PARADISE ENTERTAINMENT LIMITED
滙彩控股有限公司*

(Incorporated in Bermuda with limited liability)
(Stock Code : 1180)

ANNUAL REPORT 2017

* For identification purposes only

Contents

Corporate Information

PLACE OF INCORPORATION

Bermuda

BOARD OF DIRECTORS

Executive Directors

Mr. Jay CHUN, Chairman and Managing Director
(also alternate Director to
Mr. SHAN Shiyong, alias, SIN Sai Yung)
Mr. SHAN Shiyong, alias, SIN Sai Yung
Mr. HU Liming

Independent Non-Executive Directors

Mr. LI John Zongyang
Mr. Kai-Shing TAO
Ms. TANG Kiu Sam Alice

AUDIT COMMITTEE

Mr. LI John Zongyang *(Chairman)*
Mr. Kai-Shing TAO
Ms. TANG Kiu Sam Alice

REMUNERATION COMMITTEE

Mr. LI John Zongyang *(Chairman)*
Mr. Jay CHUN
Ms. TANG Kiu Sam Alice

NOMINATION COMMITTEE

Mr. Jay CHUN *(Chairman)*
Mr. LI John Zongyang
Ms. TANG Kiu Sam Alice

AUTHORISED REPRESENTATIVES

Mr. Jay CHUN
Mr. CHAN Kin Man

COMPANY SECRETARY

Mr. CHAN Kin Man

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit C, 19/F., Entertainment Building
30 Queen's Road Central
Hong Kong

BERMUDA PRINCIPAL REGISTRAR

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

HONG KONG SHARE REGISTRAR

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

HONG KONG LEGAL ADVISORS

H. M. Chan & Co in association with Taylor Wessing
Norton Rose Fulbright Hong Kong

INDEPENDENT AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

PRINCIPAL BANKERS

Wing Lung Bank Limited
Hang Seng Bank Limited
Bank of China (Hong Kong) Limited
Bank of China Limited, Macau Branch
Industrial and Commercial Bank of China (Macau) Limited
Luso International Banking Limited

LISTING INFORMATION

Place of Listing

Main Board of the Stock Exchange

Stock Code

1180

Board Lot Size

4,000 Shares

INVESTOR RELATIONS

Tel:	(852) 2620 5303
Fax:	(852) 2620 6000
Email:	paradise.ir@hk1180.com

WEBSITE

www.hk1180.com

KEY DATES

Annual results announcement:	26 March 2018
Book close dates for 2018 AGM:	16 to 21 May 2018 (both days inclusive)
2018 AGM:	21 May 2018

CORPORATE COMMUNICATIONS

This annual report (both English and Chinese versions) is now available in printed form or on the websites of the Stock Exchange and the Company at “www.hkexnews.hk” and “www.hk1180.com”, respectively.

Corporate Profile

The Company was incorporated in Bermuda on 3 December 1996 with its Shares listed on the Main Board of the Stock Exchange since 20 January 1997. The Company is the holding company of a diverse group of companies that are principally engaged in the provision of casino management services, and the development, sale and leasing of electronic gaming equipment and systems.

The Group has been active in the Macau gaming market as a casino management service provider and a gaming equipment and systems supplier since 2007. The Group is currently the sole casino management service provider to 2 stand-alone satellite casino properties in Macau. The Group is also a major gaming equipment and systems supplier in Macau and overseas.

In 2007, the Group entered into a service contract with SJM for provision of casino management services and has since then positioned itself as a casino management service provider focusing on mass market patrons for various satellite casinos of SJM in Macau. In 2014, the Group entered into another service contract for provision of casino management service in a satellite casino of Galaxy in Macau. The Group sets itself apart from its peers by offering patrons affordable minimum bets which attract a large, diverse and loyal patron base. The Group's edge is made possible by leveraging technology to lower its operational costs and increase game efficiency and productivity.

On the other hand, the Group is one of the leading gaming equipment and systems suppliers worldwide. The Group specialises in developing table game automation and innovative technologies that improve game efficiency and optimise operations. One of the Group's core products is the patented LMG system which has seen tremendous demand from Macau and overseas casino operators. The Group is also committed to investing in extensive research and development to create products that simplify game process, minimise labour costs, optimise game productivity and enhance player experience.

On 25 April 2016, the Group entered into the Agreement with IGT, pursuant to which the Group has agreed to grant to IGT the exclusive rights to make, have made, use, sell, offer for sale, import, license/sub-license, and otherwise exploit the Licensed Products worldwide (other than Macau), which involves the assignment and license of the Patents and associated technology in relation to the Licensed Products for the purpose of facilitating the exercise of the exclusive rights by IGT for a term of 15 years. Further details of the transaction were discussed in the section headed "Management Discussion and Analysis" of this annual report and were set out in the Company's announcements dated 26 April 2016 and 14 December 2017, and the Company's circular dated 21 June 2016.

Chairman's Statement

After a 26-month slump in GGR, Macau gaming market has recovered from the third quarter of 2016 as evident by the positive growth in GGR since then. However, 2017 remained a challenging year as satellite casinos in Macau experienced sluggish recovery. Nevertheless, our management team has successfully executed the business strategies and the Group has achieved solid results on the back of such a challenging and competitive operating environment in Macau.

As for our casino management businesses, the GGR derived from the casinos under the Group's management maintained a stable growth in 2017. Total GGR generated by Casino Kam Pek Paradise for 2017 amounted to HK$1,249.7 million, representing an increase of 1.0% over that of HK$1,237.2 million for 2016. Total GGR generated by Casino Waldo for 2017 was HK$513.1 million, representing an increase of 6.0% over that of HK$484.0 million for 2016.

Recently, DICJ released new requirements on the Technical Standards with effective date of 1 January 2018. The Technical Standards set out objective standards and requirements for the DETG machines, which have been under rapid growth in recent years and playing an important role in the development of gaming industry. As one of the leading gaming equipment and systems suppliers in Macau specialising in developing table game automation and innovative technologies to the Macau and overseas gaming markets, the Group is technically competent and is happy to provide support such as testing, technical upgrading etc. to casinos currently equipped with DETG machines and assist them in meeting the requirements of the Technical Standards. This of course will bring us business opportunities as well. Going forward, the Group will continue to develop and launch new DETG machines and other electronic gaming equipment and systems such as slot machines, casino management system etc. to provide casinos with more diversified and upgraded products.

Macau continues to prove itself as the one of the world's leading hubs appealing vibrant and dynamic tourism, both for leisure as well as business purposes. In 2017, visitation to Macau grew modestly by 5.4% to 32.6 million and the macro economy performed well in general. During the year under review, Macau generated GGR of MOP265.7 billion, representing a 19.1% increase over that of 2016. We believe and look forward to the sooner completion of infrastructure projects designed to enable easier travel to and from and within Macau, such as the Hong Kong-Zhuhai-Macao Bridge, the Macau Light Rapid Transit, together with the further improvement of border gate capacity on the Macau Peninsula, all of which will benefit Macau gaming industry in the long run, especially to the segment of mass market in which the Group principally focuses on.

Last but not the least, on behalf of the Board, I would like to thank the Shareholders, our banks, customers and other business partners for their continuous support. Most importantly, I would also like to take this opportunity to thank our executives and staff for their dedication and professionalism.

Jay Chun
Chairman and Managing Director

Hong Kong, 26 March 2018

Management Discussion and Analysis

BUSINESS AND FINANCIAL REVIEW

Overview of Results

Total reported revenue of the Group for the year ended 31 December 2017 was HK$1,011.8 million, representing a decrease of 13.0% over that of HK$1,163.3 million for the year ended 31 December 2016. An analysis of the revenue by properties/nature is as follows:

	2017 HK$ million	2016 HK$ million
Casinos under the Group's management:		
Casino Kam Pek Paradise*	**681.8**	672.9
Casino Waldo*	**292.1**	275.1
Casino Macau Jockey Club*#	**—**	19.8
	973.9	967.8
Electronic gaming equipment and systems:		
Sale of electronic gaming equipment and systems	**22.8**	185.7
Leasing of electronic gaming equipment and systems^	**12.2**	9.8
Royalty income from IGT	**2.9**	—
	37.9	195.5
Total reported revenue	**1,011.8**	1,163.3

*: Being revenue generated from the casinos in which the Group provides casino management services

#: Since 1 January 2017, the Group has changed the provision of casino management services to revenue sharing from LMG terminals at Casino Macau Jockey Club and revenue from the casino in 2017 was included in leasing of electronic gaming equipment and systems in the above table

^: Leasing revenue for the year ended 31 December 2017 and 31 December 2016 did not include the intercompany revenue derived from the LMG terminals deployed at casinos under the Group's management amounting to HK$134.4 million (2016: HK$141.4 million), which were included in the revenue of respective casinos under the Group's management in the above table

The decrease in total reported revenue of the Group for the year ended 31 December 2017 when compared with that for the year ended 31 December 2016 was partly due to the change of the cooperation mode at Casino Macau Jockey Club. In view of the continuing operating loss from the Group's provision of casino management services at Casino Macau Jockey Club in prior years, the Group has successfully changed the contractual arrangement with Casino Macau Jockey Club from provision of casino management services to revenue sharing from LMG terminals since 1 January 2017. Under the new arrangement, although the Group does not record the full operating revenue from the casino, it is entitled to share revenue from the LMG terminals at the casino and will not bear any operating expenses of the casino, and hence will not incur loss from the casino. At the same time, there was a decrease in sale of electronic gaming equipment and systems in 2017 when compared with that in 2016 as more electronic gaming equipment and systems were sold in 2016 when there were a number of new flagship casinos opened in Macau.

Adjusted EBITDA for the year ended 31 December 2017 was HK$22.8 million, representing a decrease of 76.6% over that of HK$97.5 million for the year ended 31 December 2016. The following table reconciles Adjusted EBITDA to the loss for the year:

	2017 HK$ million	2016 HK$ million
Loss for the year	**(47.5)**	(355.1)
Adjustments for:		
Interest income	**(5.3)**	(3.9)
Finance costs	**6.0**	10.8
Income tax expense	**0.7**	3.4
Depreciation of property, plant and equipment	**57.2**	73.5
(Gain) loss on disposal of property, plant and equipment	**(4.8)**	6.7
Amortisation for intangible assets	**12.1**	27.3
Loss arising from assignment of intangible assets	**—**	334.8
Costs incurred or associated with corporate exercise and potential projects	**4.4**	—
Adjusted EBITDA	**22.8**	97.5

An analysis of Adjusted EBITDA by properties/nature is as follows:

	2017 HK$ million	2016 HK$ million
Casinos under the Group's management:		
Casino Kam Pek Paradise	**154.1**	131.4
Casino Waldo	**(22.0)**	(36.2)
Casino Macau Jockey Club	**—**	(22.1)
	132.1	73.1
Electronic gaming equipment and systems:		
Sale of electronic gaming equipment and systems	**(35.2)**	81.0
Leasing of electronic gaming equipment and systems	**8.5**	6.8
Research and development and other costs	**(46.9)**	(35.3)
ETG distribution from IGT	**(3.3)**	—
	(76.9)	52.5
Other expenses	**(32.4)**	(28.1)
Adjusted EBITDA	**22.8**	97.5

The Adjusted EBITDA from casinos under the Group's management was HK$132.1 million, representing an increase of 80.7% over that of HK$73.1 million for the year ended 31 December 2016. The increase was mainly due to the increase in total GGR of both Casino Kam Pek Paradise and Casino Waldo for the year ended 31 December 2017 when compared to that for the year ended 31 December 2016, respectively and the absence of loss of HK$22.1 million incurred in Casino Macau Jockey Club for the year ended 31 December 2016 as a result of the change of provision of casino management services to revenue sharing from LMG terminals at Casino Macau Jockey Club since 1 January 2017.

The Adjusted EBITDA from the electronic gaming equipment and systems segment was a loss of HK$76.9 million, as compared to a profit of HK$52.5 million for the year ended 31 December 2016. The loss in current year was mainly due to the decrease in sale of electronic gaming equipment and systems in 2017 as compared with the record sale of the Group in 2016 when there were a number of new flagship casinos opened in Macau, and the increase in the Group's investment in research and development and other costs incurred on new/upgraded ETG machines, slot machines, casino management system, etc. so as to provide market with more diversified and upgraded products. There was also a loss of HK$3.3 million from ETG distribution from IGT for the year ended 31 December 2017, including the earn-out royalty payments entitled by the Group from IGT under the Agreement for a sum of about HK$2.9 million accrued up to 31 December 2017 which was offset by the agreed settlement sum of US$800,000 (equivalent to HK$6.2 million) payable by the Group to IGT, details of which are set out in the section headed "Major Acquisitions and Disposals" under the Directors' Report of this annual report.

The Group's loss for the year ended 31 December 2017 was HK$47.5 million, as compared to the loss of HK$355.1 million for the year ended 31 December 2016. The significant decrease in loss of the Group was mainly due to a one-off non-cash loss arising from assignment of intangible assets of HK$334.8 million in relation to the assignment and license of the patents and associated technology to IGT in April 2016 recorded for the year ended 31 December 2016.

Provision of Casino Management Services

The following table sets forth operational data on the provision of casino management services by the Group for the years ended 31 December 2017 and 31 December 2016:

	2017			2016			
Average no. of units	**Casino Kam Pek Paradise**	**Casino Waldo**	**Total**	Casino Kam Pek Paradise	Casino Waldo	Casino Macau Jockey Club*	Total
Traditional gaming tables	**38**	**25**	**63**	37	26	–	63
LMG tables	**10**	**5**	**15**	10	4	4	18
LMG terminals	**971**	**320**	**1,291**	935	300	172	1,407
Slot machines	**178**	**164**	**342**	194	180	–	374

*: Since 1 January 2017, the Group has changed the provision of casino management services to revenue sharing from LMG terminals at Casino Macau Jockey Club

As at 31 December 2017, the Group had a total of 79 (31 December 2016: 81) gaming tables under management.

The following tables set out certain key operational data of mass gaming tables, LMG terminals and slot machines in the Group's two major casinos under management for the years ended 31 December 2017 and 31 December 2016:

		Casino Kam Pek Paradise		Casino Waldo	
		2017	2016	**2017**	2016
Traditional gaming tables					
GGR	(HK$ million)	**703.7**	654.7	**391.3**	382.6
Gaming tables	(Average no. of tables)	**38**	37	**25**	26
Net win/table/day	(HK$ thousand)	**50.7**	48.3	**42.9**	40.2
LMG tables					
GGR	(HK$ million)	**498.0**	511.8	**113.0**	95.1
Terminals	(Average no. of terminals/tables)	**971/10**	935/10	**320/5**	300/4
Net win/terminal/day	(HK$)	**1,405**	1,496	**967**	866
Net win/LMG table/day	(HK$ thousand)	**136.4**	139.8	**61.9**	65.0
Total gaming tables					
GGR	(HK$ million)	**1,201.7**	1,166.5	**504.3**	477.7
Gaming tables	(Average no. of tables)	**48**	47	**30**	30
Net win/table/day	(HK$ thousand)	**68.6**	67.8	**46.1**	43.5
Slot machine					
GGR	(HK$ million)	**48.0**	70.7	**8.8**	6.3
Slot machines	(Average no. of units)	**178**	194	**164**	180
Net win/unit/day	(HK$)	**739**	996	**147**	96
Total GGR	(HK$ million)	**1,249.7**	1,237.2	**513.1**	484.0

For the year ended 31 December 2017, total GGR generated by Casino Kam Pek Paradise amounted to HK$1,249.7 million, representing an increase of 1.0% over that of HK$1,237.2 million for the year ended 31 December 2016. Total GGR generated by Casino Waldo for the year ended 31 December 2017 amounted to HK$513.1 million, representing an increase of 6.0% over that of HK$484.0 million for the year ended 31 December 2016.

For the year ended 31 December 2017, casinos under the Group's management generated a total revenue attributable to the Group of HK$973.9 million, representing an increase of 0.6% over that of HK$967.8 million for the year ended 31 December 2016. Breakdown of the revenue attributable to the Group for casinos under the Group's management for the years ended 31 December 2017 and 31 December 2016 is as follows:

	2017 HK$ million	2016 HK$ million
Casino Kam Pek Paradise:		
Traditional gaming tables	**387.0**	360.1
LMG tables	**273.9**	281.5
Slot machines	**20.9**	31.3
	681.8	672.9
Casino Waldo:		
Traditional gaming tables	**222.8**	217.5
LMG tables	**64.3**	54.0
Slot machines	**5.0**	3.6
	292.1	275.1
Casino Macau Jockey Club:		
LMG tables	**–**	19.8
	973.9	967.8

Total revenue attributable to the Group generated from Casino Kam Pek Paradise and Casino Waldo increased by 1.3% from HK$672.9 million in 2016 to HK$681.8 million in 2017 and by 6.2% from HK$275.1 million in 2016 to HK$292.1 million in 2017, respectively.

Development, Sale and Leasing of Electronic Gaming Equipment and Systems

Sale of LMG terminals

For the year ended 31 December 2017, the Group deployed a total of 78 LMG terminals at 2 casinos in Macau, namely Wynn Macau and Legend Palace Casino at the Macau Fisherman's Wharf. For the year ended 31 December 2016, the Group deployed a total of 893 LMG terminals at 6 casinos in Macau, including Wynn Palace, The Parisian Macau, Galaxy Macau and Casino StarWorld, and 98 LMG terminals at 4 casinos in the overseas markets.

Subsequent to 31 December 2017, the Group deployed a total number of 217 LMG terminals at MGM Cotai upon its opening on 13 February 2018.

Leasing of LMG terminals

The following tables set out certain key operational data of LMG terminals (excluding those LMG terminals deployed at the casinos under the Group's management) and the related revenue shared by the Group for the years ended 31 December 2017 and 31 December 2016:

		2017	2016
GGR from LMG terminals	(HK$ million)	**51.6**	42.7
No. of LMG terminals	(Average no. of terminals)	**333**	273
Net win/terminal/day	(HK$)	**425**	427
Revenue sharing	(HK$ million)	**12.2**	9.8

The average daily GGR per LMG terminal under leasing arrangement (excluding those LMG terminals deployed at the casinos under the Group's management) in 2017 was HK$425 (2016: HK$427).

On 14 February 2018, the Group added 97 LMG terminals in Casino Waldo, making a total number of 432 LMG terminals in Casino Waldo after taking into account the 335 LMG terminals in the casino as at 31 December 2017. In addition, on 15 February 2018, the Group entered into an agreement with a gaming service provider in Casino L' Arc Macau for deployment of 50 LMG terminals under revenue sharing arrangement to the casino for an initial term of 3 years, renewable for every 2 years thereafter.

ETG distribution from IGT

In April 2016, the Group entered into a strategic agreement with IGT, a global leader in electronic gaming machine industry. The Group assigned and licensed the Patents and associated technology to IGT to receive a non-refundable upfront payment of US$12.95 million (approximately HK$101.0 million) and a 15-year earn-out payment for every Live ETG or RNG ETG machine deployment in the global market (other than Macau).

According to the royalty statements provided by IGT to the Group, up to 31 December 2017, IGT has deployed a total of 147 LMG terminals including 48 LMG terminals for daily fee and 99 LMG terminals for sales in the U.S., contributing HK$2.9 million revenue to the Group for the year ended 31 December 2017.

PROSPECTS

Macau gaming market has recovered from the third quarter of 2016 as evident by the positive growth in GGR since then. Macau gaming revenue for 2017 was MOP265.7 billion, representing an increase of 19.1% over that of 2016. Macau's total visitor arrivals for 2017 were 32.6 million, representing an increase of 5.4% over that for 2016. Gaming revenue has been steadily recovering after the policy and economy headwind hit Macau's gaming industry for more than 2 years. In addition, an improving economy and the opening of new gaming and non-gaming facilities have helped bring patrons back to Macau and shall attract new waves of patrons in the years ahead.

We believe and look forward to the sooner completion of infrastructure projects designed to enable easier travel to and from and within Macau, such as the Hong Kong-Zhuhai-Macao Bridge, the Macau Light Rapid Transit, together with the further improvement of border gates capacity on the Macau Peninsula, all of which will benefit Macau gaming industry in the long run, especially to the segment of mass market in which the Group principally focuses on.

The Group currently manages two satellite casinos in the Macau Peninsula. In 2017, the two casinos maintained stable growth in gaming revenue and provided stable and strong cash inflows to the Group. We will continue to review and improve the operating efficiency of the casinos under our management.

In December 2017, DICJ published the Technical Standards with the effective date of 1 January 2018. The Technical Standards define DETG's technical standards and requirements for the Macau gaming industry. The Technical Standards have provided a grace period for all those existing DETG machines to be updated to meet the new technical requirements. After 31 December 2019, DETG machines which do not fully comply with the Technical Standards should not be used or operated in Macau casinos. The Group, being the inventor, the patent-owner and the sole-supplier of DETG machines, is technically competent and in a position to provide ready-made services to provide support to casinos currently equipped with DETG machines and assist them in meeting the requirements of the Technical Standards. The publication of the Technical Standards has brought business opportunities to the Group and has accelerated the replacement cycle of those deployed DETG machines of the Group in Macau. The Group will continue to develop and launch new DETG machines and other electronic gaming equipment and systems such as slot machines, casino management system etc. to provide casinos with more diversified and upgraded products.

