AGTech
www.agtech.com

AGTech Holdings Limited

(Incorporated in Bermuda with limited liability)

Stock Code: 8279

ANNUAL REPORT 2016

Fortune • Happiness • Health • Luck • Responsibility

CHARACTERISTICS OF GEM

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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

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FORTUNE

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


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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors
Sun Ho *(Chairman & CEO)*
Zhou Haijing *(Chief Financial Officer)*

Non-executive Directors
Zhang Qin
Yang Guang
Ji Gang
Zhang Wei

Independent Non-executive Directors
Monica Maria Nunes
Feng Qing
Gao Jack Qunyao

AUTHORISED REPRESENTATIVES
Sun Ho
Ng Lok Ming

COMPANY SECRETARY
Ng Lok Ming

COMPLIANCE OFFICER
Sun Ho

REGISTERED OFFICE
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE & PRINCIPAL PLACE OF BUSINESS
Unit 3912, 39th Floor, Tower Two
Times Square, Causeway Bay
Hong Kong

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

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

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

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

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

CORPORATE GOVERNANCE COMMITTEE

Sun Ho *(Chairman)*
Ng Lok Ming

RISK MANAGEMENT AND INTERNAL CONTROL COMMITTEE

Sun Ho *(Chairman)*
Zhou Haijing
Ng Lok Ming
Hong Yanchuan

AUDITOR

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

SHARE REGISTRAR IN BERMUDA

Codan Services Limited
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

BRANCH SHARE REGISTRAR IN HONG KONG

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

STOCK CODE

8279

WEBSITE

http://www.agtech.com

DEFINITIONS

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

"AGT"	Asia Gaming Technologies Limited, a company incorporated in Hong Kong owned as to 51% by the Company
"Ali Fortune" or "Subscriber"	Ali Fortune Investment Holding Limited, the controlling shareholder of the Company
"Alibaba Group"	Alibaba Holding and its subsidiaries
"Alibaba Holding"	Alibaba Group Holding Limited, a company incorporated in the Cayman Islands and the shares of which are listed on the New York Stock Exchange
"Ant Financial"	Ant Small and Micro Financial Services Group Co., Ltd.* (浙江螞蟻小微金融服務集團股份有限公司) (formerly known as Zhejiang Ant Small and Micro Financial Services Group Co., Ltd.* (浙江螞蟻小微金融服務集團有限公司)), a company incorporated in the PRC
"Ant Financial Group"	Ant Financial and its subsidiaries
"Board"	the board of Directors
"Bye-laws"	the bye-laws of the Company
"CEO"	chief executive officer
"Company" or "AGTech"	AGTech Holdings Limited, a company incorporated in Bermuda as an exempted company with limited liability and its issued Shares are listed on GEM
"Consultant Options"	the options granted to consultants of the Company pursuant to the Share Option Schemes which entitle them to subscribe for up to 332,710,170 Shares in aggregate as at the date of this report
"Director(s)"	the director(s) of the Company
"Executive"	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission or any delegate of the Executive Director
"GEM"	the Growth Enterprise Market of the Stock Exchange
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM
"GOT"	北京亞博高騰科技有限公司 (Beijing AGTech GOT Technology Co., Ltd.*), a company incorporated in the PRC with limited liability and is an indirect wholly-owned subsidiary of the Company

"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
"Macau"	the Macau Special Administrative Region of the PRC
"MOF"	the Ministry of Finance of China
"New SGM"	the new special general meeting of the Company held on 30 July 2016
"NSLAC"	the National Sports Lottery Administration Centre of the PRC
"PRC" or "China"	the People's Republic of China which, for the purpose of this report, excludes Hong Kong, Macau and Taiwan
"province(s)"	province(s), municipality(ies) and autonomous region(s) of the PRC unless otherwise specified, and "provincial" shall be construed accordingly
"Purchaser"	Silvercreek Technology Holdings Limited, which is a wholly-owned subsidiary of the Company
"Rainwood Options"	the options which were granted to Rainwood Resources Limited to subscribe for up to 212,879,224 Shares at an exercise price of HK$0.4 per Share (subject to customary adjustment in the event of capitalisation issue) at any time during a 3-year period from 21 May 2013, and which were exercised in full on 16 March 2016
"RMB"	Renminbi, the lawful currency of the PRC
"Score Value"	Score Value Limited, which is an indirect wholly-owned subsidiary of the Company
"Score Value Circular"	the circular of the Company dated 8 December 2014 in respect of the Score Value Transaction
"Score Value Group"	Score Value Limited and its subsidiaries

"Score Value Transaction"	the acquisition of the entire equity interest in Score Value by the Company as contemplated under the agreement dated 17 November 2014 entered into between the Company, Silvercreek Technology Holdings Limited (a wholly-owned subsidiary of the Company) as the purchaser, Score Value as the target, and vendors of Score Value, pursuant to which, among other things, (i) the vendors of Score Value may be granted bonus options to subscribe for up to 166,666,666 Shares at a subscription price of HK$1.8 per Share and such options are contingent upon certain performance targets; and (ii) the vendors of Score Value may be issued up to 135,135,135 Shares as part of the deferred consideration for the acquisition if certain performance targets are achieved
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share Option Schemes"	the share option schemes of the Company adopted on 18 November 2004 (which had expired on 17 November 2014) and 23 December 2014 respectively
"Share(s)"	ordinary share(s) of HK$0.002 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Shenzhen Subsidiary"	深圳中林瑞德科技有限公司 (Shenzhen Zoom Read Tech Co., Ltd.*), a company incorporated in the PRC with limited liability and is an indirect wholly-owned subsidiary of Score Value
"Silvercreek"	深圳市銀溪數碼技術有限公司 (Shenzhen Silvercreek Digital Technology Co., Ltd.*), a company incorporated in the PRC with limited liability and is an indirect wholly-owned subsidiary of the Company
"Sports Lottery"	the national sports lottery of China
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription"	the subscription for 4,817,399,245 new Shares and convertible bonds of the Company in the aggregate principal amount of HK$712,582,483 by Ali Fortune
"Subscription Agreement"	a subscription agreement dated 4 March 2016 entered into among the Company, Ali Fortune (i.e. the Subscriber), Mr. Sun Ho and Maxprofit Global Inc in relation to the Subscription
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers (as amended and supplemented from time to time)
"US$"	United States dollars, the lawful currency of the United States of America
"Welfare Lottery"	the national welfare lottery of China

"Whitewash Circular"	the circular of the Company dated 25 May 2016 in respect of, among other things, the Subscription and the Whitewash Waiver
"Whitewash Waiver"	a waiver from the Executive pursuant to Note 1 on Dispensations from Rule 26 of the Takeovers Code in respect of the obligations of Ali Fortune to make a mandatory general offer for all of the Shares not already owned or agreed to be acquired by Ali Fortune or parties acting in concert with it which would otherwise arise as a result of (i) the allotment and issue of the Shares under the Subscription at its completion; and/or (ii) the allotment and issue of the Shares that may be issued upon conversion of the convertible bonds of the Company issued under the Subscription
"%"	per cent.

Notes:

1. In this report, the exchange rate of HK$1.1214 to RMB1.00 has been used for reference only.

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

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

* *For identification purposes only*

HEALTH

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


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CORPORATE PROFILE

ABOUT AGTECH

Vision: To be the Leading Total Solution Provider and Integrated Company in China's Lottery Market

AGTech Holdings Limited was incorporated in Bermuda and its shares are listed on the GEM. The Group is an integrated lottery technology and services company in the PRC lottery market and is the exclusive platform of Alibaba Group and Ant Financial Group for lottery. The Group has a team of over 300 employees, and the footprint of the Group's lottery business covers multiple provinces and municipalities across the PRC.

The Group's vision and strategy is to be a fully integrated service provider for the PRC lottery industry. Its principal business activities comprise:

(i) Games and systems: the development and supply of lottery and other games, related software and underlying supporting systems;

(ii) Hardware: the development, sale and maintenance of lottery hardware (terminals and other lottery-related equipment);

(iii) Distribution: the sales and distribution of lottery and other games; and

(iv) Ancillary Services: the provision of ancillary services for lottery and other games.

The Group is committed to applying international management concepts and advanced technologies to the PRC lottery industry along the entire value chain, covering lottery systems, lottery hardware, lottery games, internet and mobile smart phone systems and distribution, wireless network and streaming media, thereby providing the PRC's lottery authorities and millions of lottery players in the PRC with professional and integrated lottery services and other games.

