Cont'd)*

(a) Market risk *(Cont'd)*

(i) Foreign exchange risk (Cont'd)

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the Renminbi ("RMB") exchange rate, with all other variables held constant, of the Group's loss after tax and the Group's equity, mainly as a result of foreign exchange gains/losses on translation of the foreign operations' net assets to the Group's HK$ reporting currency.

	Increase/ (Decrease) in RMB %	**Increase/ (Decrease) in loss after income tax HK$'000**	**Increase/ (Decrease) in equity HK$'000**
2016			
If HK$ weakens against RMB	**5**	**17,621**	**34,525**
If HK$ strengthens against RMB	**(5)**	**(15,572)**	**(31,834)**

	Increase/ (Decrease) in RMB %	(Decrease)/ Increase in loss after income tax HK$'000	Increase/ (Decrease) in equity HK$'000
2015			
If HK$ weakens against RMB	5	(7,524)	55,395
If HK$ strengthens against RMB	(5)	6,808	(50,107)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. FINANCIAL RISK MANAGEMENT *(Cont'd)*

3.1 Financial risk factors *(Cont'd)*

(a) *Market risk (Cont'd)*

(ii) Price risk

The Group is exposed to price risk arising from equity/debt investments classified as available-for-sale financial assets and held for trading investments.

The following table demonstrates the sensitivity to 5% increase/decrease in the fair values of the investments with all other variables held constant and after any impact on tax, based on their carrying amounts at the end of the reporting period. For the purpose of this analysis, for available-for-sale investments, the impact is deemed to be on the available-for-sale investment revaluation reserve and no account is given for factors such as impairment which might impact the statement of profit or loss.

	(Decrease)/ Increase in loss after income tax HK$'000	Increase/ (Decrease) in equity HK$'000
2016		
5% increase in price	**(15,755)**	**353**
5% decrease in price	**15,755**	**(353)**

	(Decrease)/ Increase in loss after income tax HK$'000	Increase/ (Decrease) in equity HK$'000
2015		
5% increase in price	(33,873)	500
5% decrease in price	33,873	(500)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. FINANCIAL RISK MANAGEMENT *(Cont'd)*

3.1 Financial risk factors *(Cont'd)*

(a) Market risk *(Cont'd)*

(iii) Cash flow and fair value interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate time deposits and fixed-rate borrowings.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings. It is the Group's policy to keep its borrowing at floating rate of interests so as to minimise the fair value interest risk. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of HIBOR and LIBOR arising from the Group's bank borrowings denominated in HK$ and United States dollars ("US$").

The following table demonstrates the sensitivity to 5% increase/decrease in interest rates, with all other variables held constant, of the Group's loss after income tax (through the impact on floating rate bank borrowings) and the Group's equity.

	Increase/ (Decrease) in interest rate %	Increase/ (Decrease) in loss after income tax HK$'000	(Decrease)/ Increase in equity HK$'000
2016			
HK$ and US$	**5**	**309**	**(309)**
HK$ and US$	**(5)**	**(309)**	**309**

	Increase/ (Decrease) in interest rate %	Increase/ (Decrease) in loss after income tax HK$'000	(Decrease)/ Increase in equity HK$'000
2015			
HK$ and US$	5	553	(553)
HK$ and US$	(5)	(553)	553

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. FINANCIAL RISK MANAGEMENT *(Cont'd)*

3.1 Financial risk factors *(Cont'd)*

(b) Credit risk

The Group reviews the recoverability of its financial assets periodically to ensure that potential credit risk of the counterparty is managed at an early stage and sufficient provision is made for possible defaults. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's financial assets, which comprise bank balances, accounts receivable, loan receivables, debt securities, deposits and other receivables arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. At the end of the reporting period, the Group had certain concentrations of credit risk as 79% (2015: 74%) and 94% (2015: 85%) of the Group's accounts receivable were due from the Group's largest customer and the five largest customers, respectively.

Further quantitative data in respect of the Group's exposure to credit risk arising from accounts receivable are disclosed in Note 23 to the consolidated financial statements.

(c) Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following table details the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other financial liabilities are based on the agreed repayment dates.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. FINANCIAL RISK MANAGEMENT *(Cont'd)*

3.1 Financial risk factors *(Cont'd)*

(c) Liquidity risk (Cont'd)

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period.

	Carrying amount as per consolidated statement of financial position HK$'000	Total contractual undiscounted cash flows HK$'000	On demand or less than 1 month HK$'000	Between 1 and 3 months HK$'000	Between 3 months and 1 year HK$'000	Between 1 and 5 years HK$'000
2016						
Accounts and bills payable	5,736	5,736	5,736	–	–	–
Accruals and other payables	38,799	38,799	38,799	–	–	–
Amount due to a joint venture	7,919	7,919	7,919	–	–	–
Bank borrowings	313,378	313,378	313,378	–	–	–
Convertible bonds	521,520	618,750	–	–	27,500	591,250
	887,352	984,582	365,832	–	27,500	591,250
2015						
Accounts and bills payable	16,489	16,489	16,489	–	–	–
Accruals and other payables	58,578	58,578	58,578	–	–	–
Amount due to a joint venture	6,766	6,766	6,766	–	–	–
Bank borrowings	583,038	583,038	583,038	–	–	–
Convertible bonds	602,156	763,750	–	–	32,500	731,250
	1,267,027	1,428,621	664,871	–	32,500	731,250

Bank loans with a repayment on demand clause are included in the "on demand or less than 1 month" time band in the above maturity analysis. Taking into account the Group's financial position, the Board does not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The Board believes that such bank loans will be repaid after the end of the reporting period in accordance with the scheduled repayment dates set out in the loan agreements, details of which are set out in the table below:

Maturity analysis — Bank loans with a repayment on demand clause based on scheduled repayments

	Less than 1 year HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000	Over 5 years HK$'000	Total undiscounted cash outflows HK$'000	Carrying amount HK$'000
At 31 December 2016	249,085	15,893	23,914	30,509	319,401	313,378
At 31 December 2015	503,036	22,077	31,866	38,450	595,429	583,038

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. FINANCIAL RISK MANAGEMENT *(Cont'd)*

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as total debt divided by adjusted capital. Total debt comprises accounts and bills payable, accruals and other payables, amount due to a joint venture and bank borrowings as shown in the consolidated statement of financial position. Adjusted capital comprises convertible bonds and all components of equity (including share capital, reserves, accumulated losses and non-controlling interests as shown in the consolidated statement of financial position).

The debt-to-adjusted capital ratios at 31 December 2016 and 2015 are as follows:

	2016 HK$'000	2015 HK$'000
Total debt	**366,165**	666,571
Adjusted capital	**1,794,440**	2,419,524
Debt-to-adjusted capital ratio	**20.4%**	27.5%

3.3 Fair value estimation

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. FINANCIAL RISK MANAGEMENT *(Cont'd)*

3.3 Fair value estimation *(Cont'd)*

The following table presents the Group's financial assets that are measured at fair value at 31 December 2016.

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Assets				
Financial assets at fair value through profit or loss				
— Listed debt securities	**102,253**	**–**	**–**	**102,253**
— Listed equity securities	**186,000**	**–**	**–**	**186,000**
— Unlisted fund investments	**–**	**26,837**	**–**	**26,837**
Available-for-sale financial assets				
— Unlisted fund investment	**–**	**7,056**	**–**	**7,056**
	288,253	**33,893**	**–**	**322,146**

The following table presents the Group's financial assets that are measured at fair value at 31 December 2015.

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Assets				
Financial assets at fair value through profit or loss				
— Listed debt securities	320,747	–	–	320,747
— Listed equity securities	306,327	–	–	306,327
— Unlisted fund investments	–	50,392	–	50,392
Available-for-sale financial assets				
— Unlisted fund investment	–	10,000	–	10,000
	627,074	60,392	–	687,466

There were no transfers between levels 1 and 2 during the year.

(a) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. These instruments are included in level 1.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. FINANCIAL RISK MANAGEMENT *(Cont'd)*

3.3 Fair value estimation *(Cont'd)*

(b) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs are not based on observable market data, the instrument is included in level 3.

Level 2 fair values for fund investments have been determined based on net asset value of the relevant fund investments.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(a) The Group tests whether non-financial assets have suffered any impairment in accordance with the accounting policy stated in Note 2.9. Determining whether non-financial assets are impaired requires an estimate of the value-in-use of the asset. Estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from the assets and also choose a suitable discount rate in order to calculate the present value of those cash flows. Where the actual future cash flows are less than expected, a material impairment loss may arise.

(b) Development costs in setting up and development of systems and networks are recognised as an intangible asset when the technical feasibility and intention of completing the asset has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Significant judgement is required in determining the capitalisation of development costs. Development costs that are recognised as assets are amortised on the straight-line basis to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred.

(c) The Group's management determines the impairment of accounts receivable on a regular basis. This estimate is based on the credit history of its customers and current market conditions. Management reassesses the impairment of accounts receivable at the end of the reporting period.

(d) Financial instruments such as equity investments and debt investments are carried at the consolidated statement of financial position at fair value. The best evidence of fair value is quoted prices in an active market. Where quoted prices are not available for a particular financial instrument, the Group uses valuation models or independent professional valuations to estimate the fair value. The use of methodologies, models and assumptions in valuing these financial instruments is subjective and requires varying degrees of judgement, which may result in significantly different fair values and results.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

5. TURNOVER AND SEGMENT INFORMATION

The Group is a technology and operation service provider of lottery systems, terminal equipment and gaming products in the China's lottery market. The principal businesses of the Group cover various lottery products ranging from video lottery, computer ticket game and KENO-type lottery, to new media lottery. An analysis of the Group's turnover for the year is as follows:

	2016 HK$'000	2015 HK$'000
Income from provision of lottery terminals and lottery sale channels	**119,138**	540,866
Income from sales of equipment	**80,976**	102,666
Income from provision of consultancy services	**205**	216
	200,319	643,748

Segment information

The Group's revenue and contribution to loss were mainly derived from the provision of technology and operation service for lottery systems, terminal equipment and gaming products in the China's lottery market, which is regarded as a single reportable segment in a manner consistent with the way in which information is reported internally to the Group's senior management for purposes of resource allocation and performance assessment. Accordingly, no segment analysis is presented other than entity-wide disclosures.