As for strategic alliance with IGT for ETG distribution overseas, the Group has been working closely with IGT on technology exchange and regulatory compliance on different gaming jurisdictions. The alliance with IGT has unlocked tremendous business development opportunity in the overseas market and this partnership will enable the Group to expand its global presence and create long-term sustainable business to us.

Looking ahead, the Group remains cautiously optimistic and will continue to expand its existing businesses. The Group will also develop its product lines further, catering not only to the Macau gaming market but the overseas gaming market as well. The Group will continue to look for potential opportunities in Macau and elsewhere to expand its business to increase its market share in the gaming industry and to maximise returns to the Shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's liquidity needs primarily comprise working capital including research and development expenditure, capital expenditure and repayment of borrowings. The Group has generally funded its operations from internal resources, debt and/or equity financing.

As at 31 December 2017, the consolidated net assets of the Group amounted to HK$577.8 million, representing a decrease of HK$45.0 million or 7.2% from HK$622.8 million as at 31 December 2016. The decrease in consolidated net assets of the Group during the year ended 31 December 2017 was mainly due to the Group's loss of HK$47.5 million for the year ended 31 December 2017.

Bank Balances and Cash, and Chips on Hand

As at 31 December 2017, the Group held bank balances and cash of HK$250.8 million and chips on hand of HK$33.6 million. Included in the bank balances and cash as at 31 December 2017 were fixed deposits of HK$125.9 million placed at banks in Macau with maturities ranging from 1 to 3 months. The fixed deposits were denominated in HK$ and US$.

Borrowings and Gearing Ratio

As at 31 December 2017, other than the amounts due to Directors of HK$3.0 million (2016: HK$3.7 million) which were unsecured, interest-free and repayable on demand, the Group had no outstanding borrowing. At 31 December 2016, the Group also had outstanding unsecured, unguaranteed and non-interest bearing promissory note of HK$88.0 million which was fully settled during the year ended 31 December 2017.

The Group's gearing ratio (expressed as a percentage of borrowings over net assets) as at 31 December 2017 was 0.5% (2016: 14.7%). The decrease in the Group's gearing ratio was mainly due to the settlement of the outstanding promissory note of principal amount of HK$94.0 million at maturity during the year ended 31 December 2017.

As at 31 December 2017, the Group had net cash (being total of bank balances and cash less borrowings) and chips on hand of HK$ 281.4 million (2016: HK$279.0 million).

During the year ended 31 December 2017, the Group did not employ any financial instruments for hedging purposes.

CAPITAL COMMITMENTS

Particulars of the Company's significant capital commitments as at 31 December 2017 are set out in note 29 to the consolidated financial statements.

FOREIGN EXCHANGE EXPOSURE

The majority of the Group's income and expenses and the Group's fixed deposits at banks are denominated in HK$ (the Group's functional currency), MOP and US$. HK$ is linked to US$ and the exchange rate between these two currencies has remained relatively stable over the past several years. MOP is pegged to HK$, and in many cases the two currencies are used interchangeably in Macau. Due to the stable exchange rates between HK$ and US$ and between HK$ and MOP, the Directors do not consider that any specific hedge for currency fluctuation is necessary.

CHARGES ON GROUP ASSETS

As at 31 December 2017, the Group did not have any assets pledged.

CONTINGENT LIABILITIES

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

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2017, the Group had approximately 1,190 employees, including approximately 720 gaming operation employees who were employed by SJM or Galaxy to work for the casinos under the Group's management. These gaming operation employees were paid by SJM or Galaxy and the Group reimbursed SJM or Galaxy in full for their salaries and other benefits.

The terms of employment of employees conform to normal commercial practice. The remuneration policy for the employees of the Group is principally set up by the Board and the management on the basis of the relevant employees' qualifications, competence, work performance, industry experience, relevant market trend and the Group's operating results etc. Discretionary bonuses are granted to employees based on merit and in accordance with industry practice. Other benefits including share options, retirement benefits, subsidised medical care, pension funds and training programmes are offered to eligible employees.

Profile of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Jay Chun, aged 53, is the Chairman and Managing Director of the Company. He is the chairman of the Nomination Committee and a member of the Remuneration Committee. He is also a director of various subsidiaries of the Company. Mr. Chun is a talented entrepreneur and manager. He possesses solid background in information technology and marketing, and over 27 years of management and investment experience. He holds a master's degree in business administration from the W.P. Carey School of Business at the Arizona State University and a bachelor's degree in computer science from the Shanghai University of Science and Technology. Mr. Chun joined the Group and was appointed as the Managing Director of the Company in January 1999 and was appointed as the Chairman of the Board in July 2002. Mr. Chun is also the alternate Director to Mr. Shan Shiyong, alias, Sin Sai Yung.

Mr. Chun is one of the founder members of Macau Gaming Equipment Manufacturers Association ("MGEMA") and has been the chairman of MGEMA since its establishment in 2012. MGEMA is a non-profit making association established to promote Macau's gaming equipment industry and the common interests of the gaming equipment manufacturers by providing a platform for the exchange of technology and trade promotion, an aspect which is of great importance to the gaming industry.

In recognition of his exemplary contributions to the community, Mr. Chun has been a member of the Shandong Provincial Committee of the Chinese People's Political Consultative Conference of the PRC since January 2018 and a member of the Economic Development Council of the Macau SAR Government since November 2017. In addition, Mr. Chun has been actively participating in community services. Mr. Chun is presently the chairman of Ze Ai Association, a prominent non-profit making charitable organisation working to improve the education and well-being of the people in Macau so as to make Macau a better society for all people and the next generations.

The discloseable interest of Mr. Chun in the Shares and underlying Shares under the provisions of Part XV of the SFO is set out in the section headed "Directors' and Chief Executive's Interests in Securities" under the Directors' Report of this annual report.

Mr. Shan Shiyong, alias, Sin Sai Yung, aged 54, is an executive Director. He is also a director of various subsidiaries of the Company. Mr. Shan is an entrepreneur with strong business vision. After completing his studies in economics at the University of Agriculture, Shandong, he started his own business in manufacturing and export. Mr. Shan subsequently diversified to trading, property development and venture capital investment in China. He has over 30 years of dedicated business, investment and management experience at the owner level. Mr. Shan joined the Group and was appointed as an executive Director in October 1998. He was the Chairman of the Board from May 1999 to July 2002.

The discloseable interest of Mr. Shan in the Shares and underlying Shares under the provisions of Part XV of the SFO is set out in the section headed "Directors' and Chief Executive's Interests in Securities" under the Directors' Report of this annual report.

Mr. Hu Liming, aged 53, was appointed as an executive Director on 30 November 2010. Mr. Hu is currently the managing director of Standind (Shanghai) Co. Ltd. and has over 27 years of experience in corporate management, business development as well as sale and marketing. Mr. Hu obtained his bachelor's degree in engineering from Shanghai University of Science and Technology.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Li John Zongyang, aged 62, was appointed as an Independent Non-Executive Director of the Company on 10 September 2007. He is the chairman of both the Audit Committee and the Remuneration Committee of the Company and a member of the Nomination Committee of the Company. Mr. Li has rich and versatile background in the financial, business and corporate environment in the Asia-Pacific region. Before coming back to Asia, Mr. Li had worked for 10 years with Framlington Investment Management Company Limited, a leading investment management company in London, where he served as a Senior Fund Manager and the Head of the Asia Pacific region. Mr. Li served as the Chief Executive Officer of several reputable companies. Mr. Li holds a Bachelor's degree in economics from Peking University and a Master's degree in business administration from Middlesex University Business School in London.

Mr. Kai-Shing Tao, aged 41, was appointed as an Independent Non-Executive Director of the Company on 13 April 2014. He is a member the Audit Committee of the Company. Mr. Tao graduated from the Stern School of Business at New York University and has served as a member of the board of directors of Remark Holdings, Inc. (formerly known as Remark Media, Inc.) since Remark Holdings, Inc.'s public listing in 2007 (Nasdaq: MARK). Mr. Tao was elected as the chairman and co-chief executive officer in October 2012 and became the sole chief executive officer of Remark Holdings, Inc. in December 2012. Mr. Tao also serves as chairman and chief investment officer of Pacific Star Capital Management, L.P., a private investment group. Prior to founding Pacific Star Capital Management, L.P., Mr. Tao was a partner at FALA Capital Group, a single-family investment office where he served in various capacities, including overseeing global liquid investments. Mr. Tao had been a director of Playboy Enterprises Inc. from May 2010 to March 2011 and Friendfinder Network Inc., from April 2012 to March 2013. Additionally, Mr. Tao is a member of the Real Estate Roundtable, US-China Business Council and US-Taiwan Business Council.

Ms. Tang Kiu Sam Alice, aged 36, was appointed as an independent non-executive Director on 25 April 2014. She is a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee. Ms. Tang graduated with a bachelor of science degree in E-commerce from the Brunel University in London. Ms. Tang has more than 13 years of business development experience in gaming industry and comprehensive knowledge in gaming operation and products, strategic planning, sale and marketing with strong market insights and is experienced in product development with successful launches of a series of gaming products including video slot machines, electronic table games and slot management system. Ms. Tang was a senior key account executive in EGT Entertainment Holding Limited (formerly known as Elixir Group Limited) from 2004 to 2007 and is currently the managing director of Winning Asia Technology Limited.

SENIOR MANAGEMENT

Ms. Feng Yi, Jenny, aged 53, is the Group's Casino General Manager. Ms. Feng holds a bachelor's degree in computer science from Shanghai University of Science and Technology. She has extensive experience in managing gaming business. Ms. Feng is the spouse of Mr. Jay Chun, an executive Director. Ms. Feng joined the Group in 2006.

Ms. Zhao Yi, aged 40, is the Group's Chief Operating Officer of the electronic gaming business. Ms. Zhao holds a bachelor's degree in marketing from the Shanghai University of Finance and Economics. She has more than 10 years of experience in the gaming industry. Ms. Zhao joined the Group in 2007.

Mr. Chan Kin Man, aged 42, is the Group's Chief Financial Officer and Company Secretary. Mr. Chan holds a bachelor's degree in business administration in accounting and finance from The University of Hong Kong. He has over 20 years of experience in accounting, auditing, financial advisory, corporate finance and corporate governance, particularly in the gaming and hospitality sectors. He is an associate of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants. Mr. Chan joined the Group in February 2017.

Directors' Report

The Board presents this annual report and the audited consolidated financial statements of the Company for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Principal activities of each of its principal subsidiaries are set out in note 36 to the consolidated financial statements.

BUSINESS REVIEW

A review of the business of the Group for the year ended 31 December 2017 which includes an analysis of the Group's performance using financial key performance indicators and a discussion on the Group's likely future business development, a description of the principal risks and uncertainties that the Group may be facing and a discussion on the Group's environmental policy and performance and the relationships with its key stakeholders are provided in the sections headed "Chairman's Statement", "Management Discussion and Analysis", "Corporate Governance Report" and "Environmental, Social and Governance Report", respectively of this annual report. The review forms part of the Directors' Report.

RESULTS AND FINANCIAL POSITION

The results of the Group for the year ended 31 December 2017 are set out in the consolidated statement of profit or loss and consolidated statement of profit or loss and other comprehensive income on pages 57 and 58, respectively.

The financial position of the Group as at 31 December 2017 is set out in the consolidated statement of financial position on page 59.

SEGMENT INFORMATION

Segment information of the Group is set out in note 6 to the consolidated financial statements.

DIVIDEND

The Board does not recommend the payment of final dividend for the year ended 31 December 2017 (2016: nil).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year ended 31 December 2017 are set out in note 14 to the consolidated financial statements.

SHARE CAPITAL

There were no changes in the Company's share capital during the year ended 31 December 2017. Details of the Company's share capital are set out in note 26 to the consolidated financial statements.

RESERVES

Movements in the reserves of the Group and the Company during the year ended 31 December 2017 are set out in the consolidated statement of changes in equity on page 60 and in note 35 to the consolidated financial statements, respectively.

SHARE PREMIUM REDUCTION

On 26 June 2017, the Shareholders at the special general meeting of the Company approved the reduction of the entire amount standing to the credit of the share premium account of the Company to nil with the credit arising therefrom to be entirely transferred to the contributed surplus account of the Company. Upon completion of the share premium reduction on 26 June 2017, the credit balance of the contributed surplus account of the Company was increased by HK$927,197,000 to HK$1,068,388,000.

The share premium reduction could give the Company greater flexibility to declare or pay dividends or to make distributions to the Shareholders in the future as and when the Board considers appropriate.

Further details of the share premium reduction are set out in the Company's announcements dated 15 May 2017 and 26 June 2017, and the Company's circular dated 1 June 2017.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2017, the Company's reserves available for distribution to Shareholders amounted to approximately HK$577,382,000 comprising contributed surplus of approximately HK$1,068,388,000 which is offset by debit balance of accumulated losses of approximately HK$491,006,000.

Under the Companies Act 1981 of Bermuda, subject to the provisions of the Bye-laws of the Company, the Company's contributed surplus may be applied to pay distributions or dividends to Shareholders, provided that immediately following the date the distribution or dividend is proposed to be paid, the Company is able to pay its liabilities as they become due.

DIRECTORS AND SERVICE CONTRACTS

The members of the Board during the year ended 31 December 2017 and up to the date of this annual report were as follows:

Executive Directors:

Mr. Jay Chun, Chairman and Managing Director (also alternate Director to Mr. Shan Shiyong, alias, Sin Sai Yung)
Mr. Shan Shiyong, alias, Sin Sai Yung
Mr. Hu Liming

Independent non-executive Directors:

Mr. Li John Zongyang
Mr. Kai-Shing Tao
Ms. Tang Kiu Sam Alice

In accordance with the Bye-laws of the Company, Mr. Shan Shiyong, alias, Sin Sai Yung and Mr. Hu Liming will retire and, being eligible, offer themselves for re-election at the 2018 AGM.

Each of Mr. Shan Shiyong, alias, Sin Sai Yung and Mr. Hu Liming does not have a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

MANAGEMENT CONTRACTS

No contract for the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year ended 31 December 2017.

PERMITTED INDEMNITY PROVISION

During the year ended 31 December 2017 and up to the date of this annual report, the Company has in force the permitted indemnity provisions which are provided for in the Bye-laws of the Company and in the directors and officers liability insurance maintained for the Group in respect of potential liability and costs associated with legal proceedings that may be brought against the Directors and the directors of the Group, respectively.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 31 December 2017, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Name of Directors	Name of company/ associated corporation	Capacity/ nature of interests	Number of Shares[(1)]	Approximate aggregate percentage of interests[(4)]
Mr. Jay Chun	The Company	Beneficial owner	124,160	0.01%
	The Company	Interest of controlled corporation	630,836,720[(2)]	59.95%
			630,960,880	59.96%
Mr. Shan Shiyong, alias, Sin Sai Yung	The Company	Interest of controlled corporation	26,097,580[(3)]	2.48%

Notes:

(1) All interests in Shares stated above represent long positions.

(2) These Shares were held by August Profit Investments Limited, a company which is wholly-owned by Mr. Jay Chun, an executive Director.

(3) These Shares were held by Best Top Offshore Limited, a company which is wholly-owned by Mr. Shan Shiyong, alias, Sin Sai Yung, an executive Director.

(4) The percentage represents the number of Shares interested divided by the number of issued Shares as at 31 December 2017.

Save as disclosed, none of the Directors and the chief executive of the Company was interested or had any short position in any Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as at 31 December 2017.

SHARE OPTIONS

At the annual general meeting of the Company held on 25 May 2017, the Company adopted a new share option scheme of the Company (the "New Share Option Scheme"), in view of the previous share option scheme of the Company expiring on 29 July 2017, for the purpose of providing incentives or rewards to the eligible participants for the contribution to the success of the Group's operations. Eligible participants of the New Share Option Scheme include, among others, the Directors, including independent non-executive Directors, full-time or part-time employees, executives or officers of the Group, advisors, consultants, suppliers, customers and agents. The New Share Option Scheme will be valid and effective for a period of ten years from the date of adoption of the scheme.

The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Share Option Scheme must not exceed 30% of the total number of Shares in issue from time to time. The maximum number of Shares issued and to be issued upon exercise of the options granted and to be granted to each eligible participant in any 12-month period must not exceed 1% of the Company's issued share capital from time to time. Any grant or further grant of share options in excess of this limit is subject to Shareholders' approval in a general meeting of the Company.

Each grant of share options to a Director, chief executive or substantial Shareholder of the Company, or to any of their associates, is subject to approval in advance by the independent non-executive Directors. In addition, any grant of share options to a substantial Shareholder or an independent non-executive Director, or to any of their associates, resulting in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person, in a 12-month period up to and including the date of such grant in excess of 0.1% of the Shares in issue and with an aggregate value (based on the closing price of the Shares at the date of the grant) in excess of HK$5 million, is subject to Shareholders' approval in advance in a general meeting of the Company.

The period during which an option may be exercised is determined by the Board in its absolute discretion, save that such period shall not be longer than 10 years from the date of grant. The minimum period for which an option must be held before it can be exercised is determined by the Board upon the grant of an option.

An option shall be deemed to have been granted and accepted by the grantee and to have taken effect when the duplicate offer document constituting acceptance of the option duly signed by the grantee, together with a remittance in favour of the Company of HK$1.00 by way of consideration for the grant of the option, is received by the Company within 21 days after the date of offer.

The exercise price of share options is determined by the Directors, but shall not be less than the highest of (i) the nominal value of the Shares; (ii) the closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange on the date of offer of the share options; and (iii) the average closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange for the five business days immediately preceding the date of offer.

No options were granted by the Company under any share option scheme of the Company and no equity settled employees benefit (including Directors' emoluments) was recognised during the year ended 31 December 2017. There was no share option outstanding under any share option scheme during the year ended 31 December 2017.

As at the date of this report, the total number of share options available for issue under the New Share Option Scheme is 105,218,531 share options, representing 10% of the Shares in issue as at the date of adoption of the New Share Option Scheme, that is 25 May 2017.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the share option scheme disclosed under the section headed "Share Options" and the contracts disclosed under the section headed "Directors' Interests in Transactions, Arrangements and Contracts of Significance" in this Directors' Report, at no time during the year ended 31 December 2017 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of Shares in, or debentures of, the Company or any other body corporate. In addition, none of the Directors, or their spouse or children under the age of 18 had any right to subscribe for the securities of the Company or had exercised any such right during the year ended 31 December 2017.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 31 December 2017, according to the register of interests kept by the Company under section 336 of the SFO, and so far as was known to the Directors or chief executive of the Company, the following persons or corporations, other than Directors or chief executive of the Company, had an interest in the Shares of the Company, which would require to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at a general meeting of the Company:

Name of company	Number of Shares[1]	Approximate percentage of interests[3]
August Profit Investments Limited[2]	630,836,720	59.95%
FIL Limited	73,084,000	6.95%

Notes:

(1) All interests in Shares stated above represent long positions.

(2) August Profit Investments Limited is wholly-owned by Mr. Jay Chun, an executive Director.

(3) The percentage represents the number of Shares interested divided by the number of issued Shares as at 31 December 2017.

Save as disclosed above, as at 31 December 2017, the Company had not been notified of any person or corporation who was interested in or had a short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company under section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2017.

PRE-EMPTIVE RIGHTS

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

UNLISTED WARRANTS

On 31 October 2016, the Company issued 50,000,000 unlisted warrants at the issue price of HK$0.03 per warrant, which entitled the holder of each warrant to subscribe for one Share at an exercise price of HK$1.40 (subject to adjustment) at any time during the one-year period commencing from 31 October 2016. Further details of the unlisted warrants were set out in the Company's announcements dated 22 September 2016, 26 September 2016, 6 October 2016 and 24 October 2016, and the Company's circular dated 6 October 2016.

No unlisted warrant was exercised to subscribe for Shares of the Company and the 50,000,000 unlisted warrants were expired in October 2017.

As at 31 December 2017, no convertible securities, options, warrants or similar rights issued or granted by the Company or any of its subsidiaries remained outstanding.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2017, the aggregate amount of revenue attributable to the Group's five largest customers accounted for approximately 98.3% of the Group's total revenue and the revenue attributable to the Group's largest customer represented approximately 67.5% of the Group's total revenue.

For the year ended 31 December 2017, the aggregate amount of cost of sales and services attributable to the Group's five largest suppliers accounted for approximately 71.0% of the Group's total cost of sales and services and the cost of sales and services attributable to the Group's largest supplier represented approximately 27.4% of the Group's total cost of sales and services.