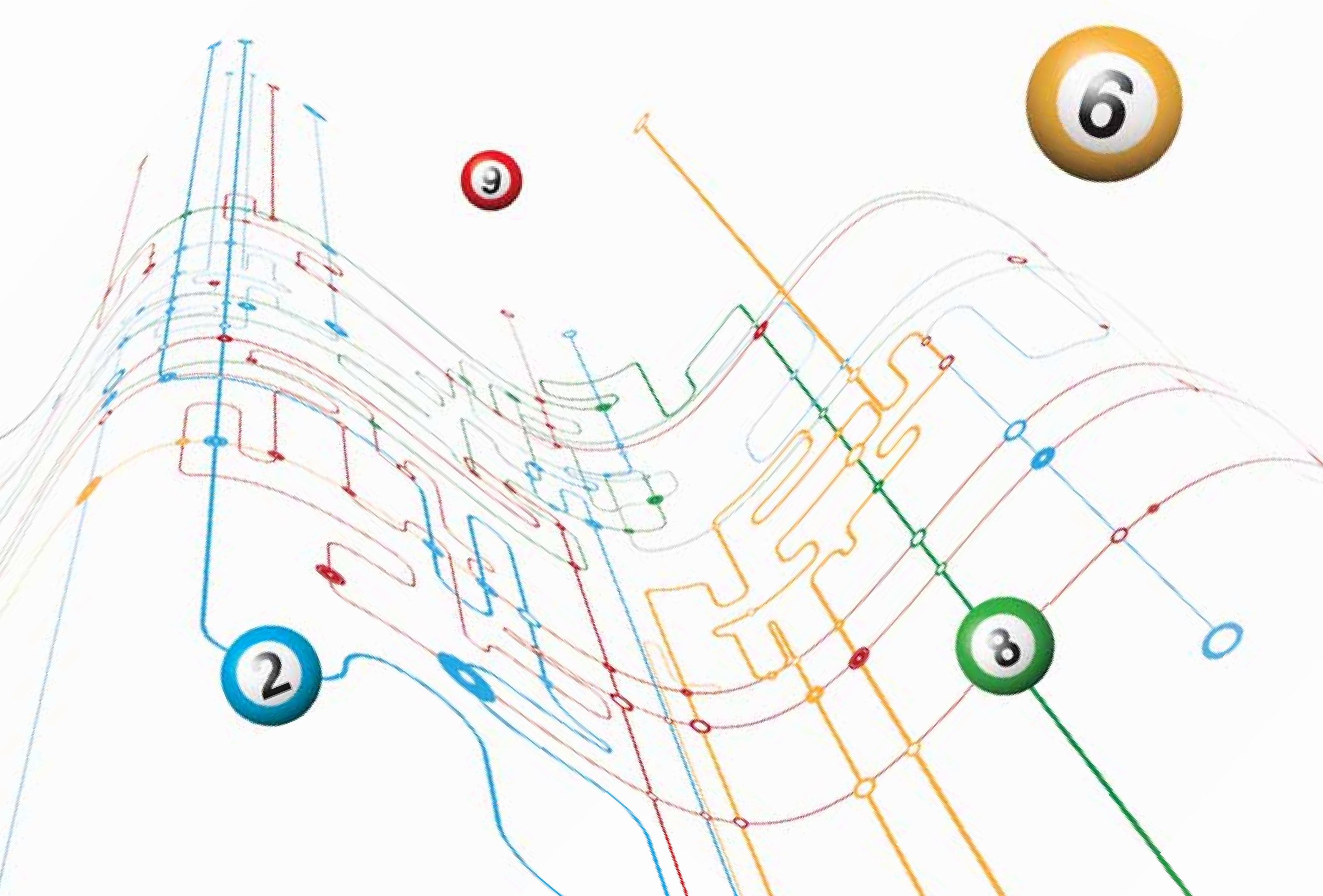
The Group is an associate member of each of the World Lottery Association (WLA) and the Asia Pacific Lottery Association (APLA) and is an official organiser and operator of the Chinese card games Guan Dan and Two-on-One poker in China.

INDUSTRY OVERVIEW

The PRC: A large but still under-penetrated lottery market

The PRC's regulated lottery industry launched in 1987 and has since grown rapidly to become one of the world's largest lottery markets by sales volume. Lottery sales have increased at a compound annual growth rate of approximately 30% between 1987 and 2016. During this time, the products that are on offer have gradually expanded from an initial base of simple, weekly-draw lotto games to today's comprehensive range which includes weekly draw games as well as high frequency games, scratch cards, video lottery terminals (VLT), sports betting and virtual sports betting. The PRC's two authorised lottery operators, the Welfare Lottery and the Sports Lottery, provide very significant levels of funding for good causes such as social welfare and building community sports facilities.

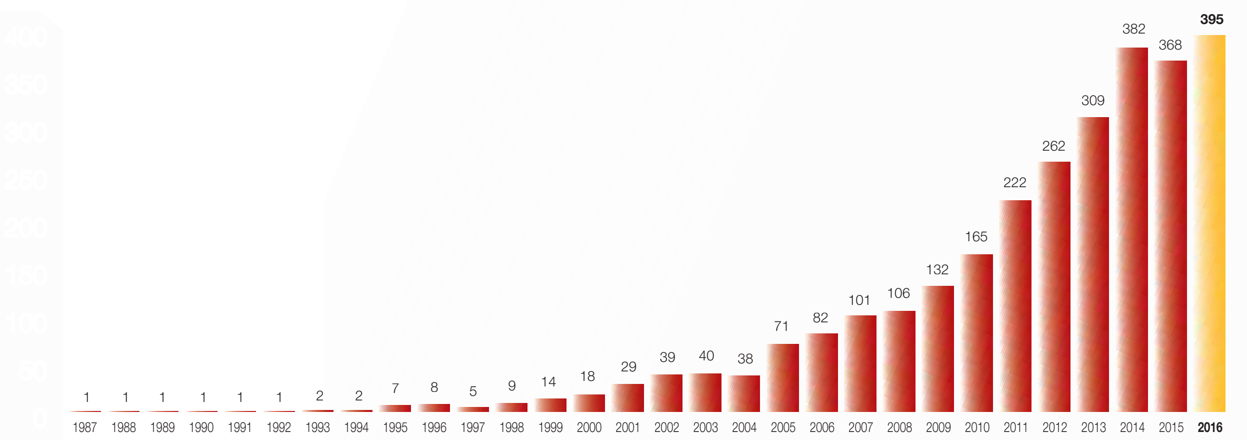
PRC annual lottery sales in 2016 set a new record high of approximately RMB395 billion. Despite the significant size of today's China lottery market, the penetration rate of regulated lottery in China remains comparatively low by international standards. Given that lottery participation in China is well below that of developed market such as Europe and the United States, there is enormous potential for future growth in China's legal lottery market.



In order to adequately protect the vulnerable, reduce the potential for corruption and to increase the funding available for good causes, the PRC lottery authorities are committed to channeling the existing underground gaming revenues away from the illegal market and into the legal and regulated lottery network. This process is already underway, which explains the growth performance of the regulated market in the past several years. Through further initiatives such as continued increases in prize payout ratios, the introduction of new rapid-draw lottery and virtual sports betting games, further expansion of the sports betting network and the expected opening of online and mobile distribution channels, the Chinese authorities will strive to make the permitted lottery even more competitive and appealing and ensure its rapid but responsible growth.

For further details on recent industry developments and a more detailed review of trends in the lottery, please refer to the "Discussion and Analysis of the Group's Results and Business" section.

China's Regulated Lottery Sales: 1987-2016 (RMB billion)



Source: MOF

GAMES & SYSTEMS

The development and supply of lottery and other games, related software and underlying supporting system

The Games & Systems division has a reserve of rich and attractive lottery and other game content in various product categories designed to fulfill the demands of the market and the players. This division also benefits from access to the market leading technology support solutions of the Group's shareholders Alibaba Group and Ant Financial Group.

Virtual Lottery Games

AGT, which is a Company of which 51% is owned by the Group and 49% is owned by Ladbroke Group (one of the world's largest sports betting companies) supplies the country's only virtual sports lottery platform to the China Sports Lottery and has successfully launched two virtual sports games in the country. AGT's motor racing-themed virtual game Lucky Racing was launched in Hunan province in 2011 while its football themed game e-Ball Lottery was launched in Jiangsu province during 2013. Since both games are approved lottery products as defined by MOF, we believe that both Lucky Racing and e-Ball Lottery could be introduced via the internet and mobile channel across the country (subject to regulatory approval) where we would expect them to be highly popular.

Other Categories

In addition to virtual lottery games, the Group has launched a number of strategic initiatives to introduce new types of lottery games in the PRC, including a mobile smart phone lottery game and system, a high frequency numbers-based lottery game, and other game categories new to the PRC. The Group intends to introduce these new products to the market in the future, subject to the relevant regulatory approvals.

The Group is active in the research and development of various types of, creative and non-lottery social games that are suitable to cater for the evolving tastes of China's consumers. These products will be distributed via various channels of the Alibaba Group, Ant Financial Group and elsewhere.

HARDWARE

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

AGTech's hardware division supplies both the Welfare Lottery and Sports Lottery and has lottery hardware deployed in multiple provinces, cities and municipalities of the PRC. The Group is a leading manufacturer and supplier of both paper scratch card sales hardware (instant ticket verification terminals, "IVT(s)") and traditional lottery terminals and enjoys international as well as domestic sales.

Thanks to the anticipated rapid technology development of the PRC, the Group believes that effective R&D activities are essential to ensure that the Groups' hardware business remains up-to-date and equipped with competitive technology. The Group's hardware division plans to continue to focus on R&D, maintain its domestic market share, grow its international sales and to broaden its product spectrum with new hardware ranges such as VLT which would be suitable for both domestic and international users.

DISTRIBUTION

The sales and distribution of lottery and other games

Thanks to its position as the exclusive lottery and gaming provider on the Alibaba Group and Ant Financial Group lottery platforms, the Group is very well placed to take advantage of lottery sales via mobile and internet channels as and when they are approved and the Group receives the appropriate authorisation. Furthermore, the Group plans to commence offering physical lottery products via Alibaba's physical distribution network (including physical stores managed, co-managed or controlled by Alibaba Group). The Group continues to closely monitor policy developments with respect to the government approval of lottery sales via internet and mobile and continues to operate two offline shops for the sale and distribution of lottery games. To date, in line with the relevant lottery regulations, the Group has not conducted any internet lottery sales or maintained any website to conduct such sales.