Geographical information

(a) Revenue from external customer

	2016 HK$'000	2015 HK$'000
People's Republic of China ("PRC")	**193,792**	643,748
Cambodia	**6,527**	–
	200,319	643,748

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	2016		2015	
	Total assets HK$'000	**Additions to non-current assets HK$'000**	Total assets HK$'000	Additions to non-current assets HK$'000
PRC	**655,190**	**43,414**	981,538	205,796
Hong Kong	**164,447**	**1,441**	167,454	840
Cambodia	**6,602**	**2,473**	5,610	1,862
	826,239	**47,328**	1,154,602	208,498

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

5. TURNOVER AND SEGMENT INFORMATION *(Cont'd)*

Information about major customer

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

	2016 HK$'000	2015 HK$'000
Customer A	N/A[1]	434,705
Customer B	81,982	N/A[1]

[1] The corresponding revenue did not contribute over 10% of the total revenue of the Group.

6. OTHER INCOME

	2016 HK$'000	2015 HK$'000
Interest income from bank deposits and other receivables	27,559	32,908

7. OTHER LOSSES — NET

	2016 HK$'000	2015 HK$'000
Fair value gain/(loss) on financial assets at fair value through profit or loss	27,847	(103,697)
Reclassification adjustment on disposal of available-for-sale financial assets	–	9,514
Gain on repurchase of convertible bonds	5,841	–
Gain on disposal of subsidiaries	56	–
Impairment of available-for-sale financial assets	(2,944)	(4,318)
Impairment of goodwill	–	(122,904)
Impairment of investment in a joint venture	–	(13,367)
Impairment of property, plant and equipment	(188,127)	–
Loss on disposal of property, plant and equipment	(255)	(99)
Foreign exchange gains/(losses)	773	(59)
	(156,809)	(234,930)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

8. OPERATING LOSS

The Group's operating loss is arrived at after charging:

	2016 **HK$'000**	2015 HK$'000
Costs of sales and services		
— Depreciation of lottery terminals	**128,516**	118,219
— Amortisation of intangible assets	**7,778**	3,935
— Business tax	**98**	26,099
— Cost of inventories recognised as expense	**58,701**	96,740
— Repairs and maintenance	**7,623**	12,919
— Commission and handling charges	**938**	15,394
— Others	**3,596**	10,970
	207,250	284,276
Operating lease rentals in respect of land and buildings	**17,877**	16,939
Auditor's remuneration	**980**	950
Amortisation of intangible assets	**–**	3,263
Depreciation of other items of property, plant and equipment	**11,876**	12,311

9. FINANCE COSTS

	2016 **HK$'000**	2015 HK$'000
Interest expenses on bank borrowings	**10,821**	15,077
Interest expenses on convertible bonds	**46,083**	46,335
	56,904	61,412

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

10. INCOME TAX EXPENSE

Hong Kong Profits Tax is calculated at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits for the year. No provision for Hong Kong Profits Tax has been made for the years ended 31 December 2016 and 2015 as the Group had no assessable profits arising in or derived from Hong Kong for both years.

The applicable enterprise income tax rate for PRC subsidiaries are 25% (2015: 25%) except for subsidiaries which are qualified as High and New Technology Enterprises and would be entitled to enjoy a beneficial tax rate of 15% (2015: 15%).

Under the Law of the People's Republic of China on Enterprise Income Tax, PRC withholding income tax is applicable to dividends payable to investors that are "non-PRC tax resident enterprises", which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends have their sources within the PRC. Under such circumstances, dividends distributed from a PRC subsidiary to non-PRC tax resident group entity in Hong Kong in respect of profits generated after 1 January 2008 shall be subject to the withholding tax at 10%, unless the Hong Kong company can be approved to enjoy a reduced rate of 5% pursuant to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income.

	2016 HK$'000	2015 HK$'000
Current tax:		
— PRC Enterprise Income Tax	**12,631**	35,781
— PRC Withholding Tax	**48,443**	22,444
— Adjustments in respect of prior years	**(5,639)**	(8,057)
Total current tax	**55,435**	50,168
Deferred tax *(Note 30)*		
— Origination and reversal of temporary differences	**(17,534)**	(4,162)
Income tax expense	**37,901**	46,006

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

10. INCOME TAX EXPENSE *(Cont'd)*

The tax on the Group's loss before income tax differs from the theoretical amount that would arise using the Hong Kong Profits Tax rate as follows:

	2016 HK$'000	2015 HK$'000
Loss before income tax	**(441,700)**	(370,124)
Tax calculated at 16.5%	**(72,881)**	(61,070)
Income not subject to tax	**(7,192)**	(1,830)
Expenses not deductible for tax purposes	**15,445**	87,125
Tax losses which no deferred income tax asset recognised	**54,674**	14,315
Utilisation of previously unrecognised tax losses	**–**	(2,930)
Adjustments in respect of prior years	**(5,639)**	(8,057)
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	**48,443**	22,444
Effect of different tax rates of subsidiaries operating in other jurisdictions	**5,051**	(3,991)
Tax charge	**37,901**	46,006

11. LOSS PER SHARE

Basic and diluted loss per share is calculated by dividing the loss attributable to owners of the Company by the weighted average number of 8,547,775,912 (2015: 8,501,842,949) ordinary shares in issue during the year.

The computation of diluted loss per share for the years ended 31 December 2016 and 2015 did not assume the conversion of the convertible bonds and the exercise of share options since their conversion and exercise would result in a decrease in loss per share.

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12. STAFF COSTS

Staff costs (including directors' emoluments) comprise:

	2016 **HK$'000**	2015 HK$'000
Wages and salaries	**116,280**	131,621
Employee share option benefits	**10,141**	10,865
Social security costs	**6,686**	7,119
Pension costs — defined contribution plans	**931**	932
Other staff welfare	**2,487**	4,241
	136,525	154,778

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group during the year included four (2015: four) directors of the Company, whose emoluments are set out in Note 13. The emoluments payable to the remaining one (2015: one) non-director and non-chief executive highest paid individual during the year are as follows:

	2016 **HK$'000**	2015 HK$'000
Basic salaries, other allowances and benefits in kind	**5,996**	6,240
Discretionary bonuses	**500**	530
Employer's contributions to pension schemes	**18**	17
	6,514	6,787

No emoluments were paid by the Group to non-director and non-chief executive highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office during the year (2015: Nil).

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For the year ended 31 December 2016

13. BENEFITS AND INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

(a) Directors' and chief executive's emoluments

The remuneration of every director and the chief executive of the Company for the year ended 31 December 2016 is set out below:

Name of director	Fees HK$'000	Salaries and allowance HK$'000	Discretionary bonuses HK$'000	Employee share option benefits HK$'000	Employer's contributions to pension scheme HK$'000	Total HK$'000
Executive directors						
Ms. Lau Ting	–	9,204	3,540	–	425	13,169
Mr. Wu Jingwei	–	5,685	2,330	–	18	8,033
Ms. Chan Tan Na, Donna	–	4,636	1,900	533	18	7,087
Mr. Li Zi Kui	–	2,872	1,000	266	18	4,156
Non-executive director						
Mr. Hoong Cheong Thard	364	–	60	5	–	429
Independent non-executive directors						
Mr. Huang Shenglan	336	–	60	5	–	401
Mr. Chan Ming Fai	336	–	60	5	–	401
Mr. Cui Shuming	336	–	60	5	–	401
	1,372	22,397	9,010	819	479	34,077

The remuneration of every director and the chief executive of the Company for the year ended 31 December 2015 is set out below:

Name of director	Fees HK$'000	Salaries and allowance HK$'000	Discretionary bonuses HK$'000	Employee share option benefits HK$'000	Employer's contributions to pension scheme HK$'000	Total HK$'000
Executive directors						
Ms. Lau Ting	–	8,884	2,700	–	419	12,003
Mr. Wu Jingwei	–	5,834	2,640	983	18	9,475
Ms. Chan Tan Na, Donna	–	4,698	151	983	18	5,850
Mr. Li Zi Kui	–	2,354	38	491	18	2,901
Non-executive director						
Mr. Hoong Cheong Thard	413	–	–	10	–	423
Independent non-executive directors						
Mr. Huang Shenglan	367	–	–	10	–	377
Mr. Chan Ming Fai	342	–	–	10	–	352
Mr. Cui Shuming	336	–	–	10	–	346
	1,458	21,770	5,529	2,497	473	31,727

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For the year ended 31 December 2016

13. BENEFITS AND INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE *(Cont'd)*

(a) Directors' and chief executive's emoluments *(Cont'd)*

Ms. Lau Ting is also the chief executive of the Company and her emoluments disclosed above include those for services rendered by her as the chief executive.

The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group. The non-executive director's emoluments and the independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

Neither the chief executive nor any of directors of the Company waived or agreed to waive any emoluments in the years ended 31 December 2016 and 2015.

No emoluments were paid by the Group to the directors and the chief executive as an inducement to join or upon joining the Group, or as compensation for loss of office during the year (2015: Nil).

(b) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate and connected entities

During the year ended 31 December 2016, no loans, quasi-loans and other dealings entered into by the Company or subsidiary undertaking of the Company, where applicable, in favour of directors, controlled bodies corporate and connected entities.

During the year ended 31 December 2015, the information about loans, quasi-loans and other dealings entered into by the Company or subsidiary undertaking of the Company, where applicable, in favour of connected entities of Ms. Lau Ting, the director of the Company, is as follows:

The amount of approximately HK$21,564,000 due from a subsidiary of Burwill Holdings Limited was impaired during the year ended 31 December 2015 as the amount was not recoverable. The amount due was unsecured, interest-free and repayable on demand. The outstanding amount at the beginning of the prior year and the maximum amount outstanding during the year ended 31 December 2015 were approximately HK$21,564,000.