None of the Directors, their associates or any Shareholders (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) has any interest in any of the Group's five largest customers or suppliers.

MAJOR ACQUISITIONS AND DISPOSALS

On 25 April 2016, the Group entered into the Agreement with IGT, pursuant to which the Group has agreed to grant to IGT the exclusive rights to make, have made, use, sell, offer for sale, import, license/sub-license, and otherwise exploit the Licensed Products worldwide (other than Macau), which involves the assignment and license of the Patents and associated technology in relation to the Licensed Products for the purpose of facilitating the exercise of the exclusive rights by IGT for a term of 15 years.

To the best knowledge of the Directors, IGT has commenced the making and placement of the Licensed Products. The earn-out payments entitled by the Company as a result of such placement of the Licensed Products amounted to approximately US$371,000 (equivalent to approximately HK$2,890,000) up to 31 December 2017. Such earn-out payments were calculated in accordance with the terms of the Agreement, which state that such payments shall be calculated based on (i) the number of Licensed Products placed times a flat fee per unit for the Licensed Products placed by IGT through sale; and (ii) the number of Licensed Products placed times a flat fee per unit per day for the Licensed Products placed by IGT through leasing.

Subsequent to the signing of the Agreement, a dispute arose between the Group and IGT as to whether the Group has to provide certain technology (not being possessed by the Group) to IGT that may be required for IGT to make and place the Licensed Products under the Agreement (the "Dispute"). On 17 October 2017, upon commercial negotiation of the parties with the view to resolving the Dispute, the Group agreed in writing with IGT that they shall pay to IGT a sum of US$800,000 (equivalent to approximately HK$6,240,000) (the "Settlement Amount") for complete resolution of the Dispute, which was determined based on the sharing by the Group of the estimated costs for the required technology. The parties further agreed that the Settlement Amount shall first set-off against any earn-out payments owed by IGT to the Group under the Agreement until 30 September 2018, and any outstanding Settlement Amount not being set-off by such date will need to be paid by the Group to IGT in cash by 15 October 2018. As such, the Directors expect that actual receipt of earn-out payments will start no later than 1 October 2018.

Further details of the transaction and the Dispute/Settlement Amount were disclosed in the Company's announcements dated 26 April 2016 and 14 December 2017, and the Company's circular dated 21 June 2016.

CONNECTED TRANSACTIONS

The Group has the following connected transactions during the year ended 31 December 2017:

Distributorship Framework Agreement

On 26 February 2016, the Company entered into a distributorship framework agreement (the "Distributorship Framework Agreement") with Mr. Linyi Feng ("Mr. Feng") for the sale and distribution of the certain gaming products to the companies controlled by Mr. Feng for a term of three years from 1 January 2016 to 31 December 2018.

Mr. Feng is the brother-in-law of Mr. Jay Chun, the controlling Shareholder, the Chairman and the Managing Director of the Company, and thus a deemed connected person of the Company within the meaning of the Listing Rules and the transactions contemplated under the Distributorship Framework Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. Pursuant to applicable percentage ratios (as defined under the Listing Rules) in respect of the annual transaction amount under the Distributorship Framework Agreement, the transactions contemplated under the Distributorship Framework Agreement are subject to the reporting, announcement and annual review requirements but exempt from the independent Shareholders' approval requirement under the Listing Rules.

Further details of the transactions are set out in the Company's announcement dated 29 February 2016.

The annual cap under the Distributorship Framework Agreement for each of the years ended/ending 31 December 2016, 31 December 2017 and 31 December 2018 is HK$50.0 million. The amount received/receivable by the Group from companies controlled by Mr. Feng under the Distributorship Framework Agreement for the year ended 31 December 2017 was HK$2.3 million.

The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules in respect of the above non-exempt continuing connected transactions.

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive Directors have reviewed the continuing connected transactions for the year ended 31 December 2017 as disclosed above and have confirmed that the transactions have been entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or better; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Pursuant to Rule 14A.56 of the Listing Rules, the Board engaged the independent auditor of the Company to report on the continuing connected transactions of the Group. The independent auditor of the Company was engaged in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The independent auditor of the Company has reported to the Board and issued an unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed by the Group above in accordance with Rule 14A.56 of the Listing Rules. The continuing connected transactions above were also reported as the related party transactions in accordance with the Hong Kong Financial Reporting Standards in this annual report.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

Save as disclosed under the section headed "Connected Transactions" in this Directors' Report and in notes 22, 25 and 34 to the consolidated financial statements, no transactions, arrangement and contracts of significance to which the Company or any of its subsidiaries was a party and in which any Director (or any entity connected with a Director) had a material interest, whether directly and indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2017.

CONTROLLING SHAREHOLDERS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

Save as disclosed under the section headed "Connected Transactions" in this Directors' Report and in notes 22, 25 and 34 to the consolidated financial statements, no contracts of significance subsisted between Company (or any of its subsidiaries) and any controlling Shareholder of the Company (or any of its subsidiaries) at the end of the year or at any time during the year ended 31 December 2017.

EQUITY-LINKED AGREEMENTS

The Company has not entered into any equity-linked agreements in respect of the Shares during the year ended 31 December 2017.

EMOLUMENT POLICY

The emoluments of the executive Directors were decided by the Board as recommended by the Remuneration Committee having regard to a written emolument policy (which ensures a clear link to business strategy and a close alignment with the Shareholders' interest and current best practice), the Group's operating results, the individual performance of the executive Directors and the comparable market statistics. The independent non-executive Directors' fees are in line with market practice. No individual Director should determine his/her own remuneration.

Emolument package includes, as the case may be, fees, basic salaries, housing allowances, contribution to pension schemes, discretionary bonus relating to the financial results of the Group and individual performance, ad hoc rewards, share options and other competitive fringe benefits such as medical and life insurances. Details of the emoluments of the Directors and the five highest paid individuals of the Group are set out in note 10 to the consolidated financial statements.

CORPORATE GOVERNANCE

In the opinion of the Board, the Company has complied with the code provisions as set out in the CG Code throughout the year ended 31 December 2017 except for certain deviations. For further information on the Company's corporate governance practices and details of the deviations, please refer to the Corporate Governance Report on pages 28 to 42.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE POLICIES

The Group is aware of the importance of environmental friendly and sustainable development. The Group strives to minimise wastes and consumption of resources such as electricity and water. The Group recognises this to be a continuous process of monitoring and improvement, and the Group seeks to look for environmental friendly practice in the Group's operations whenever possible. For further details, please refer to the Environmental, Social and Governance Report on pages 43 to 51.

UPDATE ON DIRECTORS' INFORMATION

Biographical details of each of the Directors are set out in the section headed "Profile of Directors and Senior Management" in this annual report.

The remuneration payable to Mr. Jay Chun, an executive Director, comprises basic salary, discretionary bonus and accommodation benefits. The remuneration of Mr. Jay Chun per annum has increased from HK$13,272,000 for the year ended 31 December 2016 to HK$13,348,000 for the year ended 31 December 2017. For more details, please refer to note 10 to the consolidated financial statements.

Save as disclosed, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

EVENTS AFTER THE REPORTING PERIOD

On 12 February 2018, LT Game, an indirect non-wholly owned subsidiary of the Company, entered into an agency agreement with Shanghai Libiao Industrial Co., Ltd.# (上海力標實業有限公司) ("Shanghai Libiao"), a company incorporated in the PRC and wholly-owned by Mr. Hu Liming, an executive Director, pursuant to which LT Game has engaged Shanghai Libiao as its agent for the purpose of certain procurement transactions to, among others, procure the research and development of, and purchase the gaming equipment from an independent supplier. The term of the agency agreement commences from the date of the agency agreement up to the completion of the procurement transactions, which is expected to be in 2020, or on 31 December 2020, whichever is earlier. In return for the performance of the above services under the agency agreement, LT Game will pay a one-off agency fee of RMB100,000 (equivalent to approximately HK$124,000) in cash to Shanghai Libiao upon completion of the procurement transaction.

For identification purposes only

LT Game is an indirect non-wholly owned subsidiary of the Company and Shanghai Libiao is wholly-owned by Mr. Hu Liming, an executive Director, therefore, Shanghai Libiao is an associate of Mr. Hu Liming and a connected person of the Company, the transaction under the agency agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

Further details regarding the agency agreement with Shanghai Libiao are set out in the Company's announcement dated 12 February 2018.

Save as disclosed, there is no event after the reporting period which is required to be disclosed.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this annual report, there is sufficient public float of not less than 25% of the Company's issued Shares as required under the Listing Rules.

FINANCIAL SUMMARY

A summary of the audited consolidated results and assets and liabilities of the Group for the last five financial years is set out on page 115 of this annual report.

APPOINTMENT OF NEW INDEPENDENT AUDITOR

The Company's consolidated financial statements for the years ended 31 December 2014, 31 December 2015 and 31 December 2016 were audited by PAN-CHINA (H.K.) CPA LIMITED ("PAN-CHINA"). Deloitte Touche Tohmatsu was appointed as the independent auditor of the Company to fill the vacancy following the retirement of PAN-CHINA as the independent auditor of the Company at the annual general meeting of the Company held on 25 May 2017. Save as disclosed, there were no other changes in the Company's independent auditor in the past three years.

The consolidated financial statements of the Company for the year ended 31 December 2017 were audited by Deloitte Touche Tohmatsu. A resolution will be proposed at the 2018 AGM to re-appoint Deloitte Touche Tohmatsu as the independent auditor of the Company.

On behalf of the Board

Jay Chun
Chairman and Managing Director

Hong Kong, 26 March 2018

Corporate Governance Report

The Board believes that corporate governance is essential to the success of the Company and has adopted various measures to ensure that a high standard of corporate governance is maintained to safeguard the interests of the Shareholders.

In the opinion of the Board, the Company has complied with the code provisions of the CG Code set out in Appendix 14 to the Listing Rules throughout the year ended 31 December 2017 except for certain deviations disclosed herein.

COMPLIANCE WITH MODEL CODE

The Company has adopted the Model Code as the code of conduct regarding Directors' securities transactions. Having made specific enquiry of all Directors, all Directors have confirmed that they had complied with the requirements set out in the Model Code during the year ended 31 December 2017.

BOARD OF DIRECTORS

(a) Board Composition

Given the nature and business objectives of the Company, the Board has a balance of skill and experience appropriate for the requirements of the business of the Company. The list of Directors, their respective biographical details and the relationships among the members of the Board and the senior management of the Company (if any) are set out under the section headed "Profile of Directors and Senior Management" of this annual report.

(b) Appointment and Re-election of Directors

The Bye-laws of the Company contain provisions on the procedures of appointment and re-election of Directors.

In accordance with code provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term, subject to re-election. Currently, none of the Directors (including the independent non-executive Directors) is appointed for a specific term. However, all Directors (including the independent non-executive Directors) are subject to retirement by rotation at least once every three years at the annual general meeting of the Company in accordance with the provision of the Bye-laws of the Company, and their terms of appointment will be reviewed when they are due for re-election.

(c) Directors' Attendance Records

During the year ended 31 December 2017, six Board meetings, an annual general meeting and a special general meeting were held. The attendance of each member of the Board at these meetings are as follows:

Directors	Number of attendance/meetings: Board meetings	Annual general meeting held on 25 May 2017	Special general meeting held on 26 June 2017
Executive Directors:			
Mr. Jay Chun *(Chairman and Managing Director)*	6/6	1/1	1/1
Mr. Shan Shiyong, alias, Sin Sai Yung	0/6	0/1	0/1
Mr. Hu Liming	1/6	0/1	0/1
Independent Non-executive Directors:			
Mr. Li John Zongyang	5/6	0/1	0/1
Mr. Kai-Shing Tao	1/6	0/1	0/1
Ms. Tang Kiu Sam Alice	5/6	0/1	0/1

(d) Responsibilities and Delegations

The Board is responsible for the leadership, management and control of the Group, overseeing the Group's businesses, strategic decisions and performance, evaluating the performance of the Group and supervising the management. All Directors take decisions objectively in the interests of the Company.

In addition, the Board reserves the authority to make final decisions for all major matters of the Company, including approving and monitoring of all policy matters, overall strategies and budgets, risk management and internal control systems, dividend payout, preparation and release of financial information, material transaction (in particular those that may involve a conflict of interests), appointment of Directors and other significant financial and operational matters.

All Directors have timely access to all relevant information as well as the advice and services of the company secretary and the senior management of the Company, with a view to ensuring compliance with Board procedures and all applicable laws and regulations. Any Director may request independent professional advice in appropriate circumstances at the Company's expense, upon reasonable request made to the Board.

In order to enhance efficiency, the Board has delegated the day-to-day responsibilities and operations to the executive Directors and the senior management of the Company who perform their duties under the leadership of the Managing Director.

Approval has to be obtained from the Board prior to the entry into of any significant transactions by any of the Directors and/or the senior management of the Company on behalf of the Group. The Board has the full support of the executive Directors and the senior management of the Company to discharge its responsibilities and operations.

(e) Corporate Governance Functions

The Board is also responsible for performing the corporate governance duties set out in code provision D.3.1 of the CG Code.

During the year ended 31 December 2017, the Board had reviewed and monitored the Company's corporate governance practices, training and continuous professional development of Directors and the senior management of the Company, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code, the CG Code and disclosure in this Corporate Governance Report (including the board diversity policy and effectiveness of the risk management and internal control systems).

(f) Environmental, Social and Governance Functions

The Board has overall responsibility for the Group's ESG strategy and reporting. The Group has engaged the management and staff of the Group across the Group's key subsidiaries and functions to review the Group's operations, identify relevant ESG issues critical to the Group and implement measures to minimize the impacts of the Group's operations on the environment.

CHAIRMAN AND MANAGING DIRECTOR

Mr. Jay Chun is the Chairman and the Managing Director of the Company. In the opinion of the Board, the roles of the Managing Director and the chief executive officer are the same. Although under code provision A.2.1 of the CG Code, the roles of the Chairman and chief executive officer should be separate and should not be performed by the same individual, the Board considers that the present structure provides the Group with strong and consistent leadership and allows for efficient and effective business planning and execution. Hence, the Board believes that it is in the best interest of the Shareholders that Mr. Jay Chun will continue to assume the roles of the Chairman of the Board and the Managing Director of the Company. However, the Company will review the current structure as and when it becomes appropriate in future.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Board has met the requirements of Rules 3.10 and 3.10A of the Listing Rules of having a minimum of three independent non-executive Directors (representing at least one-third of the Board) with one of them possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received annual confirmation from each independent non-executive Director of his/her independence pursuant to the requirements of Rules 3.13 of the Listing Rules. The Company considers all independent non-executive Directors to be independent in light of the independence guidelines set out in the Listing Rules.

In particular, Mr. Li John Zongyang has served on the Board for more than 9 years. He is not involved in the daily management of the Company or in any relationships or circumstances which would interfere with the exercise of his independent judgment. He continues to demonstrate his ability to provide an independent, balanced and objective view to the affairs of the Company. The Company is satisfied that he remains independent notwithstanding the length of his service.

DIRECTORS' TRAINING AND PROFESSIONAL DEVELOPMENT

Each newly appointed Director will receive induction on the first occasion of his/her appointment so as to ensure he/she has appropriate understanding of the business and operations of the Group and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules, the CG Code and other regulatory requirements.

Directors are continually updated on the latest development and changes in the Listing Rules, the CG Code and other regulatory requirements in order to ensure the compliance with the same by the Directors.

During the year ended 31 December 2017, the Directors complied with code provision A.6.5 of the CG Code and all Directors received regular briefings, updates and reading materials on the Group's business/operations/regulatory/corporate governance matters which are relevant to their duties and responsibilities. Directors are also encouraged to participate in professional development courses and seminars to develop and refresh their knowledge and skills.

COMMITTEES

The Board has established three committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee to assist the Board in overseeing particular aspects of the Company's affairs. All the Board committees should report to the Board on their decisions and recommendations made. The committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

All Board committees of the Company have been established with written terms of reference which are posted on the websites of the Stock Exchange and the Company.

Audit Committee

The Company has met the requirements of Rule 3.21 of the Listing Rules. The Audit Committee comprises three independent non-executive Directors. The chairman of the Audit Committee, Mr. Li John Zongyang, possesses relevant financial management expertise and meets the requirements of Rule 3.21 of the Listing Rules. None of the members of the Audit Committee is a former partner of the independent auditor of the Company.

The Audit Committee is responsible for reviewing the financial information and reports of the Company, considering any significant or unusual items raised by the financial officers of the Company or the independent auditor of the Company before submission to the Board, reviewing the effectiveness of the financial reporting system, risk management and internal control systems of the Group and maintaining an appropriate relationship with the independent auditor of the Company.

During the year ended 31 December 2017, the Audit Committee held three meetings. Members of the Audit Committee and the attendance of each member are as follows:

Directors	Number of attendance/ meetings
Independent non-executive Directors:	
Mr. Li John Zongyang *(Chairman)*	3/3
Mr. Kai-Shing Tao	0/3
Ms. Tang Kiu Sam Alice	3/3

During the year ended 31 December 2017, the Audit Committee had performed the following duties:

— reviewed the nature and scope of the audit for the year ended 31 December 2016, the reporting obligations and the work plan of the independent auditor of the Company;

— reviewed with the management and the independent auditor of the Company the audited consolidated financial statements, the results announcement and the annual report for the year ended 31 December 2016, the related accounting principles and practices adopted by the Group with recommendations to the Board for approval, and the relevant audit findings;

— recommended the appointment of Deloitte Touche Tohmatsu as the new independent auditor of the Company;

— reviewed with the management of the Company the unaudited consolidated financial statements, the results announcement and the interim report for the six months ended 30 June 2017 and the related accounting principles and practices adopted by the Group with recommendations to the Board for approval;

— reviewed the nature and scope of the audit for the year ended 31 December 2017, the reporting obligations and the work plan of the independent auditor of the Company;

— recommended the re-appointment of the independent auditor of the Company in the 2018 AGM;

— reviewed and discussed the financial reporting system, risk management and internal control systems of the Group with the management of the Company to ensure that the management of the Company has performed its duty to have effective systems. The review covered all material controls, including financial, operational and compliance controls and the discussion with the management of the Company included the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting function; and

— reviewed the compliance with accounting standards, Listing Rules, legal and statutory requirements in relation to financial reporting.

During the year ended 31 December 2017, the Audit Committee has met three times with the then independent auditor of the Company. The Company has met the requirement of code provision C.3.3(e)(i) of the CG Code, stating that the Audit Committee must meet, at least twice a year, with the independent auditor of the Company.

Remuneration Committee

The Company has met the requirements of Rule 3.25 of the Listing Rules. The Remuneration Committee comprises a majority of independent non-executive Directors and is chaired by Mr. Li John Zongyang, an independent non-executive Director.

The Remuneration Committee is responsible for making recommendations to the Board on, among other things, the Company's policy and structure for the remuneration of all the Directors and the senior management of the Company (by making reference to market rates, their duties and responsibilities within the Group and their experience) and the remuneration of the independent non-executive Directors. The Remuneration Committee is delegated by the Board with the responsibility to determine on behalf of the Board the remuneration of the executive Directors and the senior management of the Company.

During the year ended 31 December 2017, the Remuneration Committee held one meeting. Members of the Remuneration Committee and the attendance of each member are as follows:

Directors	Number of attendance/ meeting
Executive Director:	
Mr. Jay Chun	1/1
Independent non-executive Directors:	
Mr. Li John Zongyang *(Chairman)*	1/1
Ms. Tang Kiu Sam Alice	1/1

During the year ended 31 December 2017, the Remuneration Committee had performed the following duties:

— assessed the performance of the executive Directors and the senior management of the Company; and

— reviewed and determined the remuneration of the executive Directors and the senior management of the Company and made recommendation to the Board on the remuneration of the independent non-executive Directors.

Pursuant to code provision B.1.5 of the CG Code, the annual remuneration of the senior management of the Company by band for the year ended 31 December 2017 were as follows:

	Number of individuals
HK$500,001 to HK$1,000,000	1
HK$2,500,001 to HK$3,000,000	1
HK$4,500,001 to HK$5,000,000	1

Details of the remuneration of each of the Directors for the year ended 31 December 2017 are set out in note 10 to the consolidated financial statements.

Nomination Committee

The Company has met the requirements of code provision A.5.1 of the CG Code. The Nomination Committee comprises a majority of independent non-executive Directors and is chaired by the Chairman of the Board.

The Nomination Committee is responsible for determining the policy for the nomination of Directors, reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board regularly and making recommendations to the Board on any proposed changes to complement the Company's corporate strategy and the board diversity policy. Its duties include identification and nomination of candidates to fill casual vacancies of Directors, and recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors, in particular, the Chairman and the chief executive of the Company.