In the internet channel, the authorities are working on a national (as opposed to provincial) internet distribution system for lottery. It is anticipated that sales of the Group's approved games, "Lucky Racing" and "e-Ball Lottery", could benefit strongly when such a system is introduced.

Away from the regulated lottery space, the Group is now positioning itself to provide non-lottery products via the Alibaba Group, Ant Financial Group and other channels. These products will include fun games like poker and other titles popular with Chinese players.

ANCILLARY SERVICES

The provision of ancillary services to Lottery

The Group has been providing ancillary services to the PRC provincial lottery authorities since early 2007. In this time, we have provided a wide range of products and services to our provincial clients to assist them in growing sales and improving operations in an efficient manner. Our services include consulting, marketing, training and channel management.

RESPONSIBLE LOTTERY

AGTech advocates responsible lottery practices. Although we believe that the vast majority of China's lottery players participate on a recreational basis, we work hard to ensure that problem gaming is prevented.

AGTech works with the lottery authorities to implement responsible lottery measures (for example, prohibition of credit betting and taking bets from underage players). Responsible lottery information is available at lottery shops and can be found in product promotion materials. From time to time, AGTech participates in public educational programs for lottery customers, including the provision of counseling services.

CORPORATE VALUES

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

FORTUNE	We provide the PRC lottery market with fully integrated professional lottery games and systems, hardware, distribution and ancillary services, with a view to boosting lottery sales and bringing fortune to lottery players through exciting game products.
HEALTH	We liaise closely with the PRC regulatory authorities and do our utmost to help them develop a healthy lottery industry. We also assist them to evaluate new forms of legal and regulated lottery channels with a view to cracking down on the illegal gambling market.
HAPPINESS	As a form of entertainment, lotteries are growing in popularity among the Chinese citizens, and we are privileged to bring lottery players happiness and an exciting pastime.
LUCK	Lottery wins are perceived as a token of "luck", and it is one of our core corporate values to bring such luck to China's lottery players and society through our products.
RESPONSIBILITY	We strive to actively contribute to the development of a responsible lottery industry which will raise important funds for charity, welfare and sports development projects in China. We are actively involved in sports development and charity events, and we are the sponsor of a wide range of sports events.

CONTRIBUTING TO THE SOCIETY

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

AGTech is an associate member of the World Lottery Association (WLA) and the Asia Pacific Lottery Association (APLA). We will work closely with other members to ensure healthy and stable development of the Asian and global lottery markets.

EXCELLENT TEAM

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

Currently, AGTech has over 300 professionals with qualifications in lottery, information technology and other specialised fields. With such a strong team, it enables AGTech to build a solid business foundation and to achieve breakthroughs in the future.

FOOTPRINTS OF OUR BUSINESS

The footprint of our business covers over 80% of the provinces and municipalities across China. AGTech has built up a comprehensive sales and after-sales network throughout the country.

HAPPINESS

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

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CHAIRMAN'S STATEMENT

Dear Shareholders,

The PRC is one of the world's largest lottery markets and recorded its highest ever sales volume of approximately RMB395 billion in 2016. This led to good causes payments for the year of approximately RMB104 billion. This record performance was achieved despite the absence of remote (online & mobile) channels due to the continued enforcement of the April 2015 announcement by the MOF and seven other ministries of the PRC government. We continued to believe that a major reason for the announcement by the eight ministries was to allow for regulation of sales and distribution of lottery games through online channels in the PRC in the future and during the year we continued to position ourselves for this potential opportunity.

Following completion of the Subscription with Alibaba Holding and Ant Financial on 10 August 2016, AGTech is the exclusive lottery business platform of Alibaba Group and Ant Financial Group. We firmly believe that the transaction has enhanced our ability to develop and expand our existing business in both the regulated lottery space and in the non-lottery area. We expect to benefit from significant potential synergies from our cooperation with Alibaba Group and Ant Financial Group in all areas of our business including in particular our distribution business both in terms of physical and remote channels. A great deal of detailed work has been taking and continues to take place to identify the short, medium and long-term opportunities available to the parties in order to fully capture these potential synergies as well as to agree and implement the detailed commercial arrangements to be entered into among the parties.

During the financial year under review, Group revenue was decreased to HK$251.5 million (2015: HK$301.6 million) while gross profit was HK$73.3 million (2015: HK$69.2 million). Our balance sheet is extremely strong with net bank balances and cash of HK$2,336.5 million at the 2016 year end.

Our Games & Systems division continues to develop, build and deploy regulated lottery content, such as our successful virtual sports system and its first two games Lucky Racing and e-Ball as well as new lottery games and systems that are suitable for approval by the lottery authorities in China. In addition, we are working hard to research, develop and launch various types of creative, non-lottery social games that can cater for the evolving tastes of China's consumers. For both categories of products, regulated lottery and other, non-lottery, we will use a variety of channels including but not limited to those of the Alibaba Group and Ant Financial Group. The Group has been closely monitoring policy developments with respect to the government approval of lottery sales via online and mobile channels for many years. We believe that online and mobile channels for lottery sales in the PRC are likely to be approved. We believe that any new games and systems that will be approved for online and mobile sales will require robust and scalable technology in order to deliver effective and efficient monitoring and control systems. We consider that the Group is well positioned to participate in these areas, particularly now that the Group is part of the Alibaba Group and Ant Financial Group family.

We believe that the PRC lottery market is likely to demand new and more sophisticated hardware solutions over time and that those solutions will increasingly be deployed as bundled products involving the supply of hardware that is integrated with lottery games and underlying supporting systems and which would typically be provided on a revenue sharing basis. Thanks to our leading positions in point of sale and handheld terminals as well as our first class international partnerships and long track-record in the PRC lottery market, we believe that AGTech is very well positioned to take advantage of such new opportunities in hardware.

Since the end of the reporting period and as announced on 18 January 2017, the Group has made a breakthrough in the area of competition poker when it was awarded an exclusive 5-year priority operation right in China by the Chess and Poker Games Administrative Centre under the General Administration of Sport of China (the "Chess and Poker Centre") for all competitive play of the Chinese card game Guan Dan through an open tender. Furthermore, AGTech has recently become one of the strategic partners and organisers of the China Competition Two-on-One Poker Championship. This development marks a major milestone for the Group and we look forward to updating shareholders on our competitive poker business in the coming months and years.

As a group with a strong sense of corporate and social responsibility, AGTech will continue to live by its core corporate values of enriching society through "Fortune", "Health", "Happiness", "Luck" and "Responsibility". In addition to developing games that provide responsible lottery entertainment to the public, we will respond proactively to the possible social problems arising from obsession with lottery. In this respect, I take the opportunity to remind our Shareholders that in line with the Group's past practice, all of our lottery businesses in the PRC have been conducted in full compliance with all relevant lottery regulations in the PRC including obtaining approval from relevant government authorities, where applicable.

I would like to express my sincere gratitude to all of my colleagues for their dedication and hard work. My warmest thanks also go to our board members, management team, Shareholders, business partners and customers for their indispensable contribution and continuing support of AGTech. I look forward to your continued trust and support as we help to deliver a very bright future for AGTech.

Yours faithfully,

Sun Ho
Chairman & CEO

Hong Kong, 24 March 2017

LUCK

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


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CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

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

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

- the frequency and proper conduct of Board meetings;
- the well-balanced composition of the Board, with independent non-executive Directors representing not less than one-third of the total number of Directors;
- the proper procedures for appointment and re-election of Directors;
- the annual review of individual Directors' contributions to the Group and the years of service of each independent non-executive Directors;
- the establishment of an audit committee to review the financial reporting, risk management and internal controls of the Group and the enhanced communications between the audit committee and the auditor of the Company through meetings held for the pre-audit planning and the annual results of the Group without the presence of other Directors;
- the establishment of a remuneration committee to review the remuneration policy and other remuneration-related matters for the Group;
- the establishment of a nomination committee to formulate a policy concerning diversity in the Board and a nomination policy, make recommendations to the Board on any proposed appointment of Directors and assess the independence of the independent non-executive Directors on a regular basis;
- the establishment of a corporate governance committee to assist the Board in performing the corporate governance duties as required under the Code;
- the establishment of a risk management and internal control committee to assist the Board in discharging its ongoing responsibility to oversee the Group's risk management and internal control systems;
- the provision of briefing or training (at the expense of the Company) on the relevant requirements of the GEM Listing Rules (including the Code) and the Securities and Futures Ordinance to all newly appointed Directors and to the entire Board as and when there are new changes to such rules and regulations;
- the provision of insurance coverage for Directors' liabilities;
- the timely supply of sufficient information to Directors for matters seeking their approval or opinions;
- the timely publications of announcements, circulars, annual, interim and quarterly results and reports (collectively referred to as the "Publications") to keep the Shareholders posted of the latest business developments and financial performance of the Group;

- the holding of an annual general meeting each year to meet with the Shareholders and answer their enquiries; and

- the timely updating of the Company's official website with the latest Publications of the Company and the provision of a platform for communications with the Shareholders and investors through such website.

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

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

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

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

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

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

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

(g) under the Code provision A.6.7, independent non-executive Directors and the non-executive Directors should attend general meetings of the Company and develop a balanced understanding of the views of the Shareholders. An annual general meeting ("AGM") was held by the Company during the year under review on 6 June 2016, and Dr. Gao Jack Qunyao, an independent non-executive Director, was absent from the AGM as he was required to attend another business meeting at that time.