14. DIVIDENDS

The Board does not recommend the payment of a dividend for the year ended 31 December 2016 (2015: Nil).

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For the year ended 31 December 2016

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land held for own use under finance lease HK$'000	Buildings HK$'000	Lottery terminals leased to third parties under operating leases HK$'000	Lottery terminals under construction HK$'000	Leasehold improvement HK$'000	Plant and equipment HK$'000	Computer equipment and software HK$'000	Office equipment and furniture HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2015										
Cost	171,995	13,355	780,100	40,893	11,392	22,958	25,313	10,323	8,295	1,084,624
Accumulated depreciation	(13,813)	(1,494)	(370,232)	–	(8,881)	(9,097)	(10,100)	(4,664)	(4,585)	(422,866)
Net book amount	158,182	11,861	409,868	40,893	2,511	13,861	15,213	5,659	3,710	661,758
Year ended 31 December 2015										
Opening net book amount	158,182	11,861	409,868	40,893	2,511	13,861	15,213	5,659	3,710	661,758
Exchange differences	–	(30)	(14,767)	(1,757)	(83)	(520)	(391)	(196)	(157)	(17,901)
Additions	–	–	1,814	156,997	155	4,454	5,104	79	4,384	172,987
Transfers	–	–	198,652	(194,286)	–	–	(4,366)	–	–	–
Transfer to inventories	–	–	(14,711)	–	–	–	–	–	–	(14,711)
Disposals	–	–	–	–	–	–	(142)	(6)	(832)	(980)
Depreciation	(3,235)	(355)	(118,219)	–	(1,050)	(3,457)	(3,100)	(1,353)	(1,416)	(132,185)
Closing net book amount	154,947	11,476	462,637	1,847	1,533	14,338	12,318	4,183	5,689	668,968
At 31 December 2015										
Cost	171,995	13,313	731,799	1,847	11,136	26,427	23,951	10,003	10,025	1,000,496
Accumulated depreciation	(17,048)	(1,837)	(269,162)	–	(9,603)	(12,089)	(11,633)	(5,820)	(4,336)	(331,528)
Net book amount	154,947	11,476	462,637	1,847	1,533	14,338	12,318	4,183	5,689	668,968
Year ended 31 December 2016										
Opening net book amount	154,947	11,476	462,637	1,847	1,533	14,338	12,318	4,183	5,689	668,968
Exchange differences	–	(41)	(19,383)	(119)	(65)	(815)	(676)	(218)	(270)	(21,587)
Additions	–	–	2,044	14,672	26	528	1,114	1,463	–	19,847
Transfers	–	–	14,129	(14,129)	–	–	–	–	–	–
Disposals	–	–	–	–	–	(87)	(19)	(149)	–	(255)
Disposal of subsidiaries	–	–	–	–	–	–	(17)	–	–	(17)
Impairment	–	–	(188,127)	–	–	–	–	–	–	(188,127)
Depreciation	(3,234)	(353)	(128,516)	–	(794)	(3,435)	(3,324)	(1,277)	(1,415)	(142,348)
Closing net book amount	151,713	11,082	142,784	2,271	700	10,529	9,396	4,002	4,004	336,481
At 31 December 2016										
Cost	171,995	13,251	701,001	2,271	10,746	23,545	23,090	10,098	9,489	965,486
Accumulated depreciation and impairment	(20,282)	(2,169)	(558,217)	–	(10,046)	(13,016)	(13,694)	(6,096)	(5,485)	(629,005)
Net book amount	151,713	11,082	142,784	2,271	700	10,529	9,396	4,002	4,004	336,481

Notes:

(i) Depreciation of lottery terminals leased to third parties under operating leases of approximately HK$128,516,000 (2015: HK$118,219,000) has been charged in costs of sales and services. Depreciation of other items of property, plant and equipment of approximately HK$1,956,000 (2015: HK$1,655,000) has been capitalised in lottery terminals under construction and of approximately HK$11,876,000 (2015: HK$12,311,000) has been charged in general and administrative expenses.

(ii) At 31 December 2016, the Group's leasehold land and buildings with a carrying amount of approximately HK$162,224,000 (2015: HK$165,767,000) was pledged to secure bank borrowings granted to the Group.

(iii) The Company through its subsidiary, 東莞天意電子有限公司 ("天意公司") is principally engaged in the provision of video lottery terminals ("VLT"). During the year, 天意公司 still has not received any compensation for its provision of VLT from Beijing China Lottery Online Technology Company Limited ("CLO"). Since there is high uncertainty of income from provision of VLT, management determined that an impairment loss of approximately HK$188,127,000 was required to reduce the value of these VLT to their recoverable amounts. The recoverable amounts of the relevant assets have been determined on the basis of their value in use. The discount rate in measuring the amount of value in use was 11.68%.

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For the year ended 31 December 2016

16. INTANGIBLE ASSETS

	Goodwill HK$'000	CLO Contract HK$'000	Internally generated development costs HK$'000	Intellectual properties HK$'000	Total HK$'000
At 1 January 2015					
Cost	1,201,209	60,382	135,176	56,110	1,452,877
Accumulated amortisation and impairment	(840,000)	(57,119)	–	(328)	(897,447)
Net book amount	361,209	3,263	135,176	55,782	555,430
Year ended 31 December 2015					
Opening net book amount	361,209	3,263	135,176	55,782	555,430
Exchange difference	(1,729)	–	(3,656)	(2,242)	(7,627)
Additions	–	–	30,635	–	30,635
Amortisation charge	–	(3,263)	–	(3,935)	(7,198)
Impairment	(122,904)	–	–	–	(122,904)
Closing net book amount	236,576	–	162,155	49,605	448,336
At 31 December 2015					
Cost	1,198,888	–	162,155	53,699	1,414,742
Accumulated amortisation and impairment	(962,312)	–	–	(4,094)	(966,406)
Net book amount	236,576	–	162,155	49,605	448,336
Year ended 31 December 2016					
Opening net book amount	**236,576**	**–**	**162,155**	**49,605**	**448,336**
Exchange difference	**(1,599)**	**–**	**(6,414)**	**(2,843)**	**(10,856)**
Additions	**–**	**–**	**27,481**	**–**	**27,481**
Amortisation charge	**–**	**–**	**(3,876)**	**(3,902)**	**(7,778)**
Closing net book amount	**234,977**	**–**	**179,346**	**42,860**	**457,183**
At 31 December 2016					
Cost	**1,184,516**	**–**	**183,177**	**50,223**	**1,417,916**
Accumulated amortisation and impairment	**(949,539)**	**–**	**(3,831)**	**(7,363)**	**(960,733)**
Net book amount	**234,977**	**–**	**179,346**	**42,860**	**457,183**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

16. INTANGIBLE ASSETS *(Cont'd)*

Notes:

(i) During the year ended 31 December 2016, amortisation of approximately HK$7,778,000 is included in "costs of sales and services". During the year ended 31 December 2015, amortisation of approximately HK$3,935,000 and HK$3,263,000 were included in "costs of sales and services" and "general and administrative expenses" respectively.

(ii) Internally generated development costs include all direct costs incurred in the setting up and development of systems and networks.

(iii) Impairment tests for goodwill

Goodwill is allocated to the CGU as follows:

	2016 HK$'000	2015 HK$'000
Provision of traditional computer lottery system and equipment	**199,403**	199,403
Development of lottery transaction and management systems	**35,574**	37,173
Provision of VLT	**–**	–
Provision of sales platform for high frequency lottery games	**–**	–
Provision of new media sales and marketing platform in telecom value-added business chain	**–**	–
	234,977	236,576

The recoverable amounts of the CGUs are determined based on a value-in-use calculation.

(a) *Provision of traditional computer lottery system and equipment*

The value-in-use calculation uses pre-tax cash flow projections based on financial budgets approved by management covering a 5-year period. The key assumptions used for the cash flow projections include the budgeted turnover and expenses during each of the forecasting periods, which are determined by management based on past performance and its expectation of market development. All cash flows are discounted at a discount rate of 11.68% (2015: 14.12%), which reflects the specific risks relating to this CGU. No impairment loss was recognised in respect of goodwill allocated to this CGU for the year ended 31 December 2016 as the recoverable amount of this CGU exceeded its carrying amount (2015: Nil).

(b) *Development of lottery transaction and management systems*

The value-in-use calculation uses pre-tax cash flow projections based on financial budgets approved by management covering a 5-year period. The key assumptions used for the cash flow projections include the budgeted turnover and expenses during each of the forecasting periods, which are determined by management based on past performance and its expectation of market development. All cash flows are discounted at a discount rate of 11.68% (2015: 14.12%), which reflects the specific risks relating to this CGU. No impairment loss was recognised in respect of goodwill allocated to this CGU for the year ended 31 December 2016 as the recoverable amount of this CGU exceeded its carrying amount (2015: Nil).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

16. INTANGIBLE ASSETS *(Cont'd)*

Notes: (Cont'd)

(iii) Impairment tests for goodwill (Cont'd)

(c) Provision of VLT

天意公司 entered into a contract ("CLO Contract") with CLO, pursuant to which 天意公司 provides CLO with VLT on an exclusive basis in the PRC. In consideration for the provision of VLT by 天意公司, CLO has agreed to pay to 天意公司 a service fee of 2% (inclusive of a maintenance fee of 0.4%) of the total revenue generated from the VLT sales system of CLO in the PRC. On 5 June 2012, 天意公司 entered into a supplementary agreement with CLO, pursuant to which both parties agreed to revise the service fee from 2% to 1.7% with effect from 1 January 2012.