The Board has adopted a board diversity policy setting out the approach to diversity of members of the Board. The Company recognises and embraces the benefits of diversity of Board members. It endeavours to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business. All Board appointments will continue to be made on a merit basis with due regard for the benefits of diversity of the Board members. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge. The ultimate decision will be made upon the merits and contribution that the selected candidates will bring to the Board.

The Nomination Committee also conducts an annual review of the independence of independent non-executive Directors before confirming their independence status to the Board. The relevant independent non-executive Directors will abstain from participating in the assessments of their own independence. Particular consideration will be given in assessing the independence of those independent non-executive Directors who have been serving on the Board for more than 9 years and seeking re-election in an annual general meeting. Reasons will be given in the circular for the annual general meeting to explain why the Board believes those independent non-executive Directors are still independent and should be re-elected.

During the year ended 31 December 2017, the Nomination Committee held one meeting. Members of the Nomination Committee and the attendance of each member are as follows:

Directors	Number of attendance/ meeting
Executive Director:	
Mr. Jay Chun *(Chairman)*	1/1
Independent non-executive Directors:	
Mr. Li John Zongyang	1/1
Ms. Tang Kiu Sam Alice	1/1

During the year ended 31 December 2017, the Nomination Committee had performed the following duties:

— reviewed the structure, size, composition and diversity of the Board to ensure that it has a balance of expertise, skills and experience and diversity of perspective appropriate to the requirements for the business of the Company;

— recommended the re-election of the retiring Directors at the Company's 2017 annual general meeting; and

— assessed the independence of all the independent non-executive Directors.

REVIEW OF AUDITED CONSOLIDATED FINANCIAL STATEMENTS BY THE AUDIT COMMITTEE

The Audit Committee has reviewed with the management and the independent auditor of the Company the audited consolidated financial statements for the year ended 31 December 2017 and the related accounting principles and practices adopted by the Group.

INDEPENDENT AUDITOR AND ITS REMUNERATION

The statement of the independent auditor of the Company about their reporting responsibilities for the Company's consolidated financial statements for the year ended 31 December 2017 is set out in the section headed "Independent Auditor's Report" of this annual report.

The remuneration paid/payable to the independent auditor of the Company for the year ended 31 December 2017 is as follows:

Services rendered for the Company	HK$'000
Audit services	2,380
Non-audit services:	
— Interim review for the six months ended 30 June 2017	380
— Reporting accountants and due diligence services in respect of a potential acquisition project	1,812
— ESG review services	80
— Tax advisory services	140
	2,412
	4,792

ACCOUNTABILITY AND AUDIT

The Directors are responsible for preparation of financial statements, annual and interim reports, quarterly financial information, inside information announcements and other disclosures which give a true and fair view of the state of affairs, the results of operations and cash flows of the Group in compliance with accounting standards, the Listing Rules, legal and statutory requirements in relation to financial reporting. The senior management of the Company has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the financial information and position of the Company, which are put to the Board for approval.

In preparation of the consolidated financial statements for the six months ended 30 June 2017 and for the year ended 31 December 2017, the Directors have adopted suitable accounting policies and applied them consistently. The consolidated financial statements for the year ended 31 December 2017 have been prepared on a going concern basis. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

COMPANY SECRETARY

During the year ended 31 December 2017, the company secretary of the Company has taken no less than 15 hours of relevant professional trainings.

SHAREHOLDERS' RIGHTS

As one of the measures to safeguard Shareholders' interests and rights, separate resolutions are proposed at Shareholders' meetings on each substantial issue, including the election of individual Directors, for Shareholders' consideration and voting. All resolutions put forward at Shareholders' meetings will be voted by poll pursuant to the Listing Rules and the poll results will be published on the websites of the Stock Exchange and the Company at "www.hkexnews.hk" and "www.hk1180.com", respectively, after the relevant Shareholders' meetings.

Right to Convene Extraordinary General Meeting

Shareholders may request to convene a special general meeting. According to Bye-law 58 of the Bye-laws of the Company, Shareholders holding as at the date of deposit of the requisition not less than one-tenth (10%) of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company, to require a special general meeting to be convened by the Board for the transaction of any business specified in such requisition, and such meeting shall be held within two months after the deposit of such requisition. If the Board fails to proceed to convene such meeting within twenty-one days after such deposit, the requisitionists themselves may do so in accordance with the provisions of Section 74 of the Companies Act 1981 of Bermuda.

Right to Put Enquiries to the Board

Shareholders have the right to put enquiries to the Board. All enquiries shall be in writing and sent by post, together with his/her contact details, such as postal address, email or fax, to the principal place of business of the Company in Hong Kong for the attention of the company secretary of the Company.

Right to Put Forward Proposals at General Meetings

Shareholders may put forward proposals at general meetings of the Company by sending the same to the principal place of business of the Company in Hong Kong, specifying his/her information, contact details and the proposal(s) he/she intends to put forward at the general meeting regarding any specified transaction/business and the supporting documents.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Company believes that effective communication with the Shareholders and its investors is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Group also recognises the importance of transparent and timely disclosure of corporate information, which enables the Shareholders and its investors to make the best investment decision.

The Company maintains a website at "www.hk1180.com" as a communication platform with the Shareholders and its investors, where information and updates on the Company's business developments and operations and other information are available. Shareholders and investors may send written enquiries or requests to the Company as follows:

Address: Unit C, 19/F, Entertainment Building, 30 Queen's Road Central, Hong Kong
Fax No.: (852) 2620 5303
Email: paradise.ir@hk1180.com

The Company continues to enhance communications and relationships with the Shareholders and its investors. Designated senior management of the Company maintains regular dialogue with institutional investors and analysts to keep them posted of the Company's developments. Enquiries from the Shareholders and its investors are dealt with in an informative and timely manner.

Besides, Shareholders' meetings provide an opportunity for communication between the Board and the Shareholders. Board members and appropriate senior staff of the Group are available at the meeting to answer any questions raised by the Shareholders.

MEMORANDUM OF ASSOCIATION AND BYE-LAWS OF THE COMPANY

During the year ended 31 December 2017, no amendment was made to the Memorandum of Association and the Bye-laws of the Company.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges that it is their responsibility to ensure that the Company establishes and maintains appropriate and effective risk management and internal control systems (the "Systems"). The Systems are designed to manage rather than eliminate risks of failure to achieve business objectives, and can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The control structure of the Group is as follows:

The Board

- ensures the maintenance of appropriate and effective Systems in order to safeguard the Shareholders' investment and assets of the Group;
- defines management structure with clear lines of responsibility and limit of authority; and
- determines the nature and extent of significant risk that the Company is willing to take in achieving the strategic objectives and formulates the Group's risk management strategies.

The Audit Committee

- oversees the Systems of the Group;
- reviews and discusses with the management of the Company at least annually to ensure that the management of the Company has performed its duty to have the effective Systems; and
- considers major findings on internal control matters and makes recommendations to the Board.

The management of the Company (includes heads of business units, departments and divisions)

- designs, implements and monitors the Systems properly and ensure the Systems are executed effectively;
- monitors risks and takes measures to mitigate risks in day-to-day operations;
- gives prompt responses to, and follows up the findings on, internal control matters raised by internal auditor (if any) or the independent auditor; and
- provides confirmation to the Board on the effectiveness of the Systems.

In addition, the Group has engaged Mazars Corporate Recovery & Forensic Services Limited to perform certain agreed-upon procedures to assist the Board in reviewing the Group's internal control systems and compliance.

Risk Management

The risk management process includes risk identification, risk evaluation, risk management measures and risk control and review.

The management of the Company is entrusted with duties to identify, analyse, evaluate, respond, monitor and communicate risks associated with any activity, function or process within its scope of responsibility and authority. It endeavours to evaluate and compare the level of risk against predetermined acceptable levels of risk. For risk control and monitoring, it involves making decisions regarding which risks are acceptable and how to address those that are not. The management of the Company will develop contingency plans for possible loss scenarios. Accidents and other situations involving loss or near-loss will be investigated and properly documented as part of the effort to manage risks.

Certain significant risks have been identified through the process of risk identification and assessment. Such significant risks of the Group and their respective key strategies/control measures are set out below:

(a) Adverse changes and volatility in economic conditions globally (including the PRC and the U.S.) and adverse changes in laws, rules and regulations and policies and practices implemented by the governments of the relevant countries and regions (including the PRC, Macau and various states of the U.S.), which would have an adverse impact on the gaming and travel related activities in Macau and the demand for the electronic gaming equipment and system of the Group in the relevant countries and regions (in particular, Macau and the U.S.).

The Group's control measures are as follows:

- To stay alert to changes in economic conditions globally and changes in laws, rules and regulations and policies and practices, and to adjust business strategic plans to cope with these changes;
- To expand the Group's business and to broaden the gaming patron base; and
- To control expenses and manpower or to re-allocate resources in an efficient manner without affecting the quality of the Group's products and services.

(b) Ever increasing competition in the gaming industry, in particular (i) due to the opening of more casinos and the upgrading of existing casinos by competitors (as well as increasing number of VIP rooms, gaming tables and machines at existing casinos) in Macau and other Asian countries (e.g. Malaysia, Singapore, Vietnam and Cambodia); and (ii) from other gaming equipment and system suppliers globally (in particular, those blue-chip global companies). No assurance that the growth of the gaming industry in Macau would increase in line with or outpace the supply of gaming tables and machines in Macau.

The Group's control measures are as follows:

- To expand the Group's business and to broaden the gaming patron base;
- To improve marketing strategy and enhance promotions and publicities from time to time in order to encourage existing gaming patrons to come back to the Group's casinos and attract new patrons from around the world;

- To be responsive to the feedbacks of its customers on the electronic gaming equipment and system sold or leased and to customise its electronic gaming equipment and system according to the specific needs of its customers; and

- To collaborate with IGT, a global leader in electronic gaming machine industry, in distributing the electronic gaming equipment and system of the Group.

(c) Reliance on the concession contract between the Macau government and SJM which will expire on 31 March 2020 (pursuant to which Casino Kam Pek Paradise is licensed for operation), the concession contract between the Macau government and Galaxy which will expire on 26 June 2022 (pursuant to which Casino Waldo is licensed for operation), and the existing service agreements of the Group whereby the Group provides casino management services at Casino Kam Pek Paradise and Casino Waldo. Possibility of termination/non-renewal of, or unfavourable changes in the terms of, the concession contracts and/or the services agreements for whatever reasons.

The Group's control measures are as follows:

- To stay alert to changes in laws, rules and regulations and policies and practices, and to adjust business strategic plans to cope with these changes; and

- To keep close communications with SJM and Galaxy in this respect.

(d) The possible infringement of the Patents and other intellectual property of the Group (collectively the "IPs") by competitors and third parties, the expiry of the IPs (whereby competitors and third parties are no longer prohibited from using the IPs), and the fast changing technology rendering the IPs obsolete, which may result in a decrease in the value of the IPs and thereby a decrease in demand of the electronic gaming equipment and systems of the Group (collectively the "Products"). High popularity of the Products in Macau does not mean the same level of popularity in other countries and regions.

The Group's control measures are as follows:

- To monitor any infringement of the IPs and to take appropriate actions to protect its interest;

- To collaborate with IGT, a global leader in electronic gaming machine industry, to speed up the distribution of the electronic gaming equipment and system of the Group around the world;

- To continuously invest in research and development to keep pace with the fast-changing technology; and

- To modify the Products to meet the preference of gaming patrons in other countries and regions.

(e) Hacking, software and hardware errors and fraudulent manipulation of the Products, which may have an adverse impact on the reputation and profitability of the Group.

The Group's control measure is as follows:

- To monitor and improve the built-in computerised features of the Products whenever necessary in order to safeguard against the risks of human errors and fraud.

(f) Failure to attract, retain and motivate key employees and consultants of the Group, in particular qualified executives with vast knowledge, experience and connections in the gaming industry and those for inventing new patents and technology.

The Group's control measures are as follows:

- To offer competitive remuneration packages for the suitable candidates identified; and

- To offer options in the Shares of the Company to those key employees and consultants as and when the Board deems appropriate.

(g) No control over the performance of business partners, in particular original equipment manufacturers ("OEM") for the manufacture of the Products and IGT for the distribution of the Products around the world (excluding Macau), which may have an adverse impact on the quality, production capacity availability and delivery schedules of the Products.

The Group's control measure is as follows:

- To work closely with OEM and IGT such that the Group can detect any problems at the earliest instance and adopt remedial measures promptly.

(h) Capital risk and financial risks as set out in notes 31 and 32 to the consolidated financial statements, respectively.

The Group's control measure is as follows:

- To stay alert to such risks and to adjust business strategic plans to cope with such risks.

Internal Controls

The Board acknowledged that the management of the Company has been progressively implementing an adequate internal control system to ensure the effective functioning of the Group's operational, financial and compliance areas, including the following key measures, policies and procedures:

(a) Financial reporting management:

- Proper controls are in place for the recording of complete, accurate and timely accounting and management information;

- Regular reports on revenue and debtors' ageing and internal financial reports are prepared to the management of the Company which give a balanced and understandable assessment of the Group's financial performance;

- Timely updates on internal financial statements are provided to the Directors which give a balanced and understandable assessment of the Group's performance, position and prospects in sufficient details; and

- Annual audit by the independent auditor of the Company is carried out to ensure that the annual consolidated financial statements are prepared in accordance with generally accepted accounting principles, the Group's accounting policies and the applicable laws and regulations.

(b) Systems and procedures on disclosure of inside information: It is to ensure, with the assistance of an internal work team (if required), that any material information which comes to the knowledge of any one or more officers should be promptly identified, assessed and escalated (where appropriate) for the attention of the Board.

(c) Policies and practices on compliance with legal and regulatory requirements: It shall be reviewed and monitored regularly by the Board.

(d) Continuing connected transactions: The Audit Committee shall monitor, control and regularly review continuing connected transactions of the Company and ensure proper compliance with the Listing Rules and all other relevant laws and regulations.

The Board and the Audit Committee have reviewed the Group's Systems and are not aware of any material risks, deficiencies and issues that would have an adverse impact on the effectiveness and adequacy of the Systems and the operations of the Group.

Other than reviewing the Systems, the Audit Committee has also reviewed and is satisfied with the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions.

Environmental, Social and Governance Report

The Group is of the firm belief that good and effective ESG measures are important to the sustainable development of our business and of our community. The Board is responsible for the Group's ESG strategy and reporting including evaluating and determining ESG-related risks and ensuring that appropriate and effective ESG risk management and internal control systems are in place. The Group has engaged the management and staff of the Group across the Group's key subsidiaries and functions to review their operations in order to identify relevant ESG issues and assess their materiality based on their impact to our businesses as well as our stakeholders.

In accordance with the requirements set forth in Appendix 27 — Environmental, Social and Governance Reporting Guide (the "ESG Reporting Guide") to the Listing Rules, the Group hereby presents the ESG report for the year ended 31 December 2017. This report outlines the policies, initiatives and performance of the Group's core business operations. In particular for Section A "Environmental" of this report, unless otherwise specifically stated, the main ESG issues considered to be material to the Group are those related to the gaming business operations in the 2 stand-alone satellite casino properties in Macau, namely, Casino Kam Pek Paradise and Casino Waldo (collectively the "2 Satellite Casinos"), of which the Group is currently the sole casino management service provider. Accordingly, the key performance indicators ("KPIs") shown in Section A of this report relate to the 2 Satellite Casinos only, unless otherwise specifically stated.

A. ENVIRONMENTAL

The Group has established environmental policies aiming to lessen its impact on the environmental and natural resources by using its resources more efficiently, and by monitoring and minimizing its energy consumption and thereby reducing emissions as far as possible. The Group's environmental policies cover material environmental issues including emissions, use of resources and other environmental impacts, and are more described in the sections below in respect of the 2 Satellite Casinos. The Group also complies with relevant environmental laws and regulations and did not note any cases of material non-compliance during the year ended 31 December 2017.

A1 Emissions

A1.1 Air Emissions

Emissions Data from Gaseous Fuel Consumption

As the Group is principally engaged in the provision of casino management services as well as the development, sale and leasing of electronic gaming equipment and systems, towngas and liquefied petroleum gas consumed in the operation of the 2 Satellite Casinos are considered insignificant. Accordingly, emission data in this respect is not disclosed after assessment of materiality.

A. ENVIRONMENTAL (Continued)

A1 Emissions (Continued)

A1.1 Air Emissions (Continued)

Emissions Data from Vehicles

Emissions from operations of the 2 Satellite Casinos are mainly generated from vehicles. In order to improve air quality, the Group aims to reduce air emissions generated from its operations. Considering that the 2 Satellite Casinos locate in the city of the Macau Peninsula supported by good network of public transport facilities with close proximity, the 2 Satellite Casinos currently provide no free shuttle bus services connecting passengers for instance between border gates and Casino Kam Pek Paradise and/or Casino Waldo. The lack of such shuttle bus operation reduces traffic and emissions on Macau roads. For the purpose of complying with the disclosure requirements under the ESG Reporting Guide, details of air emissions data for the year ended 31 December 2017 in respect of the 2 Satellite Casinos are shown as follows:

Type of emissions	Weight (Kg)
Nitrogen oxides (NO_X)	20
Sulphur oxides (SO_X)	1
Particulate matter (PM)	1
Total	22

Remarks: The emissions data shown and emission factors applied in this report are provided with reference to the emission factors set out in the document known as "How to prepare an ESG Report? Appendix 2: Reporting Guidance on Environmental KPIs" which is available on the website of the Stock Exchange (the "HKEX Guidance Document") and relevant emission factors in Macau.

A1.2 Greenhouse Gas Emissions

With reference to HKEX Guidance Document, greenhouse gas ("GHG") emissions (direct and indirect) can be broadly classified into the following separate scopes:

Scope 1 — Direct emissions from operations that are owned or controlled by the Group. The main source of direct emission of the 2 Satellite Casinos is consumption of gasoline and diesel by vehicles controlled by the Group;

Scope 2 — Energy indirect emissions resulting from the electricity purchased; and

Scope 3 — Other indirect emissions that occur outside the reporting entity, including upstream and downstream emissions.

The main source of the GHG emissions, measured in terms of carbon dioxide equivalent ("CO_2e"), arising from our business activities for the year ended 31 December 2017, in respect of the 2 Satellite Casinos is the consumption of gasoline, diesel and electricity purchased from power companies. As the Group is principally engaged in the provision of casino management services as well as the development, sale and leasing of electronic gaming equipment and systems, other indirect emissions under Scope 3 that occur outside the Group are not significant and accordingly such emission data are not produced in this report.

A. ENVIRONMENTAL (Continued)

A1 Emissions (Continued)

A1.2 Greenhouse Gas Emissions (Continued)

GHG emissions data of the 2 Satellite Casinos for the year ended 31 December 2017 are as follows:

		CO_2e emissions (Tons)
Scope 1	Gasoline and diesel consumed by vehicles	96
Scope 2	Electricity purchased	5,653
	Total	5,749

The Group is committed to reducing our emissions through our resource efficiency initiatives wherever possible despite such usage may not represent a significant account. For instance, the Group notes that the carbon footprint produced by business trips shall increase GHG emissions although its impact is not significant as far as the business of the Group is concerned. As part of the Group's green policy, employees of the Group are encouraged to reduce and minimise business trips unless they are strictly necessary. Telephone conference facilities are installed in the offices and certain meetings by means of telephone conference have been conducted in lieu of physical conferences. In turn, physical business trips are insignificant, and so as GHG emissions in this respect.

A1.3 Hazardous Waste

Since the Group is principally engaged in the provision of casino management services as well as the development, sale and leasing of electronic gaming equipment and systems, no significant hazardous wastes and pollutants such as hazardous chemicals are discharged due to its business nature and accordingly such emissions data are not produced in this report.

A1.4 Non-hazardous Waste

In view of the principal business operations of the 2 Satellite Casinos and also the measures being taken by the Group to mitigate non-hazardous as more described in Section A1.6 below, non-hazardous wastes produced such as paper waste and water waste are insignificant.

A1.5 Measures to Mitigate Emissions

The main source of emissions of the 2 Satellite Casinos is the use of energy. The Group has developed various energy-saving initiatives to reduce its emissions. Please refer to the Section A2 "Use of Resources" below for details.

A. ENVIRONMENTAL (Continued)

A1 Emissions (Continued)

A1.6 Measures to Mitigate Non-hazardous Waste

The Group, as well as the 2 Satellite Casinos, has managed to keep their level of non-hazardous waste low as a result of the Group's policy in reducing wastes. In order to reduce paper waste, the Group advocates the policy "Reduce, Reuse and Recycle", and encourages its staff to reduce paper usage and recycle paper waste where possible. For example, the use of recycled papers and double-sided printing and photo-copying are adopted and the Group's Interim Report 2017 is made of papers certified by the Forest Stewardship Council. Moreover, waste toners are recycled. Paperless approval processes and paperless meetings are encouraged to reduce the use of hardcopy documents where applicable. On the other hand, in order to reduce waste plastic bottles (from bottled distilled water to casino players), there are water bars in the 2 Satellite Casinos where hot water, distilled water dispenser and metallic cups are provided to casino players. Since the adoption of water bars, waste plastic bottles have been reduced drastically.