(The above deviations (a) to (f) were similarly disclosed on pages 31 and 32 of the Company's annual report for the year ended 31 December 2015, and the above deviation (g) was a new one that took place during the year under review. All the above deviations (a) to (g) were similarly disclosed on pages 39 to 41 of the Company's interim report for the six months ended 30 June 2016.)

DIRECTORS' SECURITIES TRANSACTIONS

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

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

THE BOARD

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

During the year under review, the members of the Board comprised:

Executive Directors:	Mr. Sun Ho *(Chairman)* Mr. Zhou Haijing (appointed on 10 August 2016) Mr. Bai Jinmin (resigned on 10 August 2016) Mr. Liang Yu (resigned on 10 August 2016) Mr. Cheng Guoming (resigned on 10 August 2016)
Non-executive Directors:	Mr. Zhang Qin (appointed on 10 August 2016) Mr. Yang Guang (appointed on 10 August 2016) Mr. Ji Gang (appointed on 10 August 2016) Mr. Zhang Wei (appointed on 10 August 2016) Mr. Ho King Fung, Eric (resigned on 10 August 2016)
Independent non-executive Directors:	Ms. Monica Maria Nunes Mr. Feng Qing Dr. Gao Jack Qunyao

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

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

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

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

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

Respective responsibilities of Directors and auditor

The Board has the ultimate responsibility for the preparation of consolidated financial statements of the Group that give a true and fair view. For the year under review, the Board was not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the Board continued to adopt the going concern approach in preparing the consolidated financial statements for the year under review. Auditor's responsibilities are as stated in the independent auditor's report on pages 140 and 145.

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

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

Directors' work commitments outside of the Group

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

Directors' training

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

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

Directors	Type of training received
Executive Directors	
SUN Ho	A, B
ZHOU Haijing (appointed on 10 August 2016)	A, B
BAI Jinmin (resigned on 10 August 2016)	Not applicable
LIANG Yu (resigned on 10 August 2016)	Not applicable
CHENG Guoming (resigned on 10 August 2016)	Not applicable
Non-executive Directors	
ZHANG Qin (appointed on 10 August 2016)	A, B
YANG Guang (appointed on 10 August 2016)	A, B
JI Gang (appointed on 10 August 2016)	A, B
ZHANG Wei (appointed on 10 August 2016)	A, B
HO King Fung, Eric (resigned on 10 August 2016)	Not applicable
Independent non-executive Directors	
Monica Maria NUNES	A, B
FENG Qing	A
GAO Jack Qunyao	A

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

CHAIRMAN AND CHIEF EXECUTIVE

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

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

Furthermore, the chairman is responsible for ensuring that:

- other Directors are properly briefed on issues arising at Board meetings;
- Directors receive, in a timely manner, adequate information, which is accurate, clear, complete and reliable;
- the Board works effectively and performs its responsibilities;
- all key and appropriate issues are discussed by the Board in a timely manner;
- good corporate governance practices and procedures are established by the Group;
- Directors make a full and active contribution to the Board's affairs and act in the best interests of the Company;
- different views and concerns of Directors are discussed with sufficient time at Board meetings before reaching any Board decisions which fairly reflect the consensus of the Board; and
- he himself attends the annual general meeting, and other Directors are invited to attend all general meetings of the Company to enhance communications with the Shareholders and answer any queries that they may have in respect of the financial performance and other affairs of the Group.

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

NON-EXECUTIVE DIRECTORS

Each of Mr. Zhang Qin, Mr. Yang Guang, Mr. Ji Gang and Mr. Zhang Wei was appointed as a non-executive Director by way of a letter of appointment for a fixed term of one year commencing on 10 August 2016 (with renewal option). Each of the other non-executive Directors was appointed by way of a service agreement on a two-year basis, except that (i) under a renewed service agreement with Ms. Monica Maria Nunes, her renewed service period commenced from 20 June 2015 until the conclusion of the annual general meeting of the Company to be held in May 2017, and (ii) under a renewed service agreement with Mr. Ho King Fung, Eric (resigned on 10 August 2016), his renewed service period commenced from 23 May 2015 until the conclusion of the annual general meeting of the Company to be held in May 2017.

The Company has received from each of the existing independent non-executive Directors an annual confirmation of his/her independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers that all of such independent non-executive Directors are independent. None of the independent non-executive Directors has served the Board for more than 9 years. All independent non-executive Directors are clearly identified in all corporate communications of the Company that disclose the names of Directors.

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

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

BOARD COMMITTEES

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

1. Remuneration committee

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

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

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

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

During the year under review, the remuneration committee passed resolutions to recommend to the Board the remuneration package of the executive Director, Mr. Zhou Haijing. None of Mr. Zhang Qin, Mr. Yang Guang, Mr. Ji Gang and Mr. Zhang Wei is entitled to any Director's fee.

2. Nomination committee

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

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

Any member of the nomination committee is authorised to identify suitable candidates for the position of Director when there is a vacancy or an additional Director is considered necessary. Once identified, the member of the nomination committee will propose the appointment of such candidates to the nomination committee which will review the qualifications, experience and background of the relevant candidates for determining the suitability to the Group. The candidates approved by the nomination committee will then be proposed to the entire Board for final approval and, where appropriate, for recommendation to the Shareholders for their approval at the general meeting of the Company.

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

During the year under review, a meeting of the nomination committee was held where the number of years of service of the three independent non-executive Directors had been reviewed and none of them had served the Board for more than 9 years. The independence of all the independent non-executive Directors was also reviewed and confirmed during such meeting.

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

Summary of the Company's Board diversity policy

(a) Purpose

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

(b) Scope of application

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

(c) Policy statement

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

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

(d) Measurable objectives

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

(e) Monitoring and reporting

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

(f) Review of the Policy

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

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

Board composition of the Company
(composed of 9 Directors)

		Number of Directors	%	Measurable objectives	Achieved
Gender	Male	8	88.9%	**Both genders present**	✓
	Female	1	11.1%	to ensure different views from different genders are considered	
Age (Years)	31-40	3	33.3%	**Age spans over at least a decade**	✓
	41-50	4	44.5%	to ensure a balanced mix of conservative and ambitious experience from relatively sophisticated veteran and energetic young Directors	
	51-70	2	22.2%		
Nationality	Chinese	8	88.9%	**More than a single nationality**	✓
	Portuguese	1	11.1%	to ensure the international perspectives and global view are considered	
Tenure (Number of years)	below 1	5	55.6%	**Different tenures of Directors' service contracts**	✓
	1–3	2	22.2%	to ensure the consistency of business strategies implemented by the veteran Directors being complemented by new ideas from relatively new Directors	
	above 3	2	22.2%		
Directorship Designation	Executive Directors	2	22.2%	**Presence of substantial percentage of non-executive Directors**	✓
	Non-executive Directors	4	44.5%	to ensure interests of minority Shareholders and the Company as a whole are considered	
	Independent non-executive Directors	3	33.3%		
Other Public Company Directorship Experience (Number of companies)	Nil	6	66.7%	**At least one Director having directorship experience with other public companies**	✓
	One	2	22.2%	to share directorship experience from other public companies and help the Board keep abreast of the current practices of other public companies	
	Two or above	1	11.1%		

3. Corporate governance committee

The Company established a corporate governance committee on 23 March 2012 with its specific terms of reference posted on the websites of the Company and of the Stock Exchange and are available to the Shareholders upon request. The corporate governance committee is to assist the Board in performing the corporate governance duties as required under the Code. The corporate governance committee comprises two members, namely, the chairman of the Board, Mr. Sun Ho (as chairman of such committee), and the company secretary, being Ms. Lo Kei Chi (resigned on 26 September 2016) and Mr. Ng Lok Ming (appointed on 26 September 2016).

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

During the year under review, the corporate governance committee formulated relevant internal control procedures in preparation for future connected transactions for the adoption by the risk management and internal control committee of the Company. In addition, training materials were prepared by the corporate governance committee to brief the Directors on specific requirements under the GEM Listing Rules, SFO and Takeovers Code that they should take note of following completion of the Subscription.

4. Audit committee

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

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

The Group's draft unaudited interim, quarterly and audited annual results were reviewed by the audit committee during the year under review, and the committee was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures had been made. The audit committee also attended two meetings during the year under review with the former and current external auditors of the Company, HLB Hodgson Impey Cheng Limited ("HLB") and PricewaterhouseCoopers ("PwC"), to discuss the audit for the final results of the Group for the year ended 31 December 2015 and the audit preparation for the final results of the Group for the year ended 31 December 2016 respectively.