The CLO Contract expired on 28 June 2015. 天意公司 continued to provide CLO with VLT after the expiry of the CLO Contract. At 31 December 2015, subject to the terms to be finalised, 天意公司 has not yet received any compensation for its provision of VLT after the expiry of the CLO Contract. Given the uncertainty, the Group's business performance relating to the provision of VLT has been adversely affected. The recoverable amount of goodwill allocated to this CGU had been reassessed and an impairment loss of approximately HK$95,319,000 was recognised during the year ended 31 December 2015.

At 31 December 2015, the recoverable amount of this CGU had been determined based on value-in-use calculation. The value-in-use calculation uses pre-tax cash flow projections based on financial budgets approved by management covering a 5-year period. The key assumptions used for the cash flow projections include the average number of VLT connected and the daily turnover of each VLT during each of the forecasting periods, which are determined by management based on past performance and its expectation of market development. All cash flows were discounted at a discount rate of 14.12%, which reflected the specific risks relating to this CGU.

(d) Provision of sales platform for high frequency lottery games

During the year ended 31 December 2015, eight PRC Government ministries called for a full suspension of online lottery sales. The Group's business performance relating to the provision of sales platform for high frequency lottery games has been adversely affected. The recoverable amount of goodwill allocated to this CGU had been reassessed and an impairment loss of approximately HK$15,538,000 was recognised during the year ended 31 December 2015.

At 31 December 2015, the recoverable amount of this CGU had been determined based on value-in-use calculation. The key assumptions used for the cash flow projections include the budgeted turnover and expenses during each of the forecasting periods, which are determined by management based on past performance and its expectation of market development. All cash flows were discounted at a discount rate of 14.12%, which reflected the specific risks relating to this CGU.

(e) Provision of new media sales and marketing platform in telecom value-added business chain

The suspension of online lottery sales had impact on new media lottery operations via mobile phone and the internet. The recoverable amount of goodwill allocated to this CGU had been reassessed and an impairment loss of approximately HK$12,047,000 was recognised during the year ended 31 December 2015.

At 31 December 2015, the recoverable amount of this CGU had been determined based on value-in-use calculation. The value-in-use calculation uses pre-tax cash flow projections based on financial budgets approved by management covering a 5-year period. The key assumptions used for the cash flow projections include the budgeted turnover and expenses during each of the forecasting periods, which are determined by management based on past performance and its expectation of market development. All cash flows were discounted at a discount rate of 15.85%, which reflected the specific risks relating to this CGU.

(iv) Impairment test for development costs

The development costs not ready to use are tested annually for impairment. At 31 December 2016, the recoverable amount of development costs has been determined based on a value-in-use calculation. The value-in-use calculation uses pre-tax cash flow projections approved by management covering a 5-year period. The key assumptions used for the cash flow projections included the budgeted revenue and expenses during each of the forecasting periods, which are determined by management based on its expectation of market development. All cash flows are discounted at a discount rate of 11.68% (2015: 14.12%). No impairment loss was recognised in respect of development costs for the year ended 31 December 2016 as the recoverable amount exceeded the carrying amount (2015: Nil).

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17. SUBSIDIARIES

The following is a list of the principal subsidiaries at the end of the reporting period:

Name	Place of incorporation/ establishment, Kind of legal entity *(Note (xi))*	Particulars of issued share capital/ registered capital	Interest held 2016	2015	Principal activities
China LotSynergy Limited	British Virgin Islands, Limited liability company	US$100	**100% (direct)**	100% (direct)	Investment holding
Flynn Technology Limited	British Virgin Islands, Limited liability company	US$1,000	**100% (direct)**	100% (direct)	Investment holding
Onwealth Holdings Limited	British Virgin Islands, Limited liability company	US$1	**100% (indirect)**	100% (direct)	Investment holding
Champ Mark Investments Limited	British Virgin Islands, Limited liability company	3,600 issued shares of no par value	**100% (indirect)**	100% (indirect)	Investment holding
Champ Technology Limited	Hong Kong, Limited liability company	HK$1	**100% (indirect)**	100% (indirect)	Investment holding
China LotSynergy Limited	Hong Kong, Limited liability company	US$500,000	**100% (indirect)**	100% (indirect)	Investment holding and provision of management service
China LotSynergy Asset Management Limited	Hong Kong, Limited liability company	US$2	**100% (indirect)**	100% (indirect)	Investment holding and treasury management
China LotSynergy Development Limited	Hong Kong, Limited liability company	HK$1	**100% (indirect)**	100% (indirect)	Investment holding
China LotSynergy Group Limited	Hong Kong, Limited liability company	HK$1	**100% (indirect)**	100% (indirect)	Investment holding
Corich International Limited ("Corich")	British Virgin Islands, Limited liability company	US$2,000,000	**50% (indirect) *(Note (xii))***	50% (indirect) *(Note (xii))*	Investment holding
East Grand Enterprises Limited	Hong Kong, Limited liability company	HK$1	**50% (indirect) *(Note (xii))***	50% (indirect) *(Note (xii))*	Investment holding

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

17. SUBSIDIARIES *(Cont'd)*

Name	Place of incorporation/ establishment, Kind of legal entity *(Note (xi))*	Particulars of issued share capital/ registered capital	Interest held 2016	2015	Principal activities
Goldwide Limited	Hong Kong, Limited liability company	HK$1	100% (indirect)	100% (indirect)	Investment holding
Lottnal Holdings Limited	Hong Kong, Limited liability company	US$350,000	80% (indirect)	80% (indirect)	Investment holding
Upmax Investments Limited	British Virgin Islands, Limited liability company	US$1	100% (indirect)	100% (indirect)	Investment holding
Willstrong Investments Limited	British Virgin Islands, Limited liability company	US$1	80% (indirect)	80% (indirect)	Provision of lottery system and equipment
天意公司 *(Note (i))*	PRC, Wholly foreign owned enterprise	HK$8,000,000	50% (indirect) *(Note (xii))*	50% (indirect) *(Note (xii))*	Provision of VLT
北京靈彩科技有限公司 ("北京靈彩") *(Note (ii))*	PRC, Wholly foreign owned enterprise	HK$1,200,000	50% (indirect) *(Note (xii))*	50% (indirect) *(Note (xii))*	Research and development of lottery system and equipment in the PRC
廣州洛圖終瑞技術有限公司 (Guangzhou Lottnal Terminal Company Limited) ("GZL") *(Note (iii))*	PRC, Wholly foreign owned enterprise	RMB20,274,063	80% (indirect)	80% (indirect)	Research and development and manufacturing of lottery ticket scanners and terminal equipment in the PRC and overseas

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

17. SUBSIDIARIES *(Cont'd)*

Name	Place of incorporation/ establishment, Kind of legal entity *(Note (xi))*	Particulars of issued share capital/ registered capital	Interest held 2016	2015	Principal activities
廣州市三環永新科技有限公司 (Guangzhou San Huan Yong Xin Technology Company Limited) ("GZSH") *(Note (iv))*	PRC, Sino-foreign equity joint venture enterprise	RMB10,000,000	**80% (indirect)**	80% (indirect)	Provision of lottery system and equipment in the PRC
北京優昌源科技有限公司 ("優昌源") *(Note (v))*	PRC, Wholly foreign owned enterprise	HK$10,000,000	**100% (indirect)**	75% (indirect)	Research and development of lottery system and equipment in the PRC
北京中大彩訊科技有限公司 ("中大彩訊") *(Note (vi))*	PRC, Wholly foreign owned enterprise	HK$10,000,000	**75% (indirect)**	75% (indirect)	Research and development of lottery system and equipment in the PRC
北京華彩贏通科技有限公司 ("華彩贏通") *(Note (vii))*	PRC, Limited liability company	RMB50,000,000	**100% (indirect)**	75% (indirect)	Research and development of lottery system and equipment in the PRC
北京贏彩通科技有限公司 ("贏彩通") *(Note (viii))*	PRC, Limited liability company	RMB5,000,000	**100% (indirect)**	75% (indirect)	Research and development of lottery system and equipment in the PRC
成都華彩贏通科技有限公司 ("成都華彩") *(Note (ix))*	PRC, Limited liability company	RMB1,000,000	**100% (indirect)**	75% (indirect)	Research and development of lottery system and equipment in the PRC

Notes to the Consolidated Financial Statements

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17. SUBSIDIARIES *(Cont'd)*

Name	Place of incorporation/ establishment, Kind of legal entity *(Note (xi))*	Particulars of issued share capital/ registered capital	Interest held 2016	Interest held 2015	Principal activities
重慶拓扣網絡科技有限公司 ("重慶拓扣") *(Note (ix))*	PRC, Limited liability company	RMB1,665,000	100% (indirect)	52.5% (indirect)	Research and development and operation of sales platform for high frequency lottery in the PRC
廣州頂尚信息科技有限公司 ("廣州頂尚") *(Note (ix))*	PRC, Limited liability company	RMB10,000,000	–	52.5% (indirect)	Provision of new media sales and marketing platform in telecom value-added business chain in the PRC
廣州市射頻通訊諮詢有限公司 ("廣州射頻") *(Note (ix))*	PRC, Limited liability company	RMB1,000,000	–	52.5% (indirect)	Provision of new media sales and marketing platform in telecom value-added business chain in the PRC
廣州千訊信息科技有限公司 ("廣州千訊") *(Note (ix))*	PRC, Limited liability company	RMB1,000,000	–	52.5% (indirect)	Provision of new media sales and marketing platform in telecom value-added business chain in the PRC
廣州市天轅信息科技有限公司 ("廣州天轅") *(Note (ix))*	PRC, Limited liability company	RMB3,000,000	–	52.5% (indirect)	Provision of new media sales and marketing platform in telecom value-added business chain in the PRC

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For the year ended 31 December 2016

17. SUBSIDIARIES *(Cont'd)*

Name	Place of incorporation/ establishment, Kind of legal entity *(Note (xi))*	Particulars of issued share capital/ registered capital	Interest held 2016	2015	Principal activities
廣州博富電子科技有限公司 ("廣州博富") *(Note (ix))*	PRC, Limited liability company	RMB1,000,000	–	52.5% (indirect)	Provision of new media sales and marketing platform in telecom value-added business chain in the PRC
北京貝英斯數碼技術有限公司 (Beijing Bestinfo Cyber Technology Co., Ltd) ("Bestinfo") *(Note (x))*	PRC, Limited liability company	RMB5,000,000	100% (indirect)	100% (indirect)	Development of lottery transaction and management systems

Notes:

(i) 天意公司 is a wholly foreign owned enterprise established in the PRC to be operated for a period of 15 years up to 2018.