The 2 Satellite Casinos target to at least maintain or even reduce non-hazardous waste by the year ending 31 December 2018.

A2 Use of Resources

A2.1 Energy Consumption

Direct and/or indirect energy consumed by the 2 Satellite Casinos for the year ended 31 December 2017 are as follows:

Type	Total consumption	Intensity
Gasoline	32,804 Litre	0.17 Litre per sq.ft.
Diesel	2,856 Litre	0.01 Litre per sq.ft.
Electricity purchased	15,568,068 Kwh	78.38 Kwh per sq.ft.

A2.2 Water Consumption

Water consumed by the 2 Satellite Casinos for the year ended 31 December 2017 is as follows:

	Total consumption	Intensity
Water	23,009 M^3	0.12 M^3 per sq.ft.

A. ENVIRONMENTAL (Continued)

A2 Use of Resources (Continued)

A2.3 & A2.4 Energy and Water Efficiency Initiatives

To reduce the Group's negative impact on the environment, the Group sets out policy for effective use of resources in order to protect the environment and make its business operations more cost-efficient. The Group has implemented green office practices in order to minimise the use of resources like paper, electricity and water, wherever possible.

The Group's green measures include double-sided printing, the use of energy-saving lightings such as light-emitting diode lightings, and reducing energy consumption by switching off idle lightings, computers and electrical appliances, etc. In order to save electricity consumed, the indoor temperature in the 2 Satellite Casinos is maintained at reasonable level in order to avoid over usage of air-conditioning and electricity. Moreover, labels reminding employees to save energy are placed close to the switches.

In order to reduce consumption of paper, collection boxes have been put in place to collect single-side used papers for reuse as draft papers and other scrap papers for recycling. Moreover, paperless approval processes are adopted.

In order to reduce consumption of water, the data of water consumption pattern in respect of the 2 Satellite Casinos were collected and analyzed. Water bars are installed in the Group's casinos where hot water, distilled water dispenser and metallic cups are provided to casino players. Under such arrangement, water is consumed by patrons on an as-needed basis by the adoption of water bars, as opposed to constraining patrons' consumption of bottled water which may be beyond their needs. As a result of such policies, consumption of water has been reduced drastically.

Since there are no rivers within the territory of Macau where the 2 Satellite Casinos operate, the facilities of rainwater storage are very limited. The main source of water in Macau is supplied from Zhuhai, with Xijiang River as the source. The water source in Macau is generally considered to be in low risk of lack of potable water supply. The 2 Satellite Casinos did not encounter any issue in sourcing water that was fit for the purposes of their business operations during the year ended 31 December 2017.

The 2 Satellite Casinos target to at least maintain or even reduce use of gasoline, diesel, electricity, water and emissions by the year ending 31 December 2018.

A2.5 Packaging Material

In view of the business nature of the 2 Satellite Casinos being mainly the provision of casino management services, the packaging material used for finished products is not significant and therefore disclosure relating to data on these aspects is not made in this report.

A. ENVIRONMENTAL (Continued)

A3 The Environment and Natural Resources

The Group recognises the responsibility in managing the Group's impact on the environment. For this reason, the Group has adopted series of initiatives as set out above in order to minimise emissions and consumption of energy and resources. The Group closely monitors the utilisation of resources and shall take appropriate actions to seek opportunities for increasing operating efficiency in order to reduce the consumption on non-renewable resources where possible. The Group shall assess the environmental risks of the Group's operations and ensure the Group's compliance with relevant laws and regulations from time to time. During the year ended 31 December 2017, the Group did not recognise any significant impact of its activities on the environment and natural resources.

Indoor Air Quality

In order to improve quality of air in the 2 Satellite Casinos, air-purifiers have been installed. The Group is committed to complying with relevant prevailing laws and requirements and adheres to the Regime of Tobacco Prevention and Control requirements imposed by the relevant Macau government authority. The Group shall also seek other ways of improving the indoor air quality for the health of the patrons and its staff, such as deploying mobile air purifiers.

B. SOCIAL

B1 Employment

Employees are the greatest asset of the Group. The Group strives to attract, recruit, retain and train its employees. Employee handbooks have been established, with sets of policies to govern employees' affairs such as recruitment, payroll, working hours, rest periods, termination and rules of conduct. The Group's offices in Hong Kong and Macau are in compliance with the relevant labour laws and regulations in Hong Kong and Macau, respectively.

The Group recognises the importance of maintaining a stable staff force for its continued success. Staff remuneration is determined by reference to personal qualifications, performance, relevant experience, responsibilities and market trends. Discretionary bonuses are granted to employees based on merit and in accordance with industry practice. Other benefits including share options, subsidised medical care, pension funds and sponsorship for external education and training programmes are offered to employees.

The Group respects cultural diversity and is committed to providing a working environment which is free from all forms of discrimination (i.e. age, religion, gender, pregnancy, marital status, disability, family status and race). Therefore, any employee dismissal due to discrimination or unlawful reasons is forbidden in the Group. Besides, opportunities for hiring, training and promotion are equal and open to all qualified candidates or employees and the Group has developed a systematic and objective evaluation mechanism to assess their performance based on qualifications, work experience, skills and abilities.

B. SOCIAL (Continued)

B1 Employment (Continued)

The Group strives to maintain the work-life balance of its employees by establishing fair and reasonable working hours and leave policy to ensure that employees have sufficient time for rest and leisure. For the betterment of harmonious relationship between the employees across departments and offices, the Group provides various social activities to its employees where appropriate.

The Group did not note any cases of material non-compliance regarding the Group's labour practices during the year ended 31 December 2017.

B2 Health and Safety

The Group strives to provide a safe working environment for all employees. Auxiliary facilities and protective equipment are provided to the employees in order to reduce the possibilities of injury. Training courses on fire extinguishing and escape exercises are held regularly. All cases of injury are required to be reported to the head office for assessment of the cause of injury, consideration of corresponding preventive measures and to ensure proper handling of the cases in compliance with relevant regulations.

The Group did not note any cases of material non-compliance in relation to health and safety laws and regulations during the year ended 31 December 2017.

B3 Development and Training

The Group strives to improve employee's knowledge and skills for discharging their duties at work and to make them valuable assets to the Group, with a view to promoting the long-term development of its employees. For this reason, vocational training courses are provided to the employees, for example, anti-money laundering courses are provided to employees in Macau. The Group also sponsors the employees for external training courses and part-time degree courses towards certain selected employees.

B4 Labour Standards

Anti-Child and Forced Labour

The Group strictly prohibits the use of child and forced labour in the Group's operations or activities. The Group's operations strictly comply with local labour laws and regulations. Forcing labour to work by means of physical punishment, abuse, involuntary servitude, peonage or trafficking is strictly forbidden. Employment of any person who is under the age as set forth by the local labour law is prohibited, including but not limited to hiring for the gaming areas in respect of the 2 Satellite Casinos. The Group formally requires all job applicants to present their identity card when they attend recruitment interview.

The Group did not note any cases of material non-compliance with laws and regulations in relation to labour standards during the year ended 31 December 2017.

B. SOCIAL (Continued)

B5 Supply Chain Management

The Group promotes green and environmental friendly procurement in its operations. Suppliers using recycled materials and products made of recycled material are preferred, in order to mitigate the amount of waste produced. The suppliers are encouraged to align their ESG policies with that of the Group, including but not limited to:

– Provision of safe working environment;

– Prohibition of child and forced labour;

– Fair wages and fair working environment without discrimination; and

– Comply with or exceed all relevant laws, regulations, and codes of conduct or practice.

In light of this policy, photocopiers of less consumption of energy and less emissions of carbon are adopted by the 2 Satellite Casinos.

B6 Product Responsibility

Responsible Gaming

As a group engaged in the provision of casino management services, the Group is committed to promoting responsible gaming and supporting Macau government's relevant measures. Notice boards and posters are in place to improve the awareness of problem gambling among the Group's employees and to prevent problem gambling among the casino players. Staff of the 2 Satellite Casinos are prohibited at all times from gambling at any gaming venue thereunder at which they are employed pursuant to Article 4, Clause 3 of Law No. 10/2012- Regulating the Conditions of Entering, Working and Gaming at Casinos in Macau. The Group shall also seek suitable opportunities to take part in the events with non-profitable or charitable organisations and academic institutions in Macau to help alleviating the adverse social impact as a result of problem gaming.

Data Privacy

The Group understands the importance of data privacy. The Group is committed to protecting the privacy of its customers in collection, processing and use of their personal data. The Group has adopted policies on consumer data protection in compliance with relevant laws and regulations. Training courses on data privacy and protection of data have been conducted. The Group did not note any cases of material non-compliance in relation to data privacy during the year ended 31 December 2017.

B. SOCIAL (Continued)

B7 Anti-corruption

The Group believes that honesty, integrity and fairness are of vital importance to its business operations. The Group does not tolerate corruption, bribery, money-laundering and other fraudulent activities in its operations. All employees of the Group are expected to observe the highest standards of ethical, personal and professional conduct serving with integrity and honesty.

Training on anti-money laundering, anti-bribery and anti-corruption are provided to employees. Moreover, there are whistle-blowing procedures stated in the staff handbook which provides a private communication channel to all staff to report suspicious fraudulent actions to the Group's management directly. Review of the effectiveness of the internal control systems is also conducted on a regular basis for prevention of corruption.

During the year ended 31 December 2017, the Group did not note any cases of material non-compliance with laws and regulations on bribery, extortion, fraud and money laundering.

B8 Community Investment

It is the Group's policy on the community engagement to understand the needs of the communities where the Group operates and to support and sponsor charitable activities where appropriate after taking into consideration of the communities' interests.

In August 2017, Typhoon Hato, a severe typhoon, attacked Macau resulting in temporary suspension or shortage of supply in electricity and water in many areas in Macau. To address the imminent need of the society, the Group took prompt actions to donate hundreds of lunch boxes to the affected people in Macau. The Group cherishes every positive impact it can bring on the assistance to the community in particular on emergency situations.

For the benefit of the Macau community in advancing arts, culture and sports, the Group has been supporting and sponsoring various activities to attain social harmony. Major initiatives during the year ended 31 December 2017 which attracted popularity and applause from the Macau community include sponsoring and supporting the following events:

- a jockey challenge known as "Kam Pek Paradise International Mixed Doubles Jockeys Challenge",
- a music event known as "Ooh! Macau MV Awards"; and
- a wrestling event known as "Hero Collection Fight — World Wrestling Championship".

The Group has also set up a showroom known as "Street Steel — Heavy Metal Bike Gallery Macau" in Casino Kam Pek Paradise with more than 20 collectable and luxury motorbikes, which is free for public visit.

The Group is also dedicated to supporting the advancement of education in particular young people helping them establish a strong and solid foundation for their chosen careers. During the year ended 31 December 2017, the Group offered scholarships to eligible students of the Macau Polytechnic Institute. The Group shall continue to look for opportunities to support appropriate Macau universities and education institutions on youth and talent development for the betterment of Macau in advancing its competitiveness in the long run.

Independent Auditor's Report

Deloitte. 德勤

TO THE SHAREHOLDERS OF PARADISE ENTERTAINMENT LIMITED
(incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Paradise Entertainment Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 57 to 114, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, 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 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of 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.

Key audit matter	How our audit addressed the key audit matter

Impairment assessment of the intangible asset and property, plant and equipment

We have identified the impairment assessment of the intangible asset and property, plant and equipment allocated to the single cash-generating unit comprising the patent for the computerised gaming system for operating multi-gambling games in Macau (the "Macau Patent CGU") as a key audit matter due to the significant level of management judgment involved in determining the recoverable amount of the Macau Patent CGU for impairment assessment on the intangible asset and property, plant and equipment.

As set out in notes 15(a) and 14 to the consolidated financial statements, as at 31 December 2017, the amount of intangible asset of approximately HK$93,057,000 represents patent pertaining to the computerised gaming system for operating multi-gambling games installed on the electronic gaming equipment which operate in certain casinos in Macau, and the property, plant and equipment of approximately HK$94,091,000 are allocated to the Macau Patent CGU. In the opinion of the directors of the Company, no impairment loss was identified on the intangible asset and the related property, plant and equipment as at 31 December 2017.

The valuation of intangible asset and property, plant and equipment in relation to patent is assessed by comparing the recoverable amount of the Macau Patent CGU, to their carrying amounts at the end of each reporting period. The recoverable amount of the Macau Patent CGU is the value in use of the Macau Patent CGU determined by the directors of the Company based on the present value of estimated future cash flows to be generated over the remaining license period and with reference to the valuation report prepared by an independent professional valuer, which was approved by the directors of the Company. The key assumptions adopted by the management in the value in use calculation for the recoverable amount of the Macau Patent CGU are growth rates and pre-tax discount rate.

Our procedures in relation to the impairment assessment of the intangible asset and property, plant and equipment included:

- Obtaining an understanding of the impairment assessment process used by the management and involvement of the independent professional valuer engaged by the Company to estimate the recoverable amounts based on a value in use calculation;
- Assessing the competence, capabilities and objectivity of the independent professional valuer;
- Assessing the reasonableness of the key assumptions adopted by the management in determining the recoverable amount of the Macau Patent CGU, including growth rates and discount rate, with the involvement of our valuation expert; and
- Evaluating the historical accuracy and reasonableness of the value in use calculation by comparing the historical cash flow forecasts with the actual performance of the Macau Patent CGU.

Key audit matter	How our audit addressed the key audit matter
Estimation of write-down amount of trading goods	
We have identified the estimation of the write-down amount of trading goods as a key audit matter due to the estimation uncertainty inherent in the management's process in determining the write-down amount of slow-moving and obsolete trading goods. As at 31 December 2017, the carrying amount of trading goods, after the write-down amount of HK$9,825,000, was HK$37,496,000. As disclosed in note 4 to the consolidated financial statements, the management of the Group identifies slow-moving and obsolete trading goods with reference to an aged analysis and the management's assessment of technical specification and determines the write-down amount for trading goods by considering the saleability of trading goods.	Our procedures in relation to the estimation of the write-down amount of trading goods included: • Obtaining an understanding of the Group's write-down policy for trading goods and evaluating management's process in identifying slow-moving and obsolete trading goods and determining the write-down amount for those trading goods; • Checking the accuracy of the aged analysis for trading goods, on a sample basis, to purchase invoices and goods receipt notes; • Tracing the subsequent sales of the trading goods, on a sample basis, to the sales invoices and goods delivery notes; and • Evaluating the sufficiency of the write-down amount for slow-moving and obsolete trading goods with reference to sales history or subsequent sales, current market conditions and the management's assessment of technical specification.

OTHER MATTER

The consolidated financial statements of the Company for the year ended 31 December 2016 were audited by another auditor who expressed an unmodified opinion on those statements on 29 March 2017.

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.

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion 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.

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

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

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

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Kwok Lai Sheung.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
26 March 2018

Consolidated Statement of Profit or Loss

For the year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Revenue	5	**1,011,844**	1,163,347
Cost of sales and services		**(605,978)**	(709,592)
Gross profit		**405,866**	453,755
Other income, gains and losses	7	**21,510**	5,482
Marketing, selling and distribution costs		**(214,490)**	(205,507)
Operating and administrative expenses		**(241,534)**	(232,509)
Amortisation of intangible assets		**(12,137)**	(27,348)
Loss arising from assignment of intangible assets		**—**	(334,765)
Finance costs	8	**(5,987)**	(10,856)
Loss before taxation	9	**(46,772)**	(351,748)
Taxation	11	**(680)**	(3,394)
Loss for the year		**(47,452)**	(355,142)
(Loss) profit for the year attributable to:			
Owners of the Company		**(30,698)**	(380,380)
Non-controlling interests		**(16,754)**	25,238
		(47,452)	(355,142)
Loss per share:	13		
— Basic		**HK(2.9) cents**	HK(36.1) cents
— Diluted		**HK(2.9) cents**	HK(36.1) cents

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017

	2017 HK$'000	2016 HK$'000
Loss for the year	**(47,452)**	(355,142)
Other comprehensive income (expense):		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of foreign operations	**847**	(154)
Fair value gain on available-for-sale investment in equity securities	**1,591**	—
Other comprehensive income (expense) for the year	**2,438**	(154)
Total comprehensive expense for the year	**(45,014)**	(355,296)
Total comprehensive (expense) income for the year attributable to:		
Owners of the Company	**(28,548)**	(380,535)
Non-controlling interests	**(16,466)**	25,239
	(45,014)	(355,296)

Consolidated Statement of Financial Position

As at 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Non-current assets			
Property, plant and equipment	14	**134,920**	163,380
Intangible assets	15	**93,057**	105,194
Interests in an associate	16	**—**	—
Available-for-sale investment in equity securities	17	**2,706**	1,115
Finance lease receivables	18	**—**	18,274
Other assets	19	**15,650**	13,001
		246,333	300,964
Current assets			
Inventories	20	**62,675**	70,577
Trade and other receivables	21	**169,646**	229,105
Finance lease receivables	18	**11,393**	—
Amount due from a related company	22	**583**	7,114
Bank balances and cash	23	**250,848**	307,754
		495,145	614,550
Current liabilities			
Trade and other payables	24	**148,882**	189,246
Amounts due to directors	22	**2,973**	3,709
Taxation payable		**11,868**	11,777
Promissory note	25	**—**	88,013
		163,723	292,745
Net current assets		**331,422**	321,805
Total assets less current liabilities		**577,755**	622,769
Capital and reserves			
Share capital	26	**1,052**	1,052
Reserves		**525,599**	554,147
Equity attributable to owners of the Company		**526,651**	555,199
Non-controlling interests		**51,104**	67,570
		577,755	622,769

The consolidated financial statements on pages 57 to 114 were approved and authorised for issue by the board of directors on 26 March 2018 and are signed on its behalf by:

JAY CHUN	**TANG KIU SAM ALICE**
Director	*Director*

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	Attributable to owners of the Company										
	Share capital HK$'000	Share premium HK$'000	Treasury shares HK$'000	Warrant reserve HK$'000 (note ii)	Contributed surplus HK$'000 (note iii)	Investment revaluation reserve HK$'000	Translation reserve HK$'000	Accumulated losses HK$'000	Subtotal HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2016	1,053	928,837	(1,641)	–	119,612	–	21,201	(134,828)	934,234	42,330	976,564
(Loss) profit for the year	–	–	–	–	–	–	–	(380,380)	(380,380)	25,238	(355,142)
Other comprehensive (expense) income for the year	–	–	–	–	–	–	(155)	–	(155)	1	(154)
Total comprehensive (expense) income for the year	–	–	–	–	–	–	(155)	(380,380)	(380,535)	25,239	(355,296)
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	1	1
Cancellation of shares repurchased	(1)	(1,640)	1,641	–	–	–	–	–	–	–	–
Issue of warrants (note ii)	–	–	–	1,500	–	–	–	–	1,500	–	1,500
At 31 December 2016	1,052	927,197	–	1,500	119,612	–	21,046	(515,208)	555,199	67,570	622,769
Loss for the year	–	–	–	–	–	–	–	(30,698)	(30,698)	(16,754)	(47,452)
Other comprehensive income for the year	–	–	–	–	–	1,304	846	–	2,150	288	2,438
Total comprehensive income (expense) for the year	–	–	–	–	–	1,304	846	(30,698)	(28,548)	(16,466)	(45,014)
Reduction of share premium (note i)	–	(927,197)	–	–	927,197	–	–	–	–	–	–
Lapse of share warrants (note ii)	–	–	–	(1,500)	–	–	–	1,500	–	–	–
At 31 December 2017	1,052	–	–	–	1,046,809	1,304	21,892	(544,406)	526,651	51,104	577,755

Notes:

(i) The reduction of share premium represented the transfer of the entire balance of the share premium to the contributed surplus, which has been approved by the shareholders of the Company at the special general meeting of the Company held on 26 June 2017.

(ii) The warrant reserve represents the fair value of the unexercised warrants issued by the Group recognised in accordance with the Group's accounting policy adopted for equity instruments.

On 31 October 2016, the Company issued 50,000,000 unlisted warrants at the issue price of HK$0.03 per warrant, which entitled the holder of each warrant to subscribe for one ordinary share of the Company at an exercise price of HK$1.40 (subject to adjustment) at any time during the one-year period commencing from 31 October 2016. No warrant has been exercised since its issuance up to its expiry on 31 October 2017 and the amount was transferred to accumulated losses upon expiry.

(iii) The contributed surplus represents the aggregate of: (i) the difference between the nominal amount of the share capital issued by the Company and the aggregate of the nominal amount of the issued share capital and the share premium of LifeTec (Holdings) Limited, the subsidiary which was acquired by the Company pursuant to the group reorganisation in 1996; (ii) the effects of the capital reduction, share premium cancellation and elimination to accumulated losses took place in 1999 and 2013; and (iii) the effect of the reduction of share premium took place in 2017.