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

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

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

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

The RMICC comprises at least three members as follows:

- the Compliance Officer of the Company (currently being Mr. Sun Ho) who shall act as the chairman of the RMICC;

- the Chief Financial Officer/Head of Accounting Department of the Group (currently being Mr. Zhou Haijing), and/or the company secretary of the Company (currently being Mr. Ng Lok Ming), who (or who together) shall be responsible for monitoring the overall RM and IC functions of the Group on an ongoing basis; and

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

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

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

(a) RM functions

The RM functions were delegated to the Chief Financial Officer/Head of Accounting Department and/or the company secretary of the Company. The RMICC had identified various risk areas that may affect the Group (including operational, liquidity, foreign exchange or treasury, credit and legal or political risks) and formulated the acceptance levels of such risks if arisen. Such identified risk areas, their corresponding acceptance levels and the proposed scope of work of RMICC members had been tabled to the Board for approval in advance. The identified areas of risks were reviewed and monitored on a monthly basis by the RMICC. Any deviation from the acceptance levels of risks pre-approved by the Board must be reported by the RMICC as soon as practicable to the Board via the audit committee. In particular, the RMICC had performed, on an ongoing basis, the following scope of work in monitoring such risks:

(i) monitoring whether there were any material deviations, adverse trends or other operational risks noted from the actual financial performance of the Group as compared against the annual budgets formulated by the Board for the financial year under review;

(ii) monitoring whether there were any liquidity risks noted from the capital resources, cashflow or working capital forecast, liquidity ratio (i.e. total current assets divided by total current liabilities) and gearing ratio (i.e. total bank borrowings divided by shareholders' equity) of the Group;

(iii) monitoring whether there were any foreign exchange or treasury risks arising from the foreign exchange and/or interest rate exposures of the Group;

(iv) monitoring whether there were any credit risks arising from any long-outstanding or delinquent balances due from customers or other third parties; and

(v) monitoring whether there were any legal or political risks arising from any new policies, rules and/or regulations in China or any jurisdiction in which the Group has operations which may have a material adverse impact on the business or trading prospect of the Group.

(b) IC functions

The monitoring of the IC system of the Group was delegated to the Chief Financial Officer/Head of Accounting Department and/or the company secretary of the Company who had ensured, on an ongoing basis, that various financial, operational and compliance internal control policies and/or procedures in place were adhered to.

(c) **IA functions**

As part of the overall IC system, the Group has IA functions in place which were delegated to the IA senior manager of the Group. The IA senior manager had performed, on an ongoing basis during the financial year under review, the following scope of work:

(i) carrying out site visits by rotation to different operating subsidiaries of the Company in China to ensure that proper accounting and IC systems stipulated by the head office in Hong Kong were implemented and followed by such subsidiaries. Priorities of site visits were given to subsidiaries newly acquired by the Group, if any;

(ii) regularly checking whether any message had been received in the "whistle-blowing" email account of the Group, following up on any concerns or complaints raised, in confidence, by any staff member of the Group about any possible improprieties in financial reporting, RM, IC, plans and ideas about the Group, and reporting to the audit committee for further investigation, if required; and

(iii) providing training to new accounting staff in China to ensure that they were familiar with the accounting and IC systems of the Group stipulated by the head office in Hong Kong.

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

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

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

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

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

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

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

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

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

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

- terms of reference, delegation of duties (i.e. scope of work) and acceptable levels of risks of the RMICC have previously been tabled to the Board for approval together with the resolution seeking the approval of the establishment of the RMICC;
- the extent and frequency of the reporting duties of the RMICC to the Board via the audit committee;
- the RMICC has been empowered under its terms of reference to have access to adequate resources, enabling it to discharge its duties, including but not limited to obtaining advice and assistance from internal or external legal, accounting or other advisors at the expense of the Company if necessary;
- the members of the RMICC have the necessary qualifications, experience and competence to carry out its duties;
- training is obtained by, or will be (upon request) made available to, members of the RMICC, and that new accounting staff will be provided with training by the internal audit senior manager of the Group;
- previous findings reported by the RMICC to the Board via the audit committee;

- the confirmation received from the RMICC to the Board via the audit committee that the RM and IC systems (including the internal audit functions) of the Group were effective and adequate, and that the Group's processes for financial reporting and GEM Listing Rule compliance were effective; and

- the discussion with the external auditor of the Company, PwC, that no significant internal control deficiencies were identified during its annual audit of the Group.

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

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

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

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

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

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

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

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

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

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

- all Directors and employees are absolutely prohibited to deal or procure another person to deal in any securities of the Company when they possess any unpublished inside information; and
- any breach of the above obligations and professional conduct may result in internal disciplinary actions and where applicable, personal sanctions (civil or criminal) under applicable laws and regulations.

CHANGE OF AUDITOR AND AUDITOR'S REMUNERATION

During the year under review, HLB resigned as auditor of the Company with effect from 8 November 2016 as the Company and HLB could not reach a mutual agreement in respect of the audit fee for the financial year ended 31 December 2016, and PwC was appointed by the Company to fill the casual vacancy so arising. Save as aforesaid, there have been no other changes of auditor of the Company in the preceding three years. A resolution for the re-appointment of PwC as auditor of the Company will be proposed at the forthcoming annual general meeting of the Company. The Board concurred with the views of the audit committee in determining the change and re-appointment of auditor of the Company.

Remuneration to PwC amounted to HK$1,100,000 for the year ended 31 December 2016.

MEETING ATTENDANCE

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

	Board	Audit Committee	Remuneration Committee	Nomination Committee	Corporate Governance Committee	RMICC	Annual General Meeting	Special General Meetings
Executive Directors								
SUN Ho	7/7	N/A*	N/A*	1/1	NIL	4/4	1/1	4/4
ZHOU Haijing[a]	2/2[c]	N/A*	N/A*	N/A*	N/A*	1/1[e]	N/A[c]	1/1[c]
BAI Jinmin[b]	4/5[d]	N/A*	N/A*	N/A*	N/A*	N/A*	1/1	3/3
LIANG Yu[b]	5/5[d]	N/A*	N/A*	N/A*	N/A*	N/A*	1/1	3/3
CHENG Guoming[b]	5/5[d]	N/A*	N/A*	N/A*	N/A*	3/3[f]	1/1	3/3
Non-executive Directors								
ZHANG Qin[a]	2/2[c]	N/A*	N/A*	N/A*	N/A*	N/A*	N/A[c]	1/1[c]
YANG Guang[a]	2/2[c]	N/A*	N/A*	N/A*	N/A*	N/A*	N/A[c]	1/1[c]
JI Gang[a]	2/2[c]	N/A*	N/A*	N/A*	N/A*	N/A*	N/A[c]	1/1[c]
ZHANG Wei[a]	2/2[c]	N/A*	N/A*	N/A*	N/A*	N/A*	N/A[c]	1/1[c]
HO King Fung, Eric[b]	5/5[d]	N/A*	N/A*	N/A*	N/A*	N/A*	1/1	3/3
Independent non-executive Directors								
Monica Maria NUNES	7/7	4/4	N/A (note g)	1/1	N/A*	N/A*	1/1	4/4
FENG Qing	7/7	4/4	N/A (note g)	1/1	N/A*	N/A*	1/1	4/4
GAO Jack Qunyao	4/7	4/4	N/A (note g)	0/1	N/A*	N/A*	0/1	2/4

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

Notes:

a. These Directors were appointed by the Company on 10 August 2016.

b. These Directors resigned from their directorships in the Company on 10 August 2016.

c. Only two Board meetings and one special general meeting on 5 December 2016 but no annual general meeting of the Company had been held during the year under review after such Director was appointed by the Company on 10 August 2016.

d. Only five Board meetings, one annual general meeting on 6 June 2016 and three special general meetings on 10 June 2016 and 30 July 2016 respectively had been held during the year under review before such Director resigned as Director on 10 August 2016.

e. Only one RMICC meeting had been held during the year under review after such Director was appointed as member of such committee on 10 August 2016.

f. Only three RMICC meetings had been held during the year under review before such Director resigned as member of such committee on 10 August 2016.

g. No physical meeting of such Board committee was held as relevant committee members had resolved the matters by written resolutions instead.

COMPANY SECRETARY

The company secretary is responsible for facilitating the Board's process and communications among Board members and with the Shareholders and the management, and advising the Board and its committees on all corporate governance matters. The company secretary reports to the chairman of the Board and/or the CEO and his selection, appointment or dismissal shall be a Board decision. During the year under review, Ms. Lo Kei Chi resigned, and Mr. Ng Lok Ming, William ("Mr. Ng") was appointed, as the company secretary, authorised representative and member of each of the corporate governance committee and RMICC of the Company with effect from 26 September 2016, and a physical Board meeting was held to consider and approve Mr. Ng's appointment as required under the Code provision F.1.2.

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

During the year under review, the company secretary, Mr. Ng, had undertaken not less than 15 hours of relevant professional training required under Rule 5.15 of the GEM Listing Rules. While Mr. Ng is not a full-time employee of the Company, his primary contact persons at the Company are Mr. Liang Yu, (President of Legal and Compliance of the Group) and Mr. Sun Ho (chairman of the Board and CEO).

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

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

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

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

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

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

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

The Company's principal share registrar and transfer agent in Bermuda is Codan Services Limited, Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. Share registration matters shall be handled for the Shareholders by the Company's branch share registrar in Hong Kong, Tricor Abacus Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

During the year under review, certain house-keeping amendments (as disclosed in the circular of the Company dated 11 November 2016) were made to the Bye-laws and such amendments were duly approved by the Shareholders at the special general meeting of the Company held on 5 December 2016.

SHAREHOLDERS' RIGHTS

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

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

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

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

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

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

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

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

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

(B) Shareholders sending enquiries to the Board

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

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

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

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

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

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

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

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

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

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

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

Required information of the candidate(s) nominated by Shareholders

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

a) full name and age;

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

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

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

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

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

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

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

i) contact details of the nominated candidate.

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

RESPONSIBILITY

We strive to actively contribute to the development of a responsible lottery industry which will raise important funds for charity, welfare and sports development projects in China. We are actively involved in sports development and charity events, and we are the sponsor of a wide range of sports events.