(ii) 北京靈彩 is a wholly foreign owned enterprise established in the PRC to be operated for a period of 50 years up to 2057.

(iii) GZL is a wholly foreign owned enterprise established in the PRC to be operated for a period of 20 years up to 2020.

(iv) GZSH is a sino-foreign equity joint venture established in the PRC to be operated for a period of 20 years up to 2027.

(v) 優昌源 is a wholly foreign owned enterprise established in the PRC to be operated for a period of 50 years up to 2057.

(vi) 中大彩訊 is a wholly foreign owned enterprise established in the PRC to be operated for a period of 50 years up to 2057.

(vii) 華彩贏通 is a limited liability company established in the PRC to be operated for a period of 20 years up to 2028. The equity interest is held by individual nominees on behalf of the Group.

(viii) 贏彩通 is a limited liability company established in the PRC to be operated for a period of 20 years up to 2030. The equity interest is held by individual nominees on behalf of the Group.

(ix) These companies are limited liability companies established in the PRC to be operated for an infinite period. The equity interests are held by individual nominees on behalf of the Group.

(x) Bestinfo is a limited liability company established in the PRC to be operated for a period of 20 years up to 2021.

(xi) The subsidiaries operate principally in their respective places of incorporation/establishment.

(xii) These companies are consolidated by the Group as the Group owns more than one half of the voting rights in the board of directors of these companies.

The above table lists the subsidiaries of the Group which, in the opinion of the Board, principally affected the results for the year or formed a substantial portion of net assets of the Group. To give details of other subsidiaries would, in the opinion of the Board, result in particulars of excessive length.

Notes to the Consolidated Financial Statements

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17. SUBSIDIARIES *(Cont'd)*

(a) Material non-controlling interests

The total non-controlling interest for the year approximately HK$338,337,000 (2015: HK$505,610,000) of which approximately HK$313,580,000 (2015: HK$510,196,000) is for Corich. The remaining non-controlling interests are not material.

Summarised financial information on subsidiaries with material non-controlling interests

Set out below are the summarised financial information for Corich:

Summarised statement of financial position

	2016 HK$'000	2015 HK$'000
Current		
Assets	**597,883**	940,724
Liabilities	**(41,146)**	(297,174)
Total current net assets	**556,737**	643,550
Non-current		
Assets	**52,592**	356,171
Liabilities	**(55,280)**	(51,473)
Total non-current net (liabilities)/assets	**(2,688)**	304,698
Net assets	**554,049**	948,248

Summarised statement of profit or loss and other comprehensive income

	2016 HK$'000	2015 HK$'000
Revenue	**–**	434,705
(Loss)/Profit before income tax	**(318,421)**	245,116
Income tax expense	**(30,745)**	(43,993)
(Loss)/Profit for the year	**(349,166)**	201,123
Other comprehensive expense	**(45,034)**	(35,936)
Total comprehensive (expense)/income for the year	**(394,200)**	165,187
(Loss)/Profit allocated to non-controlling interests	**(174,054)**	98,366
Dividends to non-controlling interests	**–**	–

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17. SUBSIDIARIES *(Cont'd)*

(a) Material non-controlling interests *(Cont'd)*

Summarised cash flows

	2016 HK$'000	2015 HK$'000
Cash flows from operating activities		
Cash (used in)/generated from operations	**(220,778)**	502,135
Income tax paid	**(40,141)**	(80,643)
Net cash (used in)/generated from operating activities	**(260,919)**	421,492
Net cash generated from investing activities	**253,170**	193,468
Net cash used in financing activities	**(242,782)**	(384,479)
Net (decrease)/increase in cash and cash equivalents	**(250,531)**	230,481
Cash and cash equivalents at beginning of year	**386,347**	164,546
Effect of foreign exchange rate changes	**(16,900)**	(8,680)
Cash and cash equivalents at end of year	**118,916**	386,347

The information above is the amount before inter-company eliminations.

(b) Significant restrictions

Cash and short-term deposits of approximately HK$117,207,000 (2015: HK$612,280,000) are held in the PRC and are subject to local exchange control regulations. These local exchange control regulations provide for restrictions on exporting capital from the country, other than through normal dividends.

(c) Aggregate financial information of subsidiaries in which the equity interest are held by individual nominees on behalf of the Group

	2016 HK$'000	2015 HK$'000
Revenue	**4,138**	63,435
(Loss)/Profit for the year	**(7,160)**	834
Net assets	**21,645**	32,651

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18. INVESTMENT IN AN ASSOCIATE

	2016 HK$'000	2015 HK$'000
At 1 January	4,764	–
Addition	–	4,876
Share of loss	(4)	(7)
Exchange differences	(300)	(105)
At 31 December	4,460	4,764

Particulars of the associate of the Group at the end of the reporting period are as follows:

Name	Particulars of registered capital	Place of business/ establishment	Interest held 2016	Interest held 2015	Principal activity	Measurement method
深圳市前海華彩金控科技有限公司 ("前海華彩")	RMB50,000,000	PRC	40%	40%	Investment holding	Equity

The associate listed above is a private company and there is no quoted market price available for the investment.

Commitments in respect of the associate

The Group has the following commitment relating to its associate:

	2016 HK$'000	2015 HK$'000
Commitment to provide funding	17,857	19,099

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18. INVESTMENT IN AN ASSOCIATE *(Cont'd)*

Summarised financial information for the associate

Set out below are the summarised financial information for 前海華彩 which is accounted for using the equity method:

Summarised statement of financial position

	2016 HK$'000	2015 HK$'000
Current assets	11,149	11,927
Current liabilities	–	17
Net assets	11,149	11,910

Summarised statement of profit or loss and other comprehensive income

	2016 HK$'000	2015 HK$'000
Revenue	–	–
Loss from continuing operations	(11)	(17)
Income tax	–	–
Post-tax loss from continuing operations	(11)	(17)
Post-tax profit from discontinued operations	–	–
Other comprehensive expense	(750)	(263)
Total comprehensive expense	(761)	(280)
Dividends received from associate	–	–

The summarised financial information above represents amounts shown in the associate's financial statements prepared in accordance with HKFRS.

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18. INVESTMENT IN AN ASSOCIATE *(Cont'd)*

Summarised financial information for the associate *(Cont'd)*

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its interest in the associate.

	2016 HK$'000	2015 HK$'000
Opening net assets	**11,910**	–
Capital contribution	**–**	12,190
Loss for the year/period	**(11)**	(17)
Other comprehensive expense	**(750)**	(263)
Closing net assets	**11,149**	11,910
Interest in associate @ 40%	**4,460**	4,764

Significant restrictions

Cash and short-term deposits of approximately HK$4,469,000 (2015: HK$11,927,000) are held in the PRC and are subject to local exchange control regulations. These local exchange control regulations provide for restrictions on exporting capital from the country, other than through normal dividends.

19. INVESTMENT IN AND AMOUNT DUE TO A JOINT VENTURE

	2016 HK$'000	2015 HK$'000
At 1 January	**32,534**	51,567
Share of losses	**(2,369)**	(4,073)
Impairment	**–**	(13,367)
Exchange differences	**(2,050)**	(1,593)
At 31 December	**28,115**	32,534

The amount due to the joint venture is unsecured, interest-free and repayable on demand.

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19. INVESTMENT IN AND AMOUNT DUE TO A JOINT VENTURE *(Cont'd)*

Particulars of the joint venture of the Group at the end of the reporting period are as follows:

Name	Particulars of issued share capital	Place of business/ incorporation	Interest held 2016	Interest held 2015	Principal activity	Measurement method
CLS-GTECH Company Limited ("CLS-GTECH")	US$25,689,900	PRC/ British Virgin Islands	50%	50%	Development of nationwide unified platform for lottery operation in the PRC	Equity

The joint venture listed above is a private company and there is no quoted market price available for its shares.

Summarised financial information for the joint venture

Set out below are the summarised financial information for CLS-GTECH which is accounted for using the equity method:

Summarised statement of financial position

	2016 HK$'000	2015 HK$'000
Current		
Cash and cash equivalents	1,529	3,676
Other current assets (excluding cash and cash equivalents)	58,591	58,950
Total current assets	60,120	62,626
Financial liabilities (excluding trade payables and provisions)	25,322	26,044
Other current liabilities (including trade payables and provisions)	–	–
Total current liabilities	25,322	26,044
Non-current		
Non-current assets	21,433	29,733
Financial liabilities	–	–
Other non-current liabilities	–	–
Total non-current liabilities	–	–
Net assets	56,231	66,315

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19. INVESTMENT IN AND AMOUNT DUE TO A JOINT VENTURE *(Cont'd)*

Summarised financial information for the joint venture *(Cont'd)*

Summarised statement of profit or loss and other comprehensive income

	2016 HK$'000	2015 HK$'000
Revenue	**4**	249
Depreciation and amortisation	**6,588**	8,555
Interest income	**–**	2
Interest expense	**–**	–
Loss from continuing operations	**(5,985)**	(9,411)
Income tax	**–**	–
Post-tax loss from continuing operations	**(5,985)**	(9,411)
Post-tax profit from discontinued operations	**–**	–
Other comprehensive expense	**(4,099)**	(3,188)
Total comprehensive expense	**(10,084)**	(12,599)
Dividends received from joint venture	**–**	–

The summarised financial information above represents amounts shown in the joint venture's financial statements prepared in accordance with HKFRS.