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	2017 HK$'000	2016 HK$'000
Operating activities		
Loss before taxation	**(46,772)**	(351,748)
Adjustments for:		
Interest income	**(5,294)**	(3,919)
Finance costs	**5,987**	10,856
Amortisation of intangible assets	**12,137**	27,348
Loss arising from assignment of intangible assets	**—**	334,765
Depreciation of property, plant and equipment	**57,155**	73,549
(Gain) loss on disposal of property, plant and equipment	**(4,762)**	6,687
Impairment loss recognised in respect of amount due from an associate	**5**	26
Allowance for doubtful debts	**6,700**	875
Write-down of inventories	**9,825**	—
Operating cash flows before movements in working capital	**34,981**	98,439
(Increase) decrease in inventories	**(7,231)**	16,643
Decrease (increase) in trade and other receivables	**60,493**	(33,274)
Decrease (increase) in finance lease receivables	**181**	(18,274)
Decrease in trade and other payables	**(33,732)**	(19,856)
Cash from operations	**54,692**	43,678
Macau Complementary Tax paid	**—**	(1,031)
Lump Sum Dividend Tax paid	**(331)**	(331)
PRC Enterprise Income Tax paid	**(157)**	(85)
Tax in other jurisdictions paid	**(105)**	(6)
Net cash from operating activities	**54,099**	42,225
Investing activities		
Purchases of property, plant and equipment	**(22,797)**	(11,093)
Deposits paid for acquisitions of property, plant and equipment	**(4,466)**	(3,611)
Advance to an associate	**(5)**	—
Purchases of available-for-sale financial assets	**—**	(1,115)
Proceeds on disposal of property, plant and equipment	**—**	4,141
Upfront payment received for assignment of intangible assets	**—**	101,010
Interest received	**3,742**	3,919
Repayment from (advance to) a related company	**6,531**	(6,654)
Net cash (used in) from investing activities	**(16,995)**	86,597

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2017

	2017 HK$'000	2016 HK$'000
Financing activities		
Repayment of promissory note	**(94,000)**	—
(Repayments to) advances from directors	**(736)**	174
Proceeds from issuance of warrants	**—**	1,500
Repayment of obligations under finance leases	**—**	(65)
Interest paid	**—**	(1)
Net cash (used in) from financing activities	**(94,736)**	1,608
Net (decrease) increase in cash and cash equivalents	**(57,632)**	130,430
Cash and cash equivalents at beginning of the year	**307,754**	177,443
Effect of foreign exchange rate changes	**726**	(119)
Cash and cash equivalents at end of the year, representing bank balances and cash	**250,848**	307,754

1. GENERAL

Paradise Entertainment Limited (the "Company") is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is August Profit Investments Limited, a company established in the British Virgin Islands ("BVI"). In the opinion of the directors of the Company, the Company's ultimate controlling party is Mr. Jay Chun, who is also an executive director of the Company. The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of this annual report.

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 36.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is also the functional currency of the Company.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

The Company and its subsidiaries (collectively referred as the "Group") has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle

Except as described below, the application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to HKAS 7 Disclosure Initiative

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in note 33. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 33, the application of these amendments has had no impact on the Group's consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

New and revised HKFRSs in issue but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[4]
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle[2]

1 Effective for annual periods beginning on or after 1 January 2018.
2 Effective for annual periods beginning on or after 1 January 2019.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after 1 January 2021.

HKFRS 9 Financial instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

New and revised HKFRSs in issue but not yet effective (Continued)

HKFRS 9 Financial instruments (Continued)

Key requirements of HKFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("FVTOCI"). All other financial assets are measured at their fair value at subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39 Financial Instruments: Recognition and Measurement. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the directors of the Company anticipate the following potential impact on initial application of HKFRS 9:

Classification and measurement:

- Listed equity securities classified as available-for-sale ("AFS") investment carried at fair value as disclosed in note 17: these securities qualified for designation as measured at FVTOCI under HKFRS 9, however, the fair value gains or losses accumulated in the investment revaluation reserve amounting to HK$1,304,000 as at 1 January 2018 will no longer be subsequently reclassified to profit or loss under HKFRS 9, which is different from the current treatment. This will affect the amounts recognised in the Group's profit or loss and other comprehensive income but will not affect total comprehensive income.

- All other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under HKAS 39.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

New and revised HKFRSs in issue but not yet effective (Continued)

HKFRS 9 Financial instruments (Continued)

Impairment

In general, the directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group.

Based on the assessment by the directors of the Company, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by Group as at 1 January 2018 would have no significant change as compared to the accumulated amount recognised under HKAS 39 mainly attributable to expected credit losses provision on finance lease receivables and trade and other receivables. Such further impairment recognised under expected credit loss model would adjust the opening retained profits at 1 January 2018.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

New and revised HKFRSs in issue but not yet effective (Continued)

HKFRS 15 Revenue from Contracts with Customers (Continued)

The directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Leases and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents operating lease payments as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of HK$75,608,000 as disclosed in note 28. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of HK$10,860,000 and refundable rental deposits received of HK$1,021,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

New and revised HKFRSs in issue but not yet effective (Continued)

HKFRS 16 Leases (Continued)

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

The directors of the Company anticipate that the application of other new and revised HKFRSs will not have a material effect on the consolidated financial statements in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for available-for-sale investment in equity securities that is measured at fair value at the end of each reporting period, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are within the scope of HKAS 17 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 Inventories or value in use in HKAS 36 Impairment of Assets.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefit by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Interests in an associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interests in an associate (Continued)

The results and assets and liabilities of an associate are incorporated in the consolidated financial statements using the equity method of accounting. The financial statements of an associate used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. Changes in net assets of the associate other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate exceeds the Group's interest in that associate, the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment is tested for impairment in accordance with HKAS 36 Impairment of assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, discounts and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Revenue arising from management services provided to gaming operators in Macau under service arrangements for gaming operations in mass market hall and slot machine hall is recognised when the provision of gaming-related marketing and public relation services are rendered and the Group is entitled to receive its service income according to the relevant operating performance from the gaming operators.

Other service income is recognised when the services are provided.

Royalty income is recognised on an accrual basis in accordance with the substance of the relevant agreement. Royalty arrangements that are based on sales and other measures are recognised by reference to the agreement for the placements of the relevant products.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

The Group's accounting policy for the recognition of revenue from operating leases and finance leases is described in the accounting policy for leasing below.

Property, plant and equipment

Property, plant and equipment including buildings held for supply of goods or services, or for administrative purposes are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets less their residual values over their useful lives, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation of intangible assets with finite useful lives is recognised on a straight line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (Continued)

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

Impairment on tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash- generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a first-in, first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss ("FVTPL") are recognised immediately in profit or loss.

Financial assets

Financial assets are classified into the following specified categories: AFS financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

AFS financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

Equity securities held by the Group that are classified as AFS financial assets are measured at fair value at the end of each reporting period. Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, amount due from a related company and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments past the average credit period of 30 days and observable changes in national or local economic conditions that correlate with default on the receivables.

For financial assets that are carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exceptions of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis in the profit or loss.

Financial liabilities at amortised cost

Financial liabilities (including trade and other payables, amounts due to directors and promissory note) are subsequently measured at amortised cost, using the effective interest method.

Equity instrument

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

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

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

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax is also recognised in other comprehensive income or directly in equity, respectively.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operation are translated into the presentation currency of the Group (i.e. HK$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of the translation reserve and will be reclassified from equity to profit or loss on disposal of the foreign operation.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight line basis over the lease term.

The Group as lessee

Operating lease payments are recognised as an expense on a straight line basis over the lease term.

Retirement benefit costs

Payments to defined contribution retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries and annual leave) after deducting any amount already paid.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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

Impairment assessment of the intangible asset and property, plant and equipment

Determining whether the intangible asset and property, plant and equipment are impaired requires an estimation of the recoverable amount of the Macau Patent CGU (as defined in note 15(a)) to which these assets are allocated. The recoverable amount is based on the estimated value in use which is the aggregate of present value of estimated future cash flows. Where the actual future cash flows are less than expected, a material impairment loss may arise. The Group believes that no provision for impairment has to be recognised for the years ended 31 December 2017 and 31 December 2016. The situation will be closely monitored, and adjustments will be made in future periods, should future market activity indicate that such adjustments are required. As at 31 December 2017, the carrying amounts of intangible asset and property, plant and equipment allocated to the Macau Patent CGU are HK$93,057,000 (2016: HK$105,194,000) and HK$94,091,000 (2016: HK$113,764,000), respectively.

Estimation of write-down amount of trading goods

Inventories are stated at the lower of cost and net realisable value. When the expectation of the net realisable value is less than the cost, write-down of inventories may arise. The management of the Group reviews regularly the suitability of the Group's write-down policy for trading goods and carries out review of the trading goods at the end of each reporting period. The management of the Group identifies slow-moving and obsolete trading goods with reference to an aged analysis and management's assessment of technical specification and determines the write-down amount for trading goods by considering the saleability of trading goods. As at 31 December 2017, the carrying amount of trading goods, after the write-down amount of HK$9,825,000 (2016: nil), was HK$37,496,000 (2016: HK$28,210,000).

Estimated useful lives of property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and identified impairment losses. The Group depreciates the property, plant and equipment over their estimated useful lives using straight line method commencing from the date of property, plant and equipment. The estimated useful lives reflects the management's estimate of the periods that the Group intend to derive future economic benefits from the use of the Group's property, plant and equipment. The estimation of useful lives impacts the level of annual depreciation expense recorded.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Impairment loss on finance lease receivables

When there is an objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows and fair value of non-cash consideration (if any) expected to arise from the settlement of the finance lease receivables. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the expected recoverable amount of the finance lease receivables. The expected recoverable amount is aggregate of 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 (i.e. the effective interest rate computed at initial recognition). When the expectation of the recoverable amounts is less than the carrying amount, further allowance may arise. At 31 December 2017, the carrying amount of finance lease receivables, after the allowance for doubtful debts of HK$6,700,000 (2016: nil), was HK$11,393,000 (2016: HK$18,274,000).

5. REVENUE

An analysis of the Group's revenue is as follows:

	2017 **HK$'000**	2016 HK$'000
Casino management services:		
Provision of casino management services	**973,959**	967,826
Electronic gaming equipment and systems:		
Sale of electronic gaming equipment and systems	**22,792**	185,733
Leasing of electronic gaming equipment and systems	**12,203**	9,788
Royalty income	**2,890**	—
	37,885	195,521
	1,011,844	1,163,347

6. SEGMENT INFORMATION

The executive directors of the Company (the "Executive Directors") have been identified as the chief operating decision makers (the "CODM"). The Executive Directors review the business with the following reportable and operating segments:

Casino management services — Provision of casino management services in Macau

Gaming systems — Development, sale and leasing of electronic gaming equipment and systems

The Group monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment results represent the operating profit or loss earned by each segment without allocation of corporate income and expenses, finance costs and income tax expenses. This is the measure reported to the Executive Directors for the purpose of resource allocation and assessment of segment performance.

Information regarding the above segments is reported below:

Segment revenue and results

For the year ended 31 December 2017

	Casino management services HK$'000	Gaming systems HK$'000	Unallocated HK$'000	Consolidated HK$'000
Segment revenue	973,959	37,885		1,011,844
Segment results	76,481	(80,307)		(3,826)
Unallocated corporate income				386
Unallocated corporate expenses				(37,345)
Finance costs				(5,987)
Loss before taxation				(46,772)
Taxation				(680)
Loss for the year				(47,452)
Other information				
Capital expenditure	15,518	6,859	2,755	25,132
Amortisation of intangible assets	12,137	—	—	12,137
Depreciation of property, plant and equipment	50,836	5,682	637	57,155
Allowance for doubtful debts	—	6,700	—	6,700
Write-down of inventories	—	9,825	—	9,825

6. SEGMENT INFORMATION (Continued)

Segment revenue and results (Continued)

For the year ended 31 December 2016

	Casino management services HK$'000	Gaming systems HK$'000	Unallocated HK$'000	Consolidated HK$'000
Segment revenue	967,826	195,521		1,163,347
Segment results	(24,606)	(287,676)		(312,282)
Unallocated corporate income				289
Unallocated corporate expenses				(28,899)
Finance costs				(10,856)
Loss before taxation				(351,748)
Taxation				(3,394)
Loss for the year				(355,142)
Other information				
Capital expenditure	5,591	6,061	441	12,093
Amortisation of intangible assets	12,137	15,211	—	27,348
Depreciation of property, plant and equipment	71,104	1,790	655	73,549
Allowance for doubtful debts	—	875	—	875
Loss arising from assignment of intangible assets	—	334,765	—	334,765

During the year ended 31 December 2017, the Group reassessed the allocation basis of certain profit or loss items in each segment precisely and accordingly changed the measurement basis of operating profit or loss earned by each segment and reported to the CODM. Comparative figures of the segment information were reclassified to conform with the current year's presentation.

No analysis of the Group's assets and liabilities by operating and reportable segments and geographical information of segment results and segment assets are disclosed as they are not regularly provided to the CODM.

6. SEGMENT INFORMATION (Continued)

Information about major customers

During the year, revenue derived from two (2016: two) customers each of which contributed over 10% of the Group's revenue amounted to HK$682,921,000 and HK$292,110,000, respectively (2016: HK$694,330,000 and HK$275,141,000, respectively). The revenue is related to the casino management services segment.

7. OTHER INCOME, GAINS AND LOSSES

	2017 HK$'000	2016 HK$'000
Bank interest income	**2,915**	2,668
Finance lease interest income	**1,131**	950
Loan interest income	**1,248**	301
	5,294	3,919
Gain (loss) on disposal of property, plant and equipment	**4,762**	(6,687)
Income from repair services	**2,501**	3,180
Rental income	**4,757**	3,325
Sundry income	**4,196**	1,745
	21,510	5,482

8. FINANCE COSTS

	2017 HK$'000	2016 HK$'000
Interest on obligations under finance leases	**–**	1
Imputed interest on promissory note (note 25)	**5,987**	10,855
	5,987	10,856

9. LOSS BEFORE TAXATION

	2017 HK$'000	2016 HK$'000
Loss before taxation has been arrived at after charging:		
Directors' emoluments (note 10)	25,846	25,770
Other staff costs		
— Salaries and other benefits	142,167	140,162
— Retirement benefit scheme contributions	1,849	1,527
Total staff costs	169,862	167,459
Amortisation of intangible assets	12,137	27,348
Auditor's remuneration	2,380	1,110
Allowance for doubtful debts	6,700	875
Cost of inventories recognised as expenses	7,476	66,152
Depreciation of property, plant and equipment	57,155	73,549
Impairment loss of amount due from an associate	5	26
Loss arising from assignment of intangible assets (note 15 (b))	—	334,765
Research and development costs recognised as an expense (note)	47,740	35,974
Write-down of inventories	9,825	—

Note: Research and development expenditure for the year ended 31 December 2017 of HK$47,740,000 (2016: HK$35,974,000) includes staff costs of HK$27,566,000 (2016: HK$20,693,000), depreciation expenses of HK$987,000 (2016: HK$872,000), operating lease expenses of HK$2,187,000 (2016: HK$1,968,000) and other expenses of HK$17,000,000 (2016: HK$12,441,000).

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

The emoluments of the directors during the year are analysed as follows:

	Executive Directors			Independent non-executive directors			
	Mr. Jay Chun	Mr. Shan Shiyong, alias, Sin Sai Yung	Mr. Hu Liming	Mr. Li John Zongyang	Mr. Kai-Shing Tao	Ms. Tang Kiu Sam Alice	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2017							
Fees	**—**	**—**	**—**	**120**	**120**	**120**	**360**
Salaries and other benefits	**12,058**	**12,000**	**120**	**—**	**—**	**—**	**24,178**
Accommodation benefits	**1,275**	**—**	**—**	**—**	**—**	**—**	**1,275**
Retirement benefit scheme contributions	**15**	**18**	**—**	**—**	**—**	**—**	**33**
	13,348	**12,018**	**120**	**120**	**120**	**120**	**25,846**
2016							
Fees	—	—	—	120	120	120	360
Salaries and other benefits	12,000	12,000	120	—	—	—	24,120
Accommodation benefits	1,260	—	—	—	—	—	1,260
Retirement benefit scheme contributions	12	18	—	—	—	—	30
	13,272	12,018	120	120	120	120	25,770

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

No emoluments were recognised or paid by the Group to the directors as compensation for loss of office or as an inducement to join or upon joining the Group for both years. None of the director has waived any emoluments during both years.

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

The five highest paid individuals of the Group include two directors of the Company for both years, whose emoluments are disclosed above and the total emoluments of the remaining three individuals for both years were as follows:

	2017 HK$'000	2016 HK$'000
Salaries and other benefits	**9,227**	7,190
Retirement benefit scheme contributions	**22**	18
	9,249	7,208

	Number of individuals	
	2017	2016
Emoluments of the employees were within the following bands:		
HK$500,001 — HK$1,000,000	**—**	1
HK$1,000,001— HK$1,500,000	**1**	1
HK$2,500,001— HK$3,000,000	**1**	—
HK$4,500,001— HK$5,000,000	**1**	1

No emoluments were recognised or paid by the Group to the five highest paid individuals (including directors and employees) as compensation for loss of office or as an inducement to join or upon joining the Group for both years.

11. TAXATION

	2017 HK$'000	2016 HK$'000
Current tax charge		
— Macau Complementary Tax	—	2,000
— Lump Sum Dividend Tax	378	331
— PRC Enterprise Income Tax	197	26
— Tax in other jurisdictions	105	6
	680	2,363
Underprovision in prior years		
— Macau Complementary Tax	—	1,031
	680	3,394

The provision for taxation is calculated on the assessable profit for operating subsidiaries established in Macau Special Administrative Region ("Macau") of the People's Republic of China ("PRC") at the Macau Complementary Tax ("Macau CT") rate of 12% prevailing in Macau, for operating subsidiaries established in the PRC at the PRC Enterprise Income Tax rate of 25% prevailing in the PRC. Taxation for overseas subsidiaries, except for those incorporated in Macau and the PRC, are charged at the appropriate current rate of taxation ruling in the relevant countries.

No provision for Hong Kong Profits Tax is made in the consolidated financial statements as the Group did not generate any assessable profit in Hong Kong for both years.

Pursuant to the confirmation letters issued by the Financial Services Bureau of the Macau government dated 7 January 2015 and 15 August 2017, the revenue generated from the service agreement signed between LT (Macau) Limited ("LT Macau"), a wholly-owned subsidiary of the Company incorporated in Macau, and Sociedade de Jogos de Macau, S.A. ("SJM") is not subject to Macau CT for the years ended 31 December 2012 to 2016, and the years ended/ending 31 December 2017 to 2019 and the three months ending 31 March 2020, respectively, since it is derived from SJM's gaming revenue, for which gaming revenue is exempted from Macau CT pursuant to the terms of no. 2 of article 28 of the Law 16/2001 and the exemption granted by Despatch no. 378/2011 of 23 November 2011.

11. TAXATION (Continued)

Pursuant to the approval letter issued by the Financial Services Bureau of the Macau government dated 18 February 2015, LT Macau was obligated to pay an annual lump sum dividend withholding tax of Macau Pataca ("MOP") 341,000 (equivalent to HK$331,000) for each of the years ended 31 December 2012 to 2016 as payment in lieu of Macau CT otherwise due by the shareholders of LT Macau on dividend distributions from gaming profits generated in relation to the operation of the casinos at Casino Kam Pek Paradise, Casino Lisboa and Casino Macau Jockey Club. These annual lump sum tax payments were required regardless of whether dividends were actually distributed or whether LT Macau had distributable profits in the relevant years. Pursuant to the approval letter issued by the Financial Services Bureau of the Macau government dated 15 August 2017, LT Macau was obligated to pay an annual lump sum dividend withholding tax of MOP389,000 (equivalent to HK$378,000) for each of the years ended/ ending 31 December 2017 to 2019 and MOP97,000 (equivalent to HK$94,000) for the three months ending 31 March 2020. For the year ended 31 December 2017, provision for taxation of HK$378,000 (2016: HK$331,000) has been recognised which was charged to the consolidated statement of profit or loss.

The taxation for the year can be reconciled to the loss before taxation per consolidated statement of profit or loss as follows:

	2017 **HK$'000**	2016 HK$'000
Loss before taxation	**(46,772)**	(351,748)
Tax credit at the Macau Complementary Tax rate of 12%	**(5,613)**	(42,210)
Tax effect of expenses not deductible for tax purposes	**26,345**	69,788
Tax effect of income not taxable for tax purposes	**(21,688)**	(26,229)
Tax effect of tax losses not recognised	**1,531**	1,108
Utilisation of tax losses previously not recognised	**(447)**	(435)
Underprovision in prior years	**—**	1,031
Lump sum dividend tax	**378**	331
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	**174**	10
Taxation for the year	**680**	3,394

At 31 December 2017, the Group had unused tax losses of approximately HK$177,931,000 (2016: HK$168,899,000) available to offset against future taxable profits which may be carried forwards indefinitely except for HK$112,425,000 (2016: HK$109,911,000) which derived from Macau and will expire in three years from the year of assessment. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future taxable profit streams.