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SUSTAINABILITY REPORT

Starting from the financial year 2016, information on environmental and social matters of the Group shall be disclosed on an annual basis and regarding the same period covered in its annual report in compliance with the Environmental, Social and Governance ("ESG") Reporting Guide in Appendix 20 of the GEM Listing Rules.

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

ABOUT OUR GROUP

Our Group is an integrated lottery technology and services company in the PRC lottery market. Its principal business activities comprise:

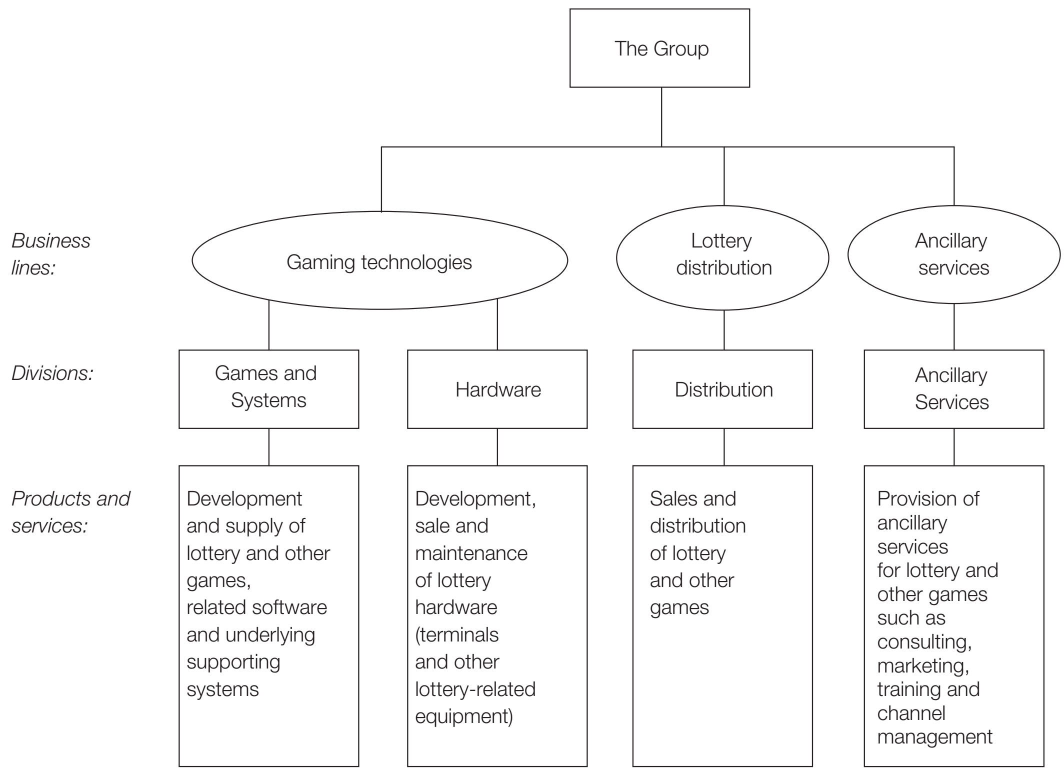
(i) Games and systems: the development and supply of lottery and other games, related software and underlying supporting systems;

(ii) Hardware: the development, sale and maintenance of lottery hardware (terminals and other lottery-related equipment);

(iii) Distribution: the sales and distribution of lottery and other games; and

(iv) Ancillary services: the provision of ancillary services for lottery and other games.

In terms of our core business lines, our Group can be divided into four separate business divisions: namely, "Games and Systems", "Hardware", "Distribution", and "Ancillary Services". The operations of all these four divisions have been covered in this Sustainability Report.



SUSTAINABILITY MANAGEMENT

Objectives

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

Stakeholder Engagement

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

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

Stakeholders	Channels of communications	Areas of common concerns
Shareholders	• annual and special general meetings • announcements, circulars, quarterly, interim and annual reports • the Company's official website	• business development and financial performance of the Group • information on environmental and social matters (to be first disclosed in the annual report of the Company for the financial year 2016) • corporate governance matters (which are separately disclosed in the CG Report) • establishment of Risk Management ("RM") and Internal Control ("IC") Committee ("RMICC") of the Company (which took effect from 1 January 2016)

Stakeholders	Channels of communications	Areas of common concerns
Business partners	• meetings • conference calls • negotiations of business cooperation agreements • joint development and customisation of lottery games and systems • participation in trade fairs	• products' compliance with PRC lottery related law and regulations • responsible lottery gaming • customisation of products to meet local requirements and enhance attraction to the local players
Employees	• emails, meetings and conference calls • discussions with superiors	• remuneration packages • fair opportunity and anti-discrimination • professional development • career advancement • training
Suppliers/ subcontractors	• meetings • conference calls • negotiations of commercial agreements	• products' compliance with PRC lottery related law and regulations • responsible lottery gaming • competitiveness in pricing

Stakeholders	Channels of communications	Areas of common concerns
Customers (including governmental lottery authorities or operators authorised by such authorities)	• meetings • conference calls • negotiations of commercial agreements • written submissions of proposals and application for lottery game approval documentation	• introducing new lottery types and distribution channels for the PRC lottery markets • products' compliance with PRC lottery related law and regulations • responsible lottery gaming • remuneration to the Group for its products and services • lottery games payout ratios to players • contributions to public funding • combating illegal gambling
Community	• participation in sports development and charity events • sponsorship of sports events • staff recruitment	• donations for good causes • promotion of health through sports • job creation

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

Management Approach and Monitoring Framework

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

The Legal Department of the Group is responsible for advising and safeguarding the interests of the Group on salient matters including, but not limited to, the following:

(i) local environmental law and regulations in jurisdiction(s) where the Group has operations to ensure the operations of the Hardware Division are in compliance with such law and regulations;

(ii) local gaming or lottery related law and regulations in jurisdiction(s) where the Group has operations to ensure the operations of the Games and Systems, Distribution and Services Divisions are in compliance with such law and regulations;

(iii) commercial contracts with customers, and/or business cooperation agreements with business partners to ensure these contracts or agreements have incorporated terms that have addressed anti-corruption and responsible lottery gaming concerns as appropriate; and

(iv) compliance check on the identity of counterparties of commercial contracts entered into by the Group to ensure that our customers are either governmental lottery authorities or operators authorised by such authorities, and that our suppliers/subcontractors have met our "supplier/subcontractor selection standards" for the purpose of addressing environmental protection concerns in their production process.

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

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

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

The Legal Department of the Group shall also confirm in writing to the RMICC *at least four times a year* (or as and when any material deficiency, failure or risk is noted) as to whether, during the period under review:

(a) the Group has complied with the relevant environmental, gaming or lottery related laws and regulations in the jurisdiction(s) where the Group operates;

(b) commercial contracts with customers, and/or business cooperation agreements with business partners entered into by the Group have incorporated terms that have addressed anti-corruption and responsible lottery gaming concerns as appropriate; and

(c) counterparties of commercial contracts entered into by the Group are customers which are either governmental lottery authorities or operators authorised by such authorities, or suppliers/subcontractors which have met the Group's "supplier/subcontractor selection standards" for the purpose of addressing environmental protection concerns in their production process.

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

Strategy

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

(i) Corporate social responsibilities:
We strive to actively contribute to the development of a responsible lottery gaming industry which will raise important public funds for charity, welfare and sports development projects in China. We are actively involved in sports development and charity events, and we have been the sponsor of a wide range of sports events.

(ii) Healthy market development:
We liaise closely with the PRC lottery authorities and strive to help them develop healthy lottery markets for the community. We not only introduce new lottery types to the PRC lottery markets (e.g. our MOF-approved lottery games, "Lucky Racing" and "e-Ball Lottery"), but also propose to the PRC lottery authorities to evaluate new forms of legal and regulated lottery distribution channels with a view to cracking down on the illegal gambling market in China.

(iii) Environmental protection management:
As we do not run any factories but outsource the manufacturing functions to outside suppliers/subcontractors, we do not anticipate any material risks in our operations in respect of environmental protection concerns. Having said that, we request our suppliers/subcontractors to adopt minimal packaging for our finished hardware products in order to save on costs of packaging materials and delivery, as well as to reduce the use of paper and make it easier for storage and recycling. Furthermore, the Group has its own "supplier/subcontractor selection standards" for selecting suppliers/subcontractors which can demonstrate that their production process has adequately addressed environmental protection concerns. The Group has also made continuous effort to support low-carbon offices, in that employees are encouraged to observe our policies and business practices on energy savings, use of recycled paper, increased use of soft copies and adoption of a 5-day work week for our Hong Kong office.

(iv) Employee and human resources development:

As a major part of our core business is founded on gaming technologies, our Group places great emphasis on research and development of our products and continues to work closely with our business partners (which are leading international gaming and/or gaming technology companies) with an aim to introducing innovative lottery products and other games and services to the PRC lottery markets and enabling responsible lottery gaming. Not only will this enhance the technical knowledge and skills of our professional team, but this will also help create job opportunities in the communities where the Group operates. We also offer generous in-house and outside training activities to employees to enhance their knowledge and professional skills on an ongoing basis.