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19. INVESTMENT IN AND AMOUNT DUE TO A JOINT VENTURE *(Cont'd)*

Summarised financial information for the joint venture *(Cont'd)*

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its interest in the joint venture.

	2016 HK$'000	2015 HK$'000
Opening net assets	**66,315**	78,914
Loss for the year	**(5,985)**	(9,411)
Other comprehensive expense	**(4,099)**	(3,188)
Closing net assets	**56,231**	66,315
Interests in joint venture @ 50%	**28,115**	33,158
Unrealised gain on transaction between the Group and joint venture	**–**	(624)
Carrying value	**28,115**	32,534

Significant restrictions

Cash and short-term deposits of approximately HK$306,000 (2015: HK$420,000) are held in the PRC and are subject to local exchange control regulations. These local exchange control regulations provide for restrictions on exporting capital from the country, other than through normal dividends.

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20. FINANCIAL INSTRUMENTS BY CATEGORY

	Loans and receivables HK$'000	Financial assets at fair value through profit or loss HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
2016				
Financial assets as per consolidated statement of financial position:				
Available-for-sale financial assets	–	–	7,056	7,056
Accounts receivable	77,370	–	–	77,370
Deposits and other receivables	560,632	–	–	560,632
Financial assets at fair value through profit or loss	–	315,090	–	315,090
Cash and bank balances	374,575	–	–	374,575
	1,012,577	315,090	7,056	1,334,723

	Financial liabilities at amortised cost HK$'000
2016	
Financial liabilities as per consolidated statement of financial position:	
Accounts and bills payable	5,736
Accruals and other payables	38,799
Amount due to a joint venture	7,919
Bank borrowings	313,378
Convertible bonds	521,520
	887,352

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20. FINANCIAL INSTRUMENTS BY CATEGORY *(Cont'd)*

	Loans and receivables HK$'000	Financial assets at fair value through profit or loss HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
2015				
Financial assets as per consolidated statement of financial position:				
Available-for-sale financial assets	–	–	10,000	10,000
Accounts receivable	88,632	–	–	88,632
Deposits and other receivables	348,847	–	–	348,847
Financial assets at fair value through profit or loss	–	677,466	–	677,466
Cash and bank balances	792,637	–	–	792,637
	1,230,116	677,466	10,000	1,917,582

	Financial liabilities at amortised cost HK$'000
2015	
Financial liabilities as per consolidated statement of financial position:	
Accounts and bills payable	16,489
Accruals and other payables	58,578
Amount due to a joint venture	6,766
Bank borrowings	583,038
Convertible bonds	602,156
	1,267,027

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21. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2016 HK$'000	2015 HK$'000
At 1 January	10,000	35,161
Disposals	–	(22,351)
Net loss transferred to equity	(2,944)	(2,810)
At 31 December	7,056	10,000

Available-for-sale financial assets including the following:

	2016 HK$'000	2015 HK$'000
Unlisted fund investments, at fair value	7,056	10,000

The fair value of the unlisted fund investments is determined based on net asset value of the relevant fund investments.

Available-for-sale financial assets are denominated in US$.

22. INVENTORIES

	2016 HK$'000	2015 HK$'000
Raw materials	12,664	22,623
Work in progress	3,068	5,475
Finished goods	10,288	31,844
	26,020	59,942
Provision	(1,333)	(1,426)
	24,687	58,516

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23. ACCOUNTS RECEIVABLE

Income from provision of lottery terminals and lottery sales channels is billed on a monthly basis and is due 15 to 30 days after month-end. Income from sales of equipment is billed upon the delivery of products and with credit periods ranging from 30 to 180 days. Income from provision of consultancy services is billed on a monthly or yearly basis and is due 30 days after the invoice date. The ageing analysis of the accounts receivable at the end of the reporting period, based on invoice date, is as follows:

	2016 **HK$'000**	2015 HK$'000
Less than three months	**10,331**	14,771
Over three months but less than one year	**2,716**	73,050
Over one year	**64,323**	811
	77,370	88,632

At 31 December 2016, accounts receivables of approximately HK$67,655,000 (2015: HK$74,300,000) were past due but not impaired. These relate to a number of independent customers for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered. The ageing analysis of these accounts receivables is as follows:

	2016 **HK$'000**	2015 HK$'000
Less than three months	**1,496**	2,072
Over three months but less than one year	**1,836**	71,417
Over one year	**64,323**	811
	67,655	74,300

The carrying amounts of the Group's accounts receivable are denominated in RMB.

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Included in the Group's prepayments, deposits and other receivables at 31 December 2016 are loans receivables of approximately HK$422,999,000 (2015: HK$193,271,000), which are unsecured and repayment on demand. Except for an amount of approximately HK$282,661,000 (2015: HK$161,994,000) which bears interest ranging from 4.75% to 8% (2015: 2% to 8%) per annum, the remaining loan receivables are interest-free.

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25. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016 HK$'000	2015 HK$'000
Listed debt securities		
— in Hong Kong	**15,603**	185,315
— outside Hong Kong	**86,650**	135,432
Listed equity securities		
— in Hong Kong	**12,307**	38,482
— outside Hong Kong	**173,693**	267,845
Unlisted fund investments	**26,837**	50,392
	315,090	677,466

Changes in fair values of financial assets at fair value through profit or loss are recorded in "other losses — net" in the consolidated statement of profit or loss.

The fair value of listed securities is based on their current bid prices in an active market.

The fair value of the unlisted fund investments is determined based on net asset value of the relevant fund investments.

At 31 December 2016, listed securities of approximately HK$300,128,000 (2015: HK$635,060,000) were pledged to secure bank borrowings and banking facilities granted to the Group.

26. CASH AND BANK BALANCES

	2016 HK$'000	2015 HK$'000
Cash and bank balances	**367,879**	533,149
Time deposits	**6,696**	259,488
	374,575	792,637
Less: Pledged time deposits with maturity of more than three months	**–**	(252,983)
Pledged bank deposits	**(124,574)**	(22,537)
Cash and cash equivalents	**250,001**	517,117

At 31 December 2016, the Group had cash and bank balances of approximately HK$211,463,000 (2015: HK$705,708,000) which are denominated in RMB. The remittance of these funds out of the PRC is subject to the exchange control restrictions imposed by the PRC government.

At 31 December 2016, deposits of approximately HK$124,574,000 (2015: HK$275,520,000) were pledged to secure bank borrowings and banking facilities granted to the Group.

The bank balances are deposited with creditworthy financial institutions with no recent history of default.

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27. ACCOUNTS AND BILLS PAYABLE

The ageing analysis of the accounts and bills payable at the end of the reporting period, based on invoice date, is as follows:

	2016 HK$'000	2015 HK$'000
Less than three months	**2,837**	15,465
Over three months but less than one year	**475**	886
Over one year	**2,424**	138
	5,736	16,489

The carrying amounts of the Group's accounts payable are denominated in RMB.

28. BANK BORROWINGS

	2016 HK$'000	2015 HK$'000
Current		
Portion of term loans from bank due for repayment within one year	**247,268**	496,295
Portion of term loans from bank due for repayment after one year which contain a repayment on demand clause	**66,110**	86,743
	313,378	583,038

At 31 December 2016, the Group's bank borrowings were due for repayment as follows:

	2016 HK$'000	2015 HK$'000
Portion of term loans due for repayment within one year	**247,268**	496,295
Term loans due for repayment after one year *(Note)*		
After one year but within two years	**14,950**	20,680
After two years but within five years	**21,928**	29,492
After five years	**29,232**	36,571
	66,110	86,743
	313,378	583,038

Note: The amounts due are based on the scheduled repayment dates set out in the loan agreements and ignore the effect of any repayment on demand clause.

The bank borrowings carry interest at rates ranging from 0.97% to 3.30% (2015: 0.98% to 2.96%) per annum.

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28. BANK BORROWINGS *(Cont'd)*

The carrying amounts of the Group's bank borrowings are denominated in the following currencies:

	2016 HK$'000	2015 HK$'000
HK$	**282,291**	192,658
US$	**31,087**	390,380
	313,378	583,038

At 31 December 2016, the Group's bank borrowings and banking facilities were secured by: (i) the Group's leasehold land and buildings with a carrying amount of approximately HK$162,224,000 (2015: HK$165,767,000); (ii) standby letters of credit issued by bank for an aggregate amount of Nil (2015: US$32,000,000); (iii) the Group's bank deposits amounting to approximately HK$124,574,000 (2015: HK$275,520,000); and (iv) the Group's trading securities of approximately HK$300,128,000 (2015: HK$635,060,000).

29. CONVERTIBLE BONDS

On 8 April 2014, the Company entered into a subscription agreement (the "Subscription Agreement") to issue 5% convertible bonds due 2019 of up to an aggregate principal amount of HK$780,000,000. On 17 April 2014, the issue of the convertible bonds in the principal amount of HK$580,000,000 (the "Firm Bonds") was completed. On 2 May 2014, the issue of the convertible bonds in aggregate principal amount of HK$70,000,000 (the "Exercised Option Bonds", and together with the Firm Bonds, the "Bonds") was completed pursuant to an option under the Subscription Agreement being partially exercised before the closing date of the option, bringing the total issue size of the convertible bonds to HK$650,000,000 in principal amount.

The Bonds are denominated in HK$ and listed on the Stock Exchange. The Bonds entitle the holders to convert them into ordinary shares of the Company at any time on or after 28 May 2014 up to the close of business on the 7th day prior to 17 April 2019 (the "Maturity Date") at an initial conversion price of HK$0.93 per ordinary share (subject to adjustment). The conversion price of the Bonds was adjusted to HK$0.92 per share with effect from 6 June 2015.

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29. CONVERTIBLE BONDS *(Cont'd)*

If the Bonds have not been converted, they will be redeemed on Maturity Date at par. Interest of 5% will be payable semi-annually in arrear.