12. DIVIDEND

No dividend was paid, declared or proposed for the years ended 31 December 2017 and 31 December 2016.

13. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable to owners of the Company is based on the following data:

	2017	2016
	HK$'000	HK$'000
Loss for the year attributable to owners of the Company for the purpose of basic and diluted loss per share	**(30,698)**	(380,380)

	2017	2016
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**1,052,185**	1,052,244

For the years ended 31 December 2017 and 31 December 2016, the diluted loss per share was the same as the basic loss per share as the computation of the diluted loss per share does not assume the exercise of the Company's warrants because the assumed exercise would result in a decrease in loss per share.

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
COST					
At 1 January 2016	213,831	255,485	41,172	9,168	519,656
Currency realignment	(40)	—	(134)	—	(174)
Additions	4,026	6,620	1,330	117	12,093
Disposals	(16,484)	(3,279)	(818)	—	(20,581)
At 31 December 2016	201,333	258,826	41,550	9,285	510,994
Currency realignment	52	—	197	—	249
Additions	3,399	19,405	1,151	1,177	25,132
Transfer from inventories	—	5,308	—	—	5,308
Disposals	(749)	(5,230)	(151)	—	(6,130)
At 31 December 2017	204,035	278,309	42,747	10,462	535,553
ACCUMULATED DEPRECIATION AND IMPAIRMENT					
At 1 January 2016	109,997	148,727	23,169	1,996	283,889
Currency realignment	(26)	—	(45)	—	(71)
Provided for the year	33,717	34,307	4,880	645	73,549
Eliminated on disposal	(7,004)	(2,440)	(309)	—	(9,753)
At 31 December 2016	136,684	180,594	27,695	2,641	347,614
Currency realignment	39	—	85	—	124
Provided for the year	20,389	30,894	4,670	1,202	57,155
Eliminated on disposal	(749)	(3,412)	(99)	—	(4,260)
At 31 December 2017	156,363	208,076	32,351	3,843	400,633
CARRYING AMOUNTS					
At 31 December 2017	47,672	70,233	10,396	6,619	134,920
At 31 December 2016	64,649	78,232	13,855	6,644	163,380

The above items of property, plant and equipment are depreciated on a straight line basis at the following rates per annum:

Leasehold improvements	20% or over the remaining terms of the leases if shorter
Plant and machinery	10%–20%
Furniture, fixtures and equipment	15%–20%
Motor vehicles	10%–20%

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

At the end of the reporting period, the Group assessed certain property, plant and equipment with net carrying amount of HK$94,091,000 (2016: HK$113,764,000), allocated to the Macau Patent CGU, for impairment having regard to the market conditions in Macau. The details of the determination of the recoverable amounts of the assets allocated to the Macau Patent CGU are disclosed in note 15(a). No impairment loss was recognised on property, plant and equipment for the years ended 31 December 2017 and 31 December 2016.

15. INTANGIBLE ASSETS

	Macau Patent-Betting terminal system HK$'000 (note a)	US Patent-Betting terminal system HK$'000 (note b)	Total HK$'000
COST			
At 1 January 2016, 31 December 2016 and 31 December 2017	182,066	657,535	839,601
ACCUMULATED AMORTISATION AND IMPAIRMENT			
At 1 January 2016	64,735	206,549	271,284
Provided for the year	12,137	15,211	27,348
Written down	—	435,775	435,775
At 31 December 2016	76,872	657,535	734,407
Provided for the year	12,137	—	12,137
At 31 December 2017	89,009	657,535	746,544
CARRYING AMOUNTS			
At 31 December 2017	93,057	—	93,057
At 31 December 2016	105,194	—	105,194

15. INTANGIBLE ASSETS (Continued)

Notes:

(a) The patent pertains to a computerised gaming system (the "Gaming System") for operating multi-gambling games. The Gaming System was installed on the electronic gaming equipment which operates in Casino Kam Pek Paradise, Casino Waldo and other casinos in Macau. The Group generates revenue from the provision of casino management services with the Gaming System installed on the electronic gaming equipment, and the sale and leasing of electronic gaming equipment installed with the Gaming System in Macau. The patent is amortised over its useful life of 15 years using the straight line method.

At the end of the reporting period, the Group assessed for impairment by considering the recoverable amount of the patent as well as certain property, plant and equipment, allocated to the single cash-generating unit comprising the patent for the Gaming System for operating muti-gambling games in Macau (the "Macau Patent CGU"), having regard to the market conditions in Macau. The recoverable amount of the Macau Patent CGU is the value in use of the Macau Patent CGU based on the present value of estimated future cash flows to be generated over the remaining license period and with reference to the valuation report prepared by an independent professional valuer, International Valuation Limited, which was approved by the directors of the Company. The valuation of intangible asset and property, plant and equipment in relation to patent is assessed by comparing the recoverable amount of the Macau Patent CGU to their carrying amounts at the end of each reporting period. No impairment loss was recognised on the intangible asset allocated to the Macau Patent CGU for the years ended 31 December 2017 and 31 December 2016.

Key assumptions adopted by management in the value in use calculation for the recoverable amount of the Macau Patent CGU are as follows:

- Growth rates ranging from 2.50% to 2.70% (2016: ranging from 2.50% to 5.54%) per annum are applied in the profit or loss projection for the remaining license period.

- Pre-tax discount rate of 15.10% (2016: 19.10%) is adopted based on the analysis performed by an independent professional valuer which reflects current market assessments of the time value of money and the risks specific to the Macau Patent CGU.

(b) The amount represented various patents and patent applications in the United States relating to the Gaming System installed on the gaming equipment which are sold and leased in the United States. The patents were amortised over its useful life of 12 years using the straight line method.

On 25 April 2016, the subsidiaries of the Company, namely Fresh Idea Global Limited, Solution Champion Limited and LT Game Limited, entered into a patent and technology assignment and license agreement for granting exclusive rights to make, have made, use, sell, offer for sale, import, license/sub-license, and otherwise exploit any live electronic table game or random number generator electronic table game, mobile or online gaming application or associated system (the "Licensed Products") worldwide (other than Macau) to IGT, an independent third party. The agreement involves the assignment and license of the certain patents and associated technology in relation to the Licensed Products (the "Exclusive Rights") to IGT. A one-time, non-refundable and non-creditable upfront payment of United States dollars ("US$") 12,950,000 (equivalent to approximately HK$101,010,000, the "Upfront Payment") was paid by IGT for the grant of the Exclusive Rights. After the assignment of the patent, the Group is entitled to receive earn-out payments according to the agreement for the placements (by way of sale or lease) of the Licensed Products based upon a flat fee per sold unit or a flat fee per leased unit per day for a period of 15 years.

During the year ended 31 December 2016, the directors of the Company reassessed the recoverable amount of the patents and determined that the amount was fully written down as at 31 December 2016 due to the uncertainty of any future income. As a result, a loss arising from assignment of the intangible assets of HK$334,765,000 was recognised in profit or loss, after taking into account the Upfront Payment received, in that year. No reversal of the write-down has been recognised for the year ended 31 December 2017.

16. INTERESTS IN AN ASSOCIATE

	2017 HK$'000	2016 HK$'000
Cost of investment in an associate, unlisted	**21,672**	21,672
Share of post-acquisition losses	**(21,672)**	(21,672)
	—	—

Particulars of the Group's associate as at 31 December 2017 and 31 December 2016 are as follows:

Name of associate	Form of business structure	Place of incorporation	Principal place of operation	Issued and fully paid share capital	Proportion of ownership interest	Principal activities
LT3000 Online Limited	Incorporated	BVI	Hong Kong	3,023,314 ordinary shares of US$0.1 each	47.47%	Development and trading of computer hardware and software and provision of business consultancy service

The associate is accounted for using the equity method in the consolidated financial statements. The unrecognised share of loss of the associate for the year is HK$10,000 (2016: HK$11,000) and the cumulated unrecognised share of loss of the associate is HK$2,110,000 (2016: HK$2,100,000).

17. AVAILABLE-FOR-SALE INVESTMENT IN EQUITY SECURITIES

The amount comprises equity shares listed on the Tokyo Stock Exchange that are carried at fair value. The management estimated the fair value of the equity securities with reference to their quoted bid price in an active market at the end of the reporting period.

18. FINANCE LEASE RECEIVABLES

Certain machinery of the Group are leased out under finance leases. All interest rates inherent in the leases are fixed at the contract date over the lease terms.

	2017 HK$'000	2016 HK$'000
Analysed as:		
Current	**11,393**	—
Non-current	**—**	18,274
	11,393	18,274

	Minimum lease payments		**Present value of minimum lease payments**	
	2017 HK$'000	2016 HK$'000	**2017 HK$'000**	2016 HK$'000
Finance lease receivables (net of allowance) comprise:				
Within one year	**11,535**	—	**11,393**	—
In more than one year but not more than two years	**—**	19,546	**—**	18,274
	11,535	19,546	**11,393**	18,274
Less: unearned finance lease income	**(142)**	(1,272)	**N/A**	N/A
Present value of minimum lease payment receivables	**11,393**	18,274	**11,393**	18,274

Effective interest rates of the above finance leases range from 5.71% to 6.31% (2016: 5.71% to 6.31%) per annum.

All the Group's finance lease receivables are denominated in US$.

Finance lease receivables are secured by the plant and machinery leased. The Group is not permitted to sell or repledge the collateral in the absence of default by the lessee.

18. FINANCE LEASE RECEIVABLES (Continued)

At 31 December 2016, the directors of the Company considered that the settlement would be received at the expiration of the contracts and would not be realised within 12 months after the end of that reporting period. Therefore, all finance lease receivables were classified as non-current assets in the prior year.

During the year ended 31 December 2017, an impairment loss of HK$6,700,000 was recognised as the directors of the Company considered the receivable is uncollectable.

Contingent rents recognised in income during the year amounted to HK$1,312,000 (2016: HK$1,194,000).

19. OTHER ASSETS

	2017 **HK$'000**	2016 HK$'000
Deposits paid for acquisitions of property, plant and equipment	**6,862**	4,731
Rental deposits	**8,788**	8,270
	15,650	13,001

20. INVENTORIES

	2017 **HK$'000**	2016 HK$'000
Consumables	**25,179**	42,367
Trading goods	**37,496**	28,210
	62,675	70,577

21. TRADE AND OTHER RECEIVABLES

	2017 HK$'000	2016 HK$'000
Trade receivables (note i)	**65,545**	94,078
Less: allowance for doubtful debts	**(287)**	(287)
	65,258	93,791
Chips on hand (note ii)	**33,607**	63,009
Deposits paid	**42,198**	39,977
Loan receivable (note iii)	**15,600**	15,600
Other receivables and prepayments (note iii)	**12,983**	16,728
	169,646	229,105

Notes:

(i) At the end of the reporting period, trade receivables comprise amounts receivable from the gaming operators for the Group's provision of casino management services and customers for the Group's sale and leasing of electronic gaming equipment and systems. No interest is charged on the trade receivables.

Before accepting any new customer, the Group gathers and assesses the credit information of the potential customer in considering the customer's quality and determining the credit limits for that customer. Recoverability and credit limit of the existing customers are reviewed by the Group regularly. At the end of the reporting period, included in the Group's trade receivable balances are receivables with aggregate carrying amount of HK$62,070,000 (2016: HK$69,468,000), which are neither past due nor impaired. The directors of the Company considered that trade receivables which are neither past due nor impaired are of good credit quality given the continuous subsequent settlements from gaming operators and other customers.

The Group normally allows a credit period with an average of 30 days to the gaming operators and customers.

Following is the aged analysis of trade receivables (net of allowance) based on the date of monthly statements of service income or the invoice date at the end of the reporting period:

	2017 HK$'000	2016 HK$'000
Age:		
0–30 days	**62,076**	66,902
31–60 days	**1,043**	248
61–90 days	**390**	161
91–180 days	**830**	239
181–365 days	**324**	8,630
Over 365 days	**595**	17,611
	65,258	93,791

21. TRADE AND OTHER RECEIVABLES (Continued)

Notes: (Continued)

(i) (Continued)

Ageing of trade receivables which are past due but not impaired:

	2017 HK$'000	2016 HK$'000
Overdue by:		
1–30 days	**303**	33
31–60 days	**829**	12
61–90 days	**374**	51
91–180 days	**763**	133
181–365 days	**324**	6,552
Over 365 days	**595**	17,542
	3,188	24,323

Included in balance of the Group's trade receivables (net of allowance) are receivables with an aggregate carrying amount of HK$3,188,000 (2016: HK$24,323,000), which is past due at the end of the reporting period for which the Group has not provided for impairment loss. The trade receivables which are past due but not impaired were either settled subsequent to the end of the reporting period or amounts due from receivables which do not have historical default of payments. The Group does not hold any collateral over these balances.

Movement in the allowance for doubtful debts

	2017 HK$'000	2016 HK$'000
At 1 January	**287**	287
Allowance for doubtful debts	**–**	875
Written-off	**–**	(875)
At 31 December	**287**	287

Allowance for doubtful debts with an aggregate balance of HK$287,000 (2016: HK$287,000) represents individually impaired trade receivables as the directors of the Company considered the outstanding balances from the receivables were uncollectible.

(ii) Chips on hand represent chips issued by gaming operators in Macau which can be exchanged into their cash amounts.

(iii) Pursuant to a loan agreement (the "Loan Agreement") dated 5 October 2016, LT View Limited, a wholly-owned subsidiary of the Company incorporated in the BVI, agreed to grant a loan to LT Game Japan Limited ("LT Japan"), a company which is incorporated in Japan and is principally engaged in the development and manufacture of gaming products, in the principal amount of US$2,000,000 (equivalent to HK$15,600,000) with interest charged at the rate of 8% per annum. The total outstanding principal amount and accrued interests was to be repayable on the maturity date of 5 October 2017. The loan is unsecured and guaranteed by Mr. Pak Suil, who holds an 18% shareholding in, and is a director of, LT Game Limited, an indirect subsidiary of the Company incorporated in the BVI. Pursuant to an amendment to the Loan Agreement dated 4 October 2017, the maturity date was extended to 5 April 2018.

21. TRADE AND OTHER RECEIVABLES (Continued)

Notes: (Continued)

(iii) (Continued)

On 5 October 2016, the Group held a 5.05% equity interest in LT Japan and 35.16% equity interest was held by Mr. Pak Suil. Following the completion of a reorganisation of LT Japan on 30 December 2016, LT Japan became a wholly-owned subsidiary of another corporate with the Group and Mr. Pak Suil holding an equity interest of 0.83% and 5.76% of that corporate, respectively.

At 31 December 2017, HK$1,549,000 (2016: HK$301,000) was included in other receivables and prepayments in respect of the interest receivable pursuant to the Loan Agreement.

22. AMOUNT DUE FROM A RELATED COMPANY/AMOUNTS DUE TO DIRECTORS

	As at 1 January	As at 31 December		Maximum amount outstanding during the year ended	
	2016	**2017**	2016	**2017**	2016
	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Empire Technological Group Limited (note)	460	**583**	7,114	**7,114**	7,114

Note: Empire Technological Group Limited is a company wholly-owned by the brother-in-law of Mr. Jay Chun, the chairman and executive director of the Company.

The amount due from a related company is unsecured, interest-free and repayable on demand.

The amounts due to directors represent amount of HK$1,769,000 (2016: HK$2,505,000) payable to Mr. Jay Chun, the chairman and executive director of the Company, amount of HK$944,000 (2016: HK$944,000) payable to Mr. Shan Shiyong, an executive director of the Company, and amounts in aggregate of HK$260,000 (2016: HK$260,000) payable to other directors of the Company. The amounts are unsecured, interest-free and repayable on demand.

23. BANK BALANCES AND CASH

Bank balances carry interest at market rates which range from 0.01% to 2.00% (2016: 0.01% to 1.75%) per annum.

24. TRADE AND OTHER PAYABLES

	2017 HK$'000	2016 HK$'000
Trade payables	**38,183**	100,648
Accrued staff costs	**28,610**	27,501
Accrued promotional expenses	**29,403**	27,895
Deposits received	**29,793**	16,627
Other sundry payables	**14,892**	9,650
Other accrued expenses	**8,001**	6,925
	148,882	189,246

Following is the aged analysis of trade payables at the end of the reporting period based on invoice date:

	2017 HK$'000	2016 HK$'000
Age:		
0–30 days	**10,711**	39,601
31–60 days	**4,893**	9,138
61–90 days	**3,104**	4,441
91–365 days	**14,334**	8,437
Over 365 days	**5,141**	39,031
	38,183	100,648

The average credit period of trade payables is 30 days. No interest is charged on the trade payables.

25. PROMISSORY NOTE

	2017 HK$'000	2016 HK$'000
At 1 January	**88,013**	77,158
Imputed interest charged (note 8)	**5,987**	10,855
Repayment during the year	**(94,000)**	—
At 31 December	**—**	88,013

25. PROMISSORY NOTE (Continued)

On 19 June 2013, the Group issued a promissory note with a principal amount of HK$200,000,000 to Mr. Jay Chun, the chairman and an executive director of the Company, as part of the consideration for the Group's acquisition of patents and patent applications in the U.S. in relation to the Gaming System (note 15(b)). The promissory note was unsecured, non-interest bearing and had a maturity period of 4 years from the date of issue but could be repaid in whole or in part before maturity at the discretion of the Company. Early redemption of the promissory note would be subject to a discount of the outstanding principal amount as follows: 4% within the first year, 3% within the second year, 2% within the third year and 1% within the fourth year. At 31 December 2017, the promissory note was fully repaid at maturity. At 31 December 2016, the outstanding principal amount of the promissory note amounted to HK$94,000,000.

The promissory note was measured at amortised cost using the effective interest method with the effective interest rate at 13.36% per annum.

26. SHARE CAPITAL

	Number of shares '000	Share capital HK$'000
Ordinary shares of HK$0.001 each		
Authorised:		
At 1 January 2016, 31 December 2016 and 31 December 2017	1,000,000,000	1,000,000
Issued and fully paid:		
At 1 January 2016	1,053,621	1,053
Cancellation of shares repurchased	(1,436)	(1)
At 31 December 2016 and 31 December 2017	1,052,185	1,052

27. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2017, property, plant and equipment of HK$2,335,000 (2016: HK$1,000,000) were settled by utilising deposits made on acquisition of property, plant and equipment during the year.

28. OPERATING LEASES

The Group as lessee

	2017 HK$'000	2016 HK$'000
Minimum operating lease rentals in respect of rented premises recognised during the year	**60,013**	64,382

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises, which fall due as follows:

	2017 HK$'000	2016 HK$'000
Within one year	**41,666**	42,565
In the second to fifth year inclusive	**33,942**	60,674
	75,608	103,239

Operating lease payments represent rentals payable by the Group for a director's quarters, certain of its warehouse facilities and office premises. Leases of rented premises are negotiated for terms ranging from 1 to 5 (2016: 1 to 5) years.

29. CAPITAL COMMITMENTS

	2017 HK$'000	2016 HK$'000
Capital expenditure in respect of property, plant and equipment contracted for but not provided in the consolidated financial statements	**5,773**	2,927

30. RETIREMENT BENEFIT SCHEMES

The Group contributes to a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group in funds under the control of the independent trustees. The Group and each employee make mandatory contributions of 5% of relevant payroll costs with monthly cap of HK$1,500 to the scheme.

The employees of the Group in Macau are members of state-managed retirement benefit scheme operated by the Macau government. The Group is required to contribute a certain percentage of its payroll to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the required contributions under the scheme.

As stipulated by the rules and regulations in the PRC, the Group contributes to a retirement funds scheme managed by a social security bureau in the PRC. The Group contributes a certain percentage of the basic salaries of its employees to the retirement funds scheme to fund the benefits.

31. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which had included the promissory note as disclosed in note 25, and equity of the Company, comprising issued share capital as disclosed in note 26 and reserves as disclosed in consolidated statement of changes in equity. The management reviews the capital structure by considering the cost of capital and the risks associated with each class of capital. In view of this, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as new borrowings. The Group's approach to capital management remains unchanged throughout the year.

32. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2017 **HK$'000**	2016 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**413,154**	532,260
AFS investment in equity securities	**2,706**	1,115
	415,860	533,375
Financial liabilities		
At amortised cost	**57,069**	209,301

32. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies

The Group's major financial instruments are listed in above table. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Foreign currency risk

Foreign currency risk refers to the risk that movement in foreign currency exchange rate will affect the Group's financial results and its cash flows. Several subsidiaries of the Company have foreign currency sales and purchases, but the management considers the amount of foreign currency sales and purchases to be insignificant. The management considers that the Group does not expose to significant foreign currency risk in relation to transactions denominated in MOP and US$. Exposures on balances which are denominated in MOP and US$ in group entities with HK$ as functional currency are not considered significant as MOP and US$ are pegged to HK$.