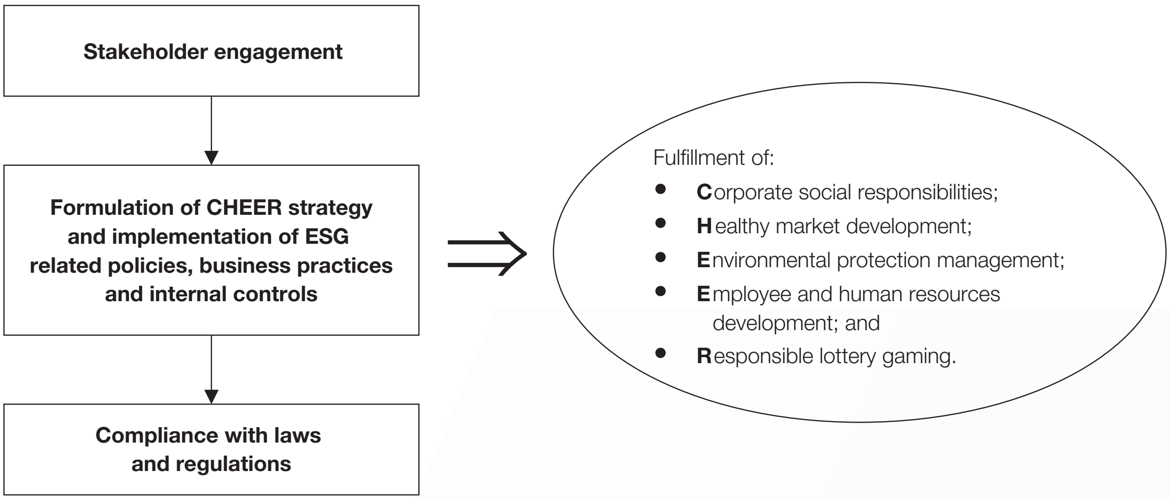
(v) Responsible lottery gaming:

As an associate member of each of the World Lottery Association (WLA) and the Asia Pacific Lottery Association (APLA), the Company is committed to working closely with our customers to implement responsible lottery measures and prevent problem gaming in various ways:

- we provide our products and services only to customers which are governmental lottery authorities or operators authorised by such authorities in order to preclude from involvement in any possible illegal gaming activities in any jurisdiction where the Group has business;
- where we are engaged by our customers to provide consultancy services, we shall advise our customers as to how to educate lottery players in order to avoid problem gaming issues of the players, where appropriate;
- our lottery games are launched only after obtaining all necessary approval from PRC governmental lottery authorities;
- our lottery games are played in lottery shops where betting by underage players and credit betting are prohibited, and where players can have access to responsible lottery information contained in product promotion materials; and
- to the extent possible, anti-addiction features are embedded in our lottery game design (in collaboration with our business partners), such as setting limit on the maximum amount per bet that can be placed by a player, the frequency and maximum number of draws of the games per day.

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

Sustainability management flowchart:



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

SUMMARY OF INFORMATION ON ENVIRONMENTAL AND SOCIAL MATTERS OF THE GROUP

	Relevant policies, business practices or internal controls of the Group	Relevant laws and regulations that have a significant impact on the Group	Complied with relevant laws and regulations?
A. Environmental			
A1: Emissions	Policy relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste: As we do not run any factories but outsource the manufacturing functions to outside suppliers/subcontractors, we do not anticipate any material risks in our operations in respect of environmental protection concerns such as air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste. Nevertheless, the Group does have its own "supplier/subcontractor selection standards" for selecting suppliers/subcontractors which can demonstrate that their production process has adequately addressed environmental protection concerns. For instance, we will assess if the production units of our suppliers/subcontractors are in compliance with criteria for environmental management system as set out in ISO 14001. The Group will also pay visits from time to time to the production units of our suppliers/subcontractors to assess if they live up to our standards of environmental protection.	N/A (As we do not run any factories but outsource the manufacturing functions to outside suppliers/subcontractors, the environmental protection related law and regulations in China do not apply to our operations.)	N/A

	Relevant policies, business practices or internal controls of the Group	Relevant laws and regulations that have a significant impact on the Group	Complied with relevant laws and regulations?
A2: Use of resources	Policies on the efficient use of resources, including energy, water and other raw materials: As mentioned above, we do not run any manufacturing factories ourselves and therefore material risks of wastage of water or raw materials are not applicable to our operations. Nevertheless, we request our suppliers/subcontractors to adopt minimal packaging for our finished hardware products in order to save on costs of packaging materials and delivery, as well as to reduce the use of paper and make it easier for storage and recycling. As our continuous effort to support low-carbon offices, the Group also has policies and business practices on energy and resource savings, such as: **(i) Electricity savings:** Computers should be turned off completely when employees leave office or when not in use, and lights should be switched off in unoccupied space. **(ii) Use of recycled paper:** Recycled paper is used for printing emails and other documents for internal usage. **(iii) Increased use of soft copies:** As email has become an increasingly popular channel for employees to share information and communicate, a lot of the documents and information can now be distributed to, and circulated among, employees in soft copies via our corporate email accounts. This has immensely reduced the use of paper in our office.	N/A	N/A

	Relevant policies, business practices or internal controls of the Group	Relevant laws and regulations that have a significant impact on the Group	Complied with relevant laws and regulations?
	(iv) 5-day work week: Employees in Hong Kong are in general required to work 5 days a week only in order to save them on time and costs to commute between their homes and the workplace on Saturdays, and also help save electricity in the office on Saturdays as well as improve the air pollution condition in the city by reducing traffic. We believe that employees can still satisfactorily fulfill their job duties within a 5-day work week if they work efficiently and with proper time management. On the other hand, employees in the PRC are already not required to work on Saturdays by PRC law.		
A3: Environment and natural resources	Policies on minimising the Group's significant impact on the environment and natural resources: same policies as disclosed above in item A2: "Use of resources".	N/A	N/A

	Relevant policies, business practices or internal controls of the Group	Relevant laws and regulations that have a significant impact on the Group	Complied with relevant laws and regulations?
B. Social **Employment and Labour Practices**			
B1: Employment	Policy, business practices and/or internal controls relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity and anti-discrimination, diversity, and other benefits and welfare: **(i) Compensation, other benefits and welfare:** The Group's remuneration policies are formulated on the basis of performance and experience of individual employees and are in line with local market practices. In addition to salary, the Group also offers to its employees other fringe benefits and welfare including year-end bonus, discretionary bonus, share options under the Share Option Schemes, contributory provident fund, social security fund, medical benefits and training. **(ii) Dismissal:** Employees may be subject to dismissal if:	Employment Ordinance of Hong Kong (Chapter 57 of the Laws of Hong Kong); Labour Law of the PRC (中華人民共和國勞動法); The Labour Contract Law of the PRC (中華人民共和國勞動合同法); and Regulations of Paid Annual Leave of Employees (職工帶薪年休假條例)	✓

Relevant policies, business practices or internal controls of the Group	Relevant laws and regulations that have a significant impact on the Group	Complied with relevant laws and regulations?
(a) they commit material breach of the Employee Code of Conduct prescribed by the Group, such as: • repeated violation of the Employee Code of Conduct, with 3 written warnings given to the offending employee; • refusal to follow work assignments, or disruption of normal work flow, with 3 written warnings given to the offending employee; • consecutive absence from work for 3 days or more, or repeated absence (for less than 3 days) despite written warning has been given to the offending employee; • breach of training or confidentiality agreement, causing material loss to the Group; • perpetration of serious misconduct such as gross negligence, bribery, theft, fraud, violence, intimidation, insult, slander or sexual harassment; or • being detained or imprisoned for breaching the law.		

Relevant policies, business practices or internal controls of the Group	Relevant laws and regulations that have a significant impact on the Group	Complied with relevant laws and regulations?
(b) they commit malpractice, causing "significant damage" to the Group, such as causing: • economic loss; • damage to the computer system of any department and disruption of its work; • write-off of production tools, equipment and products; • casualties; • negative publicity; • penalty from regulatory authorities; • damage to intangible assets of the Group including loss of business opportunities, reputation, industry status and social standing; or • other adverse consequences to the Group. **(c)** they are concurrently under the employment of another employer, causing material adverse impact on their job duties in the Group; or they refuse to terminate their outside employment despite written request from the Group.		

Relevant policies, business practices or internal controls of the Group	Relevant laws and regulations that have a significant impact on the Group	Complied with relevant laws and regulations?
(iii) Recruitment: Staff recruitment is required to follow the Group's "annual headcount planning" (年度員額計劃). Application for staff recruitment needs to be first submitted to our respective Human Resources Departments of Hong Kong, Beijing or certain subsidiaries of the Company, or, in some cases, by the Finance & Administration Department (財行部) of the subsidiaries, and approved by designated senior management, before any recruitment process is allowed to commence. A reward will also be offered by the Group to any existing employee if he/she refers any suitable candidate to the Group and such candidate is eventually employed by the Group. The Human Resources Departments of the Group will examine and verify identification documents, credentials or information contained in the résumés of all job applicants. Job applicants are also required to sign a declaration form to declare whether he/she was involved in any composition with creditors, bankruptcy, voluntarily liquidation proceedings, or has any criminal record.		
(iv) Promotion: The majority of employees of the Group are in the PRC. Promotion of the Group's employees in Hong Kong is handled by our Human Resources Department in Hong Kong, and is based on the performance appraisal by the chairman of the Board. On the other hand, our Human Resources Department in Beijing is responsible for handling promotion of the Group's employees in the PRC on an annual basis, which shall usually take effect from 1st March each year, unless otherwise notified by such department. The Human Resources Department in Beijing will consider a number of criteria in determining whether an employee deserves a promotion, for instance: • the number of times that the employee was absent from training activities in the past year;		