The Company may at any time after 1 May 2017 redeem the Bonds, in whole or in part, at their principal amount together with any interest accrued but unpaid to the date fixed for redemption, provided that the closing price of the shares of the Company for 20 out of 30 consecutive trading days prior to the date upon which notice of such redemption is given was at least 130% of the conversion price then in effect.

The Company may at any time redeem the Bonds, in whole but not in part, at their principal amount together with any interest accrued but unpaid to the date fixed for redemption, if prior to the date of the notice at least 90% in principal amount of the Bonds originally issued has already been converted, redeemed or purchased and cancelled.

The Bonds contains two components, liability and equity elements. The equity element is presented in equity heading "convertible bond equity reserve". The effective interest rate of the liability component is approximately 7.59% per annum.

On 29 November 2016, the Company repurchased a principal amount of HK$100,000,000 of the Bonds on the Stock Exchange.

The movement of liability component of the Bonds for the year is set out below:

	2016 **HK$'000**	2015 HK$'000
At 1 January	**602,156**	588,321
Repurchase	**(94,636)**	–
Interest charge	**46,083**	46,335
Interest paid	**(32,083)**	(32,500)
At 31 December	**521,520**	602,156

The fair value of the liability component of the convertible bonds at 31 December 2016 amounted to approximately HK$525,756,000 (2015: HK$560,515,000). The fair value is determined based on discounted cash flow analysis.

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30. DEFERRED INCOME TAX

The movement in deferred income tax assets and liabilities during the year is as follows:

Deferred income tax liabilities:

	Intangible assets HK$'000	Convertible bonds HK$'000	Accelerated tax depreciation HK$'000	Withholding tax on dividend income HK$'000	Total HK$'000
At 1 January 2015	13,285	10,177	18,423	38,066	79,951
(Credited)/Charged to profit or loss	(1,542)	(2,283)	40	(405)	(4,190)
Exchange difference	(672)	–	(900)	–	(1,572)
At 31 December 2015	11,071	7,894	17,563	37,661	74,189
Credited to equity	–	(1,810)	–	–	(1,810)
(Credited)/Charged to profit or loss	(744)	(1,385)	(14,429)	637	(15,921)
Exchange difference	(716)	–	(536)	–	(1,252)
At 31 December 2016	9,611	4,699	2,598	38,298	55,206

Deferred income tax assets:

	Tax losses HK$'000
At 1 January 2015	8,807
Charged to profit or loss	(28)
Exchange difference	(377)
At 31 December 2015	8,402
Credited to profit or loss	1,613
Exchange difference	(976)
At 31 December 2016	9,039

Deferred tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. At 31 December 2016, the Group did not recognise deferred income tax asset in respect of tax losses amounting to approximately HK$492,826,000 (2015: HK$126,591,000) that can be carried forward to offset against future taxable profits. Tax losses amounting to approximately HK$316,636,000 (2015: HK$34,500,000) will expire from 2017 to 2021 (2015: 2016 to 2020).

At 31 December 2016, deferred tax liabilities has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to approximately HK$97,325,000 (2015: HK$752,799,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

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31. SHARE CAPITAL

	Authorised ordinary shares of HK$0.0025 each	
	Number of shares	HK$'000
At 1 January 2015, 31 December 2015 and 31 December 2016	16,000,000,000	40,000

	Issued and fully paid ordinary shares of HK$0.0025 each	
	Number of shares	HK$'000
At 1 January 2015	8,452,207,333	21,131
Share options exercised *(Note (i))*	79,600,000	199
At 31 December 2015	8,531,807,333	21,330
Share options exercised *(Note (ii))*	23,500,000	58
At 31 December 2016	8,555,307,333	21,388

Notes:

(i) Share options were exercised by optionholders during the year ended 31 December 2015 to subscribe for a total of 79,600,000 shares of HK$0.0025 each by payment of subscription monies of approximately HK$34,485,000, of which approximately HK$199,000 was credited to share capital and the balance of approximately HK$34,286,000 was credited to the share premium account.

(ii) Share options were exercised by optionholders during the year ended 31 December 2016 to subscribe for a total of 23,500,000 shares of HK$0.0025 each by payment of subscription monies of approximately HK$4,673,000, of which approximately HK$58,000 was credited to share capital and the balance of approximately HK$4,615,000 was credited to the share premium account.

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32. SHARE OPTION SCHEMES

(a) Share option scheme adopted on 30 July 2002 (the "2002 Option Scheme")

At the annual general meeting of the Company held on 30 July 2002, the shareholders of the Company approved the adoption of the 2002 Option Scheme.

Under the 2002 Option Scheme, the Company may grant options to employees (including executive and non-executive directors) of the Group and other participants to subscribe for shares in the Company, subject to a maximum of 30% of the issued share capital of the Company from time to time excluding for this purpose shares issued on exercise of options. The subscription price will be determined by the Board and will not be less than the highest of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheets on the date of the grant of the option, which must be a business day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of the grant of the option; and (iii) the nominal value of the shares. A nominal consideration at HK$1 is payable for each grant. Share options can be exercised within a period of not exceeding 10 years commencing on the date of grant or such later date as the Board may determine and expiring on the last day of the period.

(b) Share option scheme adopted on 18 May 2012 (the "2012 Option Scheme")

At the annual general meeting of the Company held on 18 May 2012, the shareholders of the Company approved the termination of 2002 Option Scheme and the adoption of 2012 Option Scheme.

Under the 2012 Option Scheme, the Company may grant options to employees (including executive and non-executive directors) of the Group and other participants to subscribe for shares in the Company. The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2012 Option Scheme and any other share option schemes of the Company must not in aggregate exceed 30% of issued shares from time to time.

The subscription price will be determined by the Board and will not be less than the highest of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheets on the date of the grant of the option, which must be a business day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of the grant of the option; and (iii) the nominal value of the shares. A nominal consideration at HK$1 is payable for each grant. Share options can be exercised within a period of not exceeding 10 years commencing on the date of grant or such later date as the Board may determine and expiring on the last day of the period.

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32. SHARE OPTION SCHEMES *(Cont'd)*

The purpose of the share option schemes is to provide incentives to employees (including executive and non-executive directors) and other eligible participants to contribute to the Group and to enable the Group to recruit high-calibre employees and attract resources that are value to the Group.

Movements in number of share options outstanding and their related weighted average exercise prices are as follows:

	2002 Option Scheme		2012 Option Scheme		
	Average exercise price (HK$ per share)	Options (thousands)	Average exercise price (HK$ per share)	Options (thousands)	Total Options (thousands)
At 1 January 2015	0.36	27,200	0.65	280,125	307,325
Granted	–	–	0.46	679,600	679,600
Exercised	0.50	(10,000)	0.42	(69,600)	(79,600)
At 31 December 2015	0.29	17,200	0.52	890,125	907,325
Exercisable at 31 December 2015	0.29	17,200	0.47	692,500	709,700
At 1 January 2016	**0.29**	**17,200**	**0.52**	**890,125**	**907,325**
Exercised	**0.29**	**(12,000)**	**0.11**	**(11,500)**	**(23,500)**
Lapsed	**0.29**	**(5,200)**	**0.69**	**(3,000)**	**(8,200)**
At 31 December 2016	**–**	**–**	**0.53**	**875,625**	**875,625**
Exercisable at 31 December 2016	**–**	**–**	**0.48**	**681,000**	**681,000**

Options exercised in 2016 resulted in 23,500,000 (2015: 79,600,000) shares being issued at a weighted average price of HK$0.20 (2015: HK$0.43) each. The related weighted average share price at the time of exercise was HK$0.31 (2015: HK$0.68) per share.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

32. SHARE OPTION SCHEMES *(Cont'd)*

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

Expiry date	Exercise price (HK$ per share)	Options (thousands) 2016	2015
2002 Option Scheme			
30 June 2016	0.285	–	17,200
2012 Option Scheme			
13 May 2016	0.109	–	11,500
2 January 2017	0.600	**40,000**	40,000
10 July 2017	0.400	**170,000**	170,000
29 October 2017	0.460	**425,000**	425,000
14 July 2018	0.690	**183,025**	186,025
29 October 2018	0.840	**46,000**	46,000
29 October 2020	0.840	**11,600**	11,600
		875,625	890,125
		875,625	907,325

At the end of the reporting period, the Company had a total of 875,625,000 (2015: 907,325,000) share options outstanding under the share option schemes. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 875,625,000 (2015: 907,325,000) additional ordinary shares of the Company and additional share capital of approximately HK$2,189,000 (2015: HK$2,268,000) and share premium of approximately HK$459,982,000 (2015: HK$468,128,000) (before issue expenses).