The Group has certain bank balances which are denominated in New Taiwan Dollars ("TWD") and Renminbi ("RMB") (being currency other than the functional currency of the relevant group entities) amounting to HK$981,000 (2016: HK$702,000) and HK$1,632,000 (2016: HK$73,000), respectively. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The following details the Group's sensitivity to a reasonably possible change of 5.0% (2016: 5.0%) in exchange rate of TWD and RMB against HK$, while all other variables are held constant. 5.0% (2016: 5.0%) is the sensitivity rate used when reporting foreign currency risk internally to the key management personnel and represents the management's assessment of the reasonably possible change in foreign currency rate. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5.0% (2016: 5.0%) change in foreign currency rate. For a 5.0% (2016: 5.0%) strengthening in TWD and RMB against HK$, the Group's loss for the year would be decreased by HK$43,000 (2016: HK$31,000) and HK$72,000 (2016: HK$3,000), respectively. If TWD or RMB had been weakened against HK$ in an opposite magnitude and all other variables were held constant, the potential effect on the results would be equal and opposite.

In the opinion of the directors of the Company, the sensitivity analysis is unrepresentative of inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

Price risk management

The Group is exposed to equity price risk on the investment in equity securities operating in trading business and quoted on the Tokyo Stock Exchange. The Group currently does not have a policy to hedge such risk. For AFS investment in equity securities, the management monitors market price exposure and will consider hedging significant market price exposure should the need arise.

32. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk (Continued)

Price risk management (Continued)

The sensitivity analysis below have been determined based on the exposure to equity price risk on the listed equity securities in AFS investment in equity securities at the end of the reporting period. If the market bid price on such listed equity securities had been 10% (2016: 10%) higher and all other variables were held constant, the potential effect on investment revaluation reserve is as follows:

	2017 **HK$'000**	2016 HK$'000
Increase in investment revaluation reserve		
— Listed equity securities in AFS investment in equity securities	**271**	112

If the market bid price on such listed equity securities had been lower in an opposite magnitude and all other variables were held constant, the potential effect on the results would be equal and opposite.

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate finance lease receivables, loan receivable and bank balances. The Group is also exposed to cash flow interest rate risk in relation to its variable-rate bank balances. The Group currently does not have policy on cash flow hedges of interest rate risk. However, the management monitors the interest rate exposure and will consider hedging significant interest rate risk should the need arise.

The Group's sensitivity to cash flow interest rate risk has been determined based on the exposure to interest rates for those variable-rate bank balances at the end of the reporting period and management's assessment of the reasonably possible change in the interest rate assuming that it took place at the beginning of each year and was held constant throughout the respective year.

If interest rates for the variable-rate bank balances had been 50 basis points (2016: 50 basis points) higher and all other variables were held constant, the potential effect on loss for the year is as follows:

	2017 **HK$'000**	2016 HK$'000
Decrease in loss for the year		
— Variable-rate bank balances	**494**	864

If interest rates had been lower in an opposite magnitude and all other variables were held constant, the potential effect on the results would be equal and opposite.

32. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2017 and 2016 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. In order to manage the credit risk, the management has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period based on the management's knowledge of customers and their creditability and repayment record to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies and the PRC large state-controlled banks.

The Group has concentration of credit risk as 76% (2016: 42%) and 94% (2016: 97%) of the total trade receivables which were due from the Group's largest customer and the five largest customers, respectively. The directors of the Company consider that there is no significant credit risk on the trade receivables from the five largest customers given their strong financial background and good creditability. The remaining trade receivables balances are spread over a number of customers.

Liquidity risk

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

As at 31 December 2017, based on the existing levels of bank balances, the Group will be able to meet its future cash flow requirements. Accordingly, the management considers that the Group's liquidity risk is minimal.

32. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

The following table details the Group's remaining contractual maturity for its financial liabilities that will result in cash outflow. 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. The table includes principal cash flows.

Liquidity and interest risk tables

	Weighted average effective interest rate	Less than 1 month or repayable on demand	1–3 months	3 months to 1 year	1–5 years	Over 5 years	Total undiscounted cash flows	Total carrying amount
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2017								
Trade and other payables	N/A	**27,472**	**26,624**	**–**	**–**	**–**	**54,096**	**54,096**
Amounts due to directors	N/A	**2,973**	**–**	**–**	**–**	**–**	**2,973**	**2,973**
		30,445	**26,624**	**–**	**–**	**–**	**57,069**	**57,069**
2016								
Trade and other payables	N/A	61,047	56,532	–	–	–	117,579	117,579
Amounts due to directors	N/A	3,709	–	–	–	–	3,709	3,709
Promissory note	13.36%	–	–	94,000	–	–	94,000	88,013
		64,756	56,532	94,000	–	–	215,288	209,301

(c) Fair value

Other than certain AFS financial assets, the fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

AFS financial assets in respect of listed equity securities are determined by reference to the quoted bid prices in an active market.

The directors of the Company consider that the carrying amounts of all financial assets and financial liabilities recorded at amortised cost at the end of each reporting period approximate their corresponding fair values.

32. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value (Continued)

The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation techniques and inputs used).

Financial assets	Fair value as at 31 December 2017 HK$'000	2016 HK$'000	Fair value hierarchy	Valuation techniques and key input
AFS financial assets — Listed equity securities	**2,706**	1,115	Level 1	Quoted bid prices in an active market

There were no transfers amongst Level 1, 2 and 3 during both years.

33. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Amounts due to Directors HK$'000 (note 22)	Promissory note HK$'000 (note 25)	Total HK$'000
At 1 January 2017	3,709	88,013	91,722
Repayments to directors	(736)	—	(736)
Repayment of promissory note	—	(94,000)	(94,000)
Imputed interest expense	—	5,987	5,987
At 31 December 2017	2,973	—	2,973

34. RELATED PARTY TRANSACTIONS

Except for disclosure elsewhere in the consolidated financial statements, the Group had the following significant transactions during the year with related parties:

	2017 **HK$'000**	2016 HK$'000
Sale of electronic gaming equipment and systems (note i)	**2,282**	20,140
Loan interest income (note ii)	**—**	301
Consultancy fee (note iii)	**420**	778
Staff costs (note iv)	**4,962**	4,962

Notes:

(i) The related party is a company wholly-owned by the brother-in-law of Mr. Jay Chun, the chairman and an executive director of the Company. These transactions constitute continuing connected transactions for the purpose of Chapter 14A of the Listing Rules. Details of certain of these continuing connected transactions, which are subject to the reporting requirements set out in Chapter 14A of the Listing Rules, have been disclosed under the section "Connected Transactions" in the directors' report of this annual report.

(ii) The related company was LT Japan which ceased to be related company following the completion of its reorganisation on 30 December 2016. Further details of the loan are set out in note 21(iii).

(iii) The related party is the brother-in-law of Mr. Jay Chun, the chairman and an executive director of the Company.

(iv) The related party is the spouse of Mr. Jay Chun, the chairman and an executive director of the Company. The transactions were charged at pre-determined amounts agreed between the parties involved.

Key management personnel compensation represents the amounts paid to the directors of the Company, details of which are set out in note 10.

35. FINANCIAL INFORMATION OF THE COMPANY

The financial information of the Company as at 31 December 2017 and 31 December 2016 is as follows:

	2017	2016
	HK$'000	HK$'000
Non-current assets		
Interests in subsidiaries	**580,348**	852,319
Current assets		
Prepayment and deposits	**323**	160
Bank balances and cash	**154**	88,488
	477	88,648
Current liabilities		
Trade and other payables	**2,014**	705
Amounts due to directors	**377**	377
Promissory note	**—**	88,013
	2,391	89,095
Net current liabilities	**(1,914)**	(447)
Total assets less current liabilities	**578,434**	851,872
Capital and reserves		
Share capital	**1,052**	1,052
Reserves	**577,382**	850,820
	578,434	851,872

35. FINANCIAL INFORMATION OF THE COMPANY (Continued)

Movement in reserves

	Share premium HK$'000	Contributed surplus HK$'000 (note)	Warrant reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2016	928,837	141,191	—	(203,664)	866,364
Loss and total comprehensive expense for the year	—	—	—	(15,404)	(15,404)
Cancellation of shares repurchased	(1,640)	—	—	—	(1,640)
Issue of warrants	—	—	1,500	—	1,500
At 31 December 2016	**927,197**	**141,191**	**1,500**	**(219,068)**	**850,820**
Loss and total comprehensive expense for the year	**—**	**—**	**—**	**(273,438)**	**(273,438)**
Reduction of share premium	**(927,197)**	**927,197**	**—**	**—**	**—**
Lapse of share warrants	**—**	**—**	**(1,500)**	**1,500**	**—**
At 31 December 2017	**—**	**1,068,388**	**—**	**(491,006)**	**577,382**

Note: The contributed surplus represents the aggregate of: (i) the difference between the nominal amount of the share capital issued by the Company and the aggregate of the nominal amount of the issued share capital and the share premium of LifeTec (Holdings) Limited, the subsidiary which was acquired by the Company pursuant to the group reorganisation in 1996; (ii) the effects of the capital reduction, share premium cancellation and elimination to accumulated losses took place in 1999 and 2013; and (iii) the effect of the reduction of share premium took place in 2017.

36. PARTICULARS OF SUBSIDIARIES

(a) General information of subsidiaries

Particulars of the principal subsidiaries of the Company as at 31 December 2017 and 31 December 2016 are as follows:

Name of subsidiary	Place of incorporation/ operation	Nominal value of issued ordinary share/registered capital	Class of share	The Group's attributable equity interest 2017 %	2016 %	Principal activities
Fresh Idea Global Limited	BVI/Hong Kong	US$1	Ordinary	**100**	100	Investment holding
LifeTec (Holdings) Limited	BVI/Hong Kong	HK$141,176	Ordinary	**100**	100	Investment holding
LifeTec Enterprise Limited	Hong Kong/Hong Kong	HK$100	Ordinary	**100**	100	Provision of management and consulting services
LT (Macau) Limited	Macau/Macau	MOP1,000,000	Ordinary	**100**	100	Provision of casino management services and operation of electronic gaming equipment and systems
LT Capital Limited	BVI/Hong Kong	US$1	Ordinary	**100**	100	Investment holding
LT Game (Canada) Limited	Canada/United States	CAD100	Ordinary	**100**	100	Market development
LT Game Australia PTY Limited	Australia/Australia	AUD100	Registered capital	**100**	100	Market development
LT Game Limited	BVI/Macau	US$5,000	Ordinary	**82**	82	Development, sale and leasing of electronic gaming equipment and systems
LT Harvest Limited	Macau/Macau	MOP25,000	Ordinary	**100**	100	Provision of management services
LT View Limited	BVI/Hong Kong	US$1	Ordinary	**100**	100	Provision of management services
Natural Noble Limited	BVI/Macau	US$1	Ordinary	**100**	100	Investment holding

36. PARTICULARS OF SUBSIDIARIES (Continued)

(a) General information of subsidiaries (Continued)

Name of subsidiary	Place of incorporation/ operation	Nominal value of issued ordinary share/registered capital	Class of share	The Group's attributable equity interest		Principal activities
				2017 %	2016 %	
New Wahdo Customer Service Limited	Macau/Macau	MOP25,000	Ordinary	**100**	100	Provision of management services
Rich Yield Limited	Macau/Macau	MOP25,000	Ordinary	**100**	100	Investment holding
Shenzhen Caijing Software Technology Co., Ltd. (note a)	PRC/PRC	RMB500,000	Registered capital	**100**	100	Software development
Solution Champion Limited	BVI/Hong Kong	US$1	Ordinary	**100**	100	Investment holding
Streetsteel Limited	Macau/Macau	MOP25,000	Ordinary	**100**	100	Investment holding
Tech (Macau) Limited	Macau/Macau	MOP3,000,000	Ordinary	**82**	82	Sale and leasing of electronic gaming equipment and systems
Zhuhai Caijing Software Technology Co., Ltd. (note a)	PRC/PRC	RMB6,800,000 (2016: RMB500,000)	Registered capital	**100**	100	Software development

Notes:

(a) The subsidiaries established in the PRC are wholly-owned foreign enterprises.

(b) Other than LifeTec (Holdings) Limited, which is held directly by the Company, all the other subsidiaries are held indirectly by the Company.

The above table lists the subsidiaries of the Company which, in the opinion of the directors of the Company, principally affect the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

36. PARTICULARS OF SUBSIDIARIES (Continued)

(b) Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of non-wholly owned subsidiaries of the Company that have material non-controlling interests:

Name of subsidiary	Place of incorporation/ principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Total comprehensive (expense) income allocated to non-controlling interests		Accumulated non-controlling interests	
		2017	2016	**2017** **HK$'000**	2016 HK$'000	**2017** **HK$'000**	2016 HK$'000
LT Game Limited and its subsidiaries	BVI/Macau	**18%**	18%	**(16,460)**	25,245	**51,135**	67,595
Individually immaterial subsidiaries with non-controlling interests						**(31)**	(25)
						51,104	67,570

36. PARTICULARS OF SUBSIDIARIES (Continued)

(b) Details of non-wholly owned subsidiaries that have material non-controlling interests (Continued)

LT Game Limited and its subsidiaries

	2017 HK$'000	2016 HK$'000
Current assets	**297,707**	377,510
Non-current assets	**32,973**	29,571
Current liabilities	**46,595**	31,547
Equity attributable to owners of the Company	**232,950**	307,939
Non-controlling interest	**51,135**	67,595
Revenue	**43,432**	310,201
Expenses, other gains and losses	**136,478**	169,957
(Loss) profit for the year	**(93,046)**	140,244
(Loss) profit for the year attributable to:		
Owners of the Company	**(76,298)**	115,000
Non-controlling interests	**(16,748)**	25,244
	(93,046)	140,244
Other comprehensive income for the year attributable to:		
Owners of the Company	**1,324**	7
Non-controlling interests	**288**	1
	1,612	8
Total comprehensive (expense) income for the year attributable to:		
Owners of the Company	**(74,974)**	115,007
Non-controlling interests	**(16,460)**	25,245
	(91,434)	140,252
Net cash (used in) from operating activities	**(47,149)**	144,724
Net cash from (used in) investing activities	**30,110**	(94,299)
Net cash (used in) from financing activities	**(79)**	174
Net cash (outflow) inflow	**(17,118)**	50,599

37. CHANGE IN PRESENTATION OF COMPARATIVES

Certain comparative figures of the consolidated financial statements were reclassified to conform with the current year's presentation.

A summary of the audited results and assets and liabilities of the Group for the past five financial years is set out below:

RESULTS

	Year ended 31 December				
	2017 HK$'000	2016 HK$'000	2015 HK$'000	2014 HK$'000	2013 HK$'000
Revenue	**1,011,844**	1,163,347	1,092,078	1,192,288	1,030,455
(Loss) profit before taxation	**(46,772)**	(351,748)	(148,573)	44,888	103,789
Taxation	**(680)**	(3,394)	(340)	21,653	(11)
(Loss) profit for the year	**(47,452)**	(355,142)	(148,913)	66,541	103,778
(Loss) profit for the year attributable to:					
Owners of the Company	**(30,698)**	(380,380)	(165,192)	58,443	96,733
Non-controlling interests	**(16,754)**	25,238	16,279	8,098	7,045
	(47,452)	(355,142)	(148,913)	66,541	103,778

ASSETS AND LIABILITIES

	At 31 December				
	2017 HK$'000	2016 HK$'000	2015 HK$'000	2014 HK$'000	2013 HK$'000
Total assets	**741,478**	915,514	1,276,544	1,415,324	1,482,325
Total liabilities	**(163,723)**	(292,745)	(299,980)	(223,795)	(307,035)
	577,755	622,769	976,564	1,191,529	1,175,290
Total equity attributable to:					
Owners of the Company	**526,651**	555,199	934,234	1,162,238	1,147,786
Non-controlling interests	**51,104**	67,570	42,330	29,291	27,504
	577,755	622,769	976,564	1,191,529	1,175,290

Definition

The following expressions shall, unless the content otherwise states, have the following meanings:

"2018 AGM"	the annual general meeting of the Company to be held on 21 May 2018
"Adjusted EBITDA"	the Group's profit or loss for the year before interest income, finance costs, income tax expense, depreciation of property, plant and equipment, amortisation of intangible assets, gain or loss on disposal of property, plant and equipment, and loss arising from assignment of intangible assets, and costs incurred or associated with corporate exercises or potential projects, where applicable
"Agreement"	The Patent and Technology Assignment and License Agreement dated 25 April 2016 entered into between the Group and IGT
"Audit Committee"	the audit committee of the Company
"Board"	the board of Directors
"CG Code"	the Corporate Governance Code contained in Appendix 14 to the Listing Rules
"Company"	Paradise Entertainment Limited, a company incorporated in Bermuda with limited liability, the issued Shares of which are listed on the Main Board of the Stock Exchange
"DETG"	Dealer-operated Electronic Table Game
"DICJ"	Direcção de Inspecção e Coordenação de Jogos, the Gaming Inspection and Coordination Bureau in Macau
"Director(s)"	the director(s) of the Company
"ESG"	Environmental, social and governance
"ETG"	electronic table game
"Galaxy"	Galaxy Casino, S.A., one of the three concessionaires for operation of casino games in Macau
"GGR"	gross gaming revenue, being total net win generated by all casino gaming activities combined, calculated before deduction of commissions and other expenses, if any
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"IGT"	a Nevada corporation and a subsidiary of International Game Technology PLC, which is listed on the New York Stock Exchange under the trading symbol "IGT"

"Licensed Products"	any Live ETG or RNG ETG, Mobile/Online Gaming Application, or associated system that (a) the manufacture, use, offer for sale, sale or importation of which is covered by any Patents, (b) is manufactured or operated using a method or process covered by any Patents, or (c) is developed, manufactured, or operated using any of the LT Game Macau Technology
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Live ETG"	the gaming systems and associated electronic gaming terminals for extending casino games that typically involve a live dealer (e.g. baccarat, roulette, blackjack, craps, etc.) to include multiple terminals for players to play the game with the dealer in real time remotely from the table at which the dealer is located
"LMG"	live multi game
"LT Game"	LT Game Limited, a company established in the British Virgin Islands with limited liability, an indirect 82%—owned subsidiary of the Company
"LT Game Macau Technology"	all technology that (a) is (i) owned by the Group or any of its affiliates or (ii) licensed to the Group or its affiliate (by a person that is not an affiliate of the Group) with the right to sublicense, in each case (i) or (ii), as of the date of the Agreement, (b) is in the possession or control of LT Game or any of its representatives as of the date of the Agreement, (c) can be licensed and disclosed to IGT upon the terms hereunder without violating any contractual restriction existing as of the date of the Agreement between the Group or its affiliate, on the one hand, and a person that is not an affiliate of the Group, on the other hand, and (d) was developed or is under development for, embodied by, included within, or used to make or operate Live ETGs or RNG ETGs only in Macau
"Macau"	the Macao Special Administrative Region of the PRC
"Mobile/Online Gaming Application"	a software application that enables play of, as or with a Live ETG or RNG ETG through a personal or mobile device, such as a phone, tablet computer, laptop computer, desktop computer or other device that is movable by the player, any associated hardware, networking or other systems that enable such application, in each case where the application is provided by or for the benefit of operators of physical or online gaming establishments (including physical and virtual casinos), physical or online lottery establishments (including agents, operators and locations that support lottery terminals), and patrons, customers and users of the foregoing, whether such uses are online or on-premises or outside of such gaming or lottery establishments, and whether for real money wagering or not
"Model Code"	the Model Code for Securities Transaction by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
"MOP"	Macau Pataca, the lawful currency of Macau

"Nomination Committee"	the nomination committee of the Company
"Patents"	all patents and patent applications that are owned by the Group and claim any Live ETG, RNG ETG or portion thereof in various countries outside of Macau and are assigned to IGT pursuant to the Agreement
"PRC"	People's Republic of China
"Remuneration Committee"	the remuneration committee of the Company
"RMB"	Renminbi, the lawful currency of the PRC
"RNG ETG"	the gaming systems and associated electronic gaming terminals that operate separately from Live ETGs and that can simulate table game outcomes using only a software driven random number generator
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
"Share(s)"	ordinary share(s) of HK$0.001 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Shares
"SJM"	Sociedade de Jogos de Macau, S.A., one of the three concessionaires for operation of casino games in Macau
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Technical Standards"	DETG Technical Standards Version 1.0 published by the DICJ
"U.S."	United States of America
"US$"	United States dollars, the lawful currency of U.S.
"%"	per cent