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For the year ended 31 December 2016

33. RESERVES

	Share premium HK$'000	Convertible bond equity reserve HK$'000	Capital reserve HK$'000 (Note)	Other reserve HK$'000	Currency translation reserve HK$'000	Share-based compensation reserve HK$'000	Revaluation reserve HK$'000	Available-for-sale investments HK$'000	Total HK$'000
At 1 January 2015	1,248,179	39,925	15,158	–	28,744	14,281	10,869	8,006	1,365,162
Share option scheme:									
— value of employee services	–	–	–	–	–	10,865	–	–	10,865
— value of other participants' services	–	–	–	–	–	81,365	–	–	81,365
— share options exercised	39,000	–	–	–	–	(4,714)	–	–	34,286
Release of revaluation reserve upon depreciation of leasehold land and building	–	–	–	–	–	–	(241)	–	(241)
Fair value loss on available-for-sale financial assets	–	–	–	–	–	–	–	(2,810)	(2,810)
Reclassification adjustment on disposal of available-for-sale financial assets	–	–	–	–	–	–	–	(9,514)	(9,514)
Reclassification adjustment on impairment of available-for-sale financial assets	–	–	–	–	–	–	–	4,318	4,318
Currency translation differences									
— overseas subsidiaries	–	–	–	–	(47,971)	–	–	–	(47,971)
— overseas associate	–	–	–	–	(105)	–	–	–	(105)
— overseas joint venture	–	–	–	–	(1,593)	–	–	–	(1,593)
At 31 December 2015	1,287,179	39,925	15,158	–	(20,925)	101,797	10,628	–	1,433,762
Share option scheme:									
— value of employee services	–	–	–	–	–	10,141	–	–	10,141
— value of other participants' services	–	–	–	–	–	8,857	–	–	8,857
— share options exercised	8,128	–	–	–	–	(3,513)	–	–	4,615
— vested share options expired	–	–	–	–	–	(1,378)	–	–	(1,378)
Repurchase of convertible bonds	–	(7,952)	–	–	–	–	–	–	(7,952)
Reversal of deferred tax previously recognised on equity component of convertible bonds	–	1,810	–	–	–	–	–	–	1,810
Changes in ownership interests in subsidiaries without change of control	–	–	–	(41,615)	–	–	–	–	(41,615)
Release of revaluation reserve upon depreciation of leasehold land and building	–	–	–	–	–	–	(241)	–	(241)
Fair value loss on available-for-sale financial assets	–	–	–	–	–	–	–	(2,944)	(2,944)
Reclassification adjustment on impairment of available-for-sale financial assets	–	–	–	–	–	–	–	2,944	2,944
Release of currency translation reserve upon disposal of subsidiaries	–	–	–	–	(235)	–	–	–	(235)
Currency translation differences									
— overseas subsidiaries	–	–	–	–	(52,558)	–	–	–	(52,558)
— overseas associate	–	–	–	–	(300)	–	–	–	(300)
— overseas joint venture	–	–	–	–	(2,050)	–	–	–	(2,050)
At 31 December 2016	1,295,307	33,783	15,158	(41,615)	(76,068)	115,904	10,387	–	1,352,856

Note: Capital reserve represents the difference between the nominal value of the ordinary shares issued by the Company and the share capital of a subsidiary acquired through an exchange of shares pursuant to the group reorganisation (the "Reorganisation") on 6 September 2001.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

34. CASH GENERATED FROM OPERATION

	2016 HK$'000	2015 HK$'000
Cash flows from operating activities		
Loss before income tax	(441,700)	(370,124)
Adjustments for:		
Depreciation	140,392	130,530
Amortisation of intangible assets	7,778	7,198
Loss on disposal of property, plant and equipment	255	99
Gain on disposal of subsidiaries	(56)	–
Gain on repurchase of convertible bonds	(5,841)	–
Share option expenses	18,998	92,230
Fair value (gain)/loss on financial assets at fair value through profit or loss	(27,847)	103,697
Reclassification adjustment on disposal of available-for-sale financial assets	–	(9,514)
Impairment of available-for-sale financial assets	2,944	4,318
Impairment of goodwill	–	122,904
Impairment of investment in a joint venture	–	13,367
Impairment of amount due from a related company	–	21,564
Impairment of property, plant and equipment	188,127	–
Interest income	(27,559)	(32,908)
Finance costs	56,904	61,412
Share of loss of an associate	4	7
Share of loss of a joint venture	2,369	4,073
Operating cash flows before changes in working capital	(85,232)	148,853
Changes in working capital:		
— Prepaid rentals	–	247
— Inventories	31,047	7,882
— Accounts receivable	3,469	203,822
— Prepayments, deposits and other receivables	7,250	60,453
— Financial assets at fair value through profit or loss	390,223	95,082
— Accounts and bills payable	(10,010)	(23,751)
— Accruals and other payables	(19,342)	(11,142)
— Amount due to a joint venture	1,153	797
	403,790	333,390
Cash generated from operation	318,558	482,243

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For the year ended 31 December 2016

35. OPERATING LEASE COMMITMENTS

At 31 December 2016, the Group had aggregate future minimum lease payments under non-cancellable operating leases in respect of rented premises as follows:

	2016 **HK$'000**	2015 HK$'000
Within one year	**17,434**	17,753
In the second to fifth years inclusive	**25,340**	25,940
Over five years	**26,314**	31,929
	69,088	75,622

36. EMPLOYEE RETIREMENT BENEFITS

The Group has arranged for its Hong Kong employees to participate in a defined contribution retirement scheme (the "Original Scheme"), which is managed by independently administered funds. The Group's monthly contributions are based on 5% of employees' monthly salaries. The employees are entitled to receive 100% of the Group's contribution and the accrued interest thereon upon retirement or leaving the Group after completing ten years of service or at a reduced scale of 30% to 90% after completing three to nine years of services.

For the Group's Hong Kong employees employed after 1 December 2000, the Group has arranged for these employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, each of the Group and its employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation, subject to a maximum contribution, which has been adjusted from HK$1,250 to HK$1,500 per month per employee with effect from 1 June 2014.

As stipulated by rules and regulations in the PRC, the Group contributes to state-sponsored retirement plans for its employees in the PRC. The Group contributes to the retirement plans at rates ranging from approximately 8% to 19% of the basic salaries of its employees, and has no further obligations for the actual payment of pensions or post-retirement benefits. The state-sponsored retirement plans are responsible for the entire pension obligations payable to retired employees.

During the year, the aggregate amount of the Group's contributions to the aforementioned schemes and plans were approximately HK$7,617,000 (2015: HK$8,051,000), with no (2015: Nil) deduction of forfeited contributions. At 31 December 2016, there was no material forfeited contribution available to reduce the Group's employer contribution payable in future periods (2015: Nil).

The Group's contribution payable at 31 December 2016 amounted to approximately HK$132,000 (2015: Nil).

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For the year ended 31 December 2016

37. DISPOSAL OF SUBSIDIARIES

On 8 April 2016, the Group disposed of its entire interest in 廣州頂尚. The net assets of 廣州頂尚 at the date of disposal were as follows:

	HK$'000
Net assets disposed of:	
Property, plant and equipment	17
Accounts receivable	2,240
Prepayments, deposits and other receivables	57
Amount due from a fellow subsidiary	4,556
Cash and bank balances	675
Accruals and other payables	(262)
Amount due to a fellow subsidiary	(519)
	6,764
Gain on disposal of subsidiaries:	
Consideration	–
Net assets disposal of	(6,764)
Non-controlling interests	2,029
Intercompany balance due by the Group waived	4,556
Release of currency translation reserve upon disposal	235
	56
Net cash outflow on disposal of subsidiaries	
Cash consideration received	–
Less: Cash and cash equivalents disposed of	(675)
	(675)

38. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances as disclosed elsewhere in these consolidated financial statements, the Group had the following significant related party transaction during the year:

	2016 HK$'000	2015 HK$'000
Consultancy service income from a joint venture	–	135

Note: The above transaction was carried out in the normal course of business and in accordance with terms as agreed with related party.

Compensation of key management personnel

Key management includes directors and certain senior management who have important roles in making operational and financial decision. The compensation paid or payable to key management is shown below:

	2016 HK$'000	2015 HK$'000
Short-term employee benefits	39,275	35,527
Post-employment benefits	497	490
Employee share option benefits	819	2,497
	40,591	38,514

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39. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

Statement of Financial Position

At 31December 2016

	2016 HK$'000	2015 HK$'000
Non-current assets		
Investments in subsidiaries	9	9
Current assets		
Prepayments, deposits and other receivables	45	34
Amounts due from subsidiaries	1,815,816	2,160,429
Cash and bank balances	849	832
	1,816,710	2,161,295
Total assets	1,816,719	2,161,304
Current liabilities		
Accruals and other payables	7,676	7,418
Amounts due to subsidiaries	9,993	9,993
	17,669	17,411
Net current assets	1,799,041	2,143,884
Total assets less current liabilities	1,799,050	2,143,893
Non-current liabilities		
Convertible bonds	521,520	602,156
Deferred income tax liabilities	4,699	7,894
	526,219	610,050
Net assets	1,272,831	1,533,843
Equity attributable to owners of the Company		
Share capital	21,388	21,330
Reserves *(Note (a))*	1,251,443	1,512,513
	1,272,831	1,533,843

The statement of financial position of the Company was approved by the Board of Directors on 10 March 2017 and was signed on its behalf:

LAU TING
Director

CHAN TAN NA, DONNA
Director

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

39. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY *(Cont'd)*

Note:

(a) Reserve movement of the Company

	Share premium HK$'000	Convertible bond equity reserve HK$'000	Contributed surplus HK$'000 *(Note)*	Share-based compensation reserve HK$'000	(Accumulated losses)/ retained profits HK$'000	Total HK$'000
At 1 January 2015	1,248,179	39,925	16,209	14,281	231,289	1,549,883
Share option scheme:						
— value of employee services	–	–	–	10,865	–	10,865
— value of other participants' services	–	–	–	81,365	–	81,365
— share options exercised	39,000	–	–	(4,714)	–	34,286
Loss for the year	–	–	–	–	(142,569)	(142,569)
Dividends relating to 2014 (0.25 HK cent per share)	–	–	–	–	(21,317)	(21,317)
At 31 December 2015	1,287,179	39,925	16,209	101,797	67,403	1,512,513
Share option scheme:						
— value of employee services	–	–	–	10,141	–	10,141
— value of other participants' services	–	–	–	8,857	–	8,857
— share options exercised	8,128	–	–	(3,513)	–	4,615
— vested share options expired	–	–	–	(1,378)	1,378	–
Repurchase of convertible bonds	–	(7,952)	–	–	21	(7,931)
Reversal of deferred tax previously recognised on equity component of convertible bonds	–	1,810	–	–	–	1,810
Loss for the year	–	–	–	–	(278,562)	(278,562)
At 31 December 2016	1,295,307	33,783	16,209	115,904	(209,760)	1,251,443

Note: Contributed surplus represents the difference between the nominal value of the ordinary shares issued by the Company and the net asset value of a subsidiary acquired through an exchange of shares pursuant to the Reorganisation.