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

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

	Relevant policies, business practices or internal controls of the Group	Relevant laws and regulations that have a significant impact on the Group	Complied with relevant laws and regulations?
B2: Health and safety	Policy relating to providing a safe working environment and protecting employees from occupational hazards: (i) The Group selects and rents only offices that are situated in properly managed commercial buildings with satisfactory security measures. (ii) The last employee leaving the office should ensure that the front door of the office is securely locked to safeguard the properties of the Group and its employees. (iii) Employees are required to enter passcode or use the fingerprint sensor to gain entry to the office premises. (iv) Burning candles, incense (including potpourri pots), or creating an open flame (e.g. for cooking) in office premises are prohibited. (v) Apart from medical scheme, the Group also takes out workers compensation insurance to cover the liabilities of employees in Hong Kong in the event that they suffer injuries at work. For employees in China, the Group has contributed to the social security fund (which includes basic pension insurance fund, basic medical insurance fund, personal injury insurance fund, unemployment insurance fund and maternity insurance fund) to provide similar coverage to them if they suffer injuries at work. (vi) Work arrangements under high temperature: (a) Employees are prohibited from carrying out outdoor work if temperature reaches over 40°C; (b) If temperature reaches above 37°C but below 40°C, outdoor work for the day should not exceed 6 hours in total (and no outdoor work should be allowed during the 3 hours of highest temperature); (c) If temperature reaches above 35°C but below 37°C, outdoor workers should take shifts and should not work overtime; and (d) Pregnant employees should not be allowed to work outdoors when temperature reaches above 35°C, or work in premises where temperature is above 33°C.	Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong); Labour Law of the PRC (中華人民共和國勞動法); The Labour Contract Law of the PRC (中華人民共和國勞動合同法); PRC Occupational Disease Prevention Law (中華人民共和國職業病防治法); Women's Rights Protection Law (婦女權益保障法); Special Provisions on Labour Protection of Female Workers (女職工勞動保護特別規定); The Industrial Injury Insurance Regulations (工傷保險條例); Measures for the Management of Summer Cooling Purposes (防暑降溫措施管理辦法); The Production Safety Law of the PRC (中華人民共和國安全生產法); The Social Insurance Law of the PRC (中華人民共和國社會保險法); The Labour Security Supervision Regulations (勞動保障監察條例); Provisions on Enterprise Workers Illness or Non-work Related Injury Medical Period (企業職工患病或非因工負傷醫療期規定)	✓

	Relevant policies, business practices or internal controls of the Group	Relevant laws and regulations that have a significant impact on the Group	Complied with relevant laws and regulations?
B3: Development and training	Policies on improving employees' knowledge and skills for discharging duties at work: The Group offers valuable opportunities for our employees to enhance their professional knowledge and skills through on-the-job training and other training activities sponsored by the Group: **(i) On-the-job training:** The research and development team of the Group comprises veteran professionals in the PRC lottery and other games industry. Through working with these professionals and other business partners (which are leading international gaming and/or gaming technology companies), employees can share knowledge base and learn state-of-the-art technology and business practices from other renowned companies. **(ii) Other training activities:** In-house briefing materials on latest corporate governance and listing rule requirements are provided to Directors and company secretary. Directors and employees also attend in-house and outside training seminars on job-related topics, or participate in industry-specific seminars and conferences from time to time. Examples of in-house and outside training seminars offered by the Group to employees include the following: • Basic knowledge of information security • Web security testing • Information technology infrastructure library • Advanced project management of information system	N/A	N/A

	Relevant policies, business practices or internal controls of the Group	Relevant laws and regulations that have a significant impact on the Group	Complied with relevant laws and regulations?
	• Basic knowledge of EXCEL • Corporate financial analysis and risks detection • Human resources management • Labour dispute resolutions • Fire safety measures • Marketing strategy for major customers • International trade practice		
B4: Labour standards	Policy relating to preventing child and forced labour: (i) All employees should provide valid identification documents and other credentials to the Human Resources Department of the Group for recruitment purpose in order to verify their age, identity and working experience. It is our Group's recruitment policy not to employ persons under the age of 18. (ii) No employee should be coerced to work through the use of violence or intimidation. All employees are entitled to freely resign from their posts or terminate their employment by serving written notice (normally ranging from one to three months) to their superiors or the Human Resources Department of the Group in accordance with their respective service or employment contracts.	"Employment of Children Regulations" made under Employment Ordinance of Hong Kong (Chapter 57 of the Laws of Hong Kong); Labour Law of the PRC (中華人民共和國勞動法); Law of the PRC on the Protection of Minors (中華人民共和國未成年人保護法); Law of the PRC on Compulsory Education (中華人民共和國義務教育法); The Provisions Prohibiting the Use of Child Labour (禁止使用童工規定); The Fine Standard Provisions of the Use of Child Labour (使用童工罰款標準的規定); The Labour Contract Law of the PRC (中華人民共和國勞動合同法); PRC Criminal Law (中華人民共和國刑法); PRC Criminal Law Amendment (VIII)(中華人民共和國刑法修正案(八))	✓

	Relevant policies, business practices or internal controls of the Group	Relevant laws and regulations that have a significant impact on the Group	Complied with relevant laws and regulations?
B5: Supply chain management	Policies on managing environmental and social risks of the supply chain: (i) As disclosed in item A1: "Emissions" above, the Group has its own "supplier/subcontractor selection standards" for selecting suppliers/subcontractors which can demonstrate that their production process has adequately addressed environmental protection concerns. (ii) The Group will pay visits from time to time to the production units of our suppliers/subcontractors to evaluate if they can live up to our standards of environmental protection, and to inspect if the working conditions of the factories are satisfactory (e.g. in terms of safety to workers). (iii) We request our suppliers/subcontractors to adopt minimal packaging for our finished hardware products in order to save on costs of packaging materials and delivery, as well as to reduce the use of paper and make it easier for storage and recycling.	N/A	N/A

	Relevant policies, business practices or internal controls of the Group	Relevant laws and regulations that have a significant impact on the Group	Complied with relevant laws and regulations?
Operating Practices			
B6: Product responsibility (responsible lottery gaming practices)	Policies and/or business practices relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress: Unlike companies which supply consumer goods, food or beverages, our Group supplies lottery and other games, related software and underlying supporting systems, and lottery hardware (terminals and other lottery-related equipment); distributes lottery and other games and scratch lottery cards; and provides other ancillary services. Accordingly, we do not anticipate any material risks of health and safety to the public arising from our products and services. Generally, the lottery authorities in the PRC (being our customers) will conduct the advertising or "branding" of the lottery products to promote their sales. However, where we are engaged by our customers to provide marketing consultancy services for our lottery games, we may participate in the marketing and advertising campaigns in order to promote the sales of our lottery games. Under such circumstance, we shall advise our customers as to how to educate lottery players in order to avoid problem gaming issues of the players, where appropriate. Our lottery hardware, games and systems are supplied only to governmental lottery authorities or operators authorised by such authorities in the PRC or overseas in order to preclude from involvement in any possible illegal gaming activities in any jurisdiction where the Group has business.	Lottery Management Regulations (彩票管理條例)；The Detailed Rules for the Implementation of Lottery Management Regulations (彩票管理條例實施細則); Measures for Lottery Issuance and Sales Management (彩票發行銷售管理辦法); The Interim Measures for the Administration of Internet Sales of Lottery (互聯網銷售彩票管理暫行辦法); The Interim Measures for the Administration of Telephone Sales of Lottery (電話銷售彩票管理暫行辦法)	✓

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

	Relevant policies, business practices or internal controls of the Group	Relevant laws and regulations that have a significant impact on the Group	Complied with relevant laws and regulations?
B7: Anti-corruption	Policies and/or internal controls relating to bribery, extortion, fraud and money laundering: (i) The Legal Department of the Group will ensure that, where appropriate, commercial contracts with customers and/or business cooperation agreements with business partners entered into by the Group have incorporated terms to require the counterparties not to engage in corrupt practices in the course of the performance of their obligations contemplated under such contracts and/or agreements. (ii) Employees of the Group are prohibited from engaging in corrupt practices: • for achieving specific business purposes such as obtaining or retaining any business, business licences or permits; or influencing any act of the government officials or commercial decisions of the business partners; or • which may be seen as constituting improper influence on business relationships. Specific policies are in place to govern the offering of gifts, entertainment, hospitality, free travel and accommodation to government officials or business partners. For example: • If the value of any gift, entertainment or hospitality offered exceeds the maximum amounts prescribed for government officials or business partners, pre-approval of the Legal and Compliance Department of the Group is required;	PRC Criminal Law (中華人民共和國刑法); PRC Anti-Unfair Competition Law (中華人民共和國反不正當競爭法); PRC Interim Provisions on Prohibiting Commercial Bribery (關於禁止商業賄賂行為的暫行規定); PRC Criminal Law Amendment (vi) (中華人民共和國刑法修正案(六)); Provisions of the Supreme People's Procuratorate on Bribery Filing Standards (最高人民檢察院關於行賄罪立案標準的規定); Opinions of the Supreme People's Court and the Supreme People's Procuratorate on Several Issues concerning the Application of Law in the Handling of Criminal Cases of Commercial Bribery (最高人民法院、最高人民檢察院關於辦理商業賄賂刑事案件適用法律若干問題的意見); The Company Law of the PRC (中華人民共和國公司法); The Opinions on Correctly Grasping the Policy Boundaries at Special Work in the Management of Commercial Bribery (關於在治理商業賄賂專項工作中正確把握政策界限的意見); Hong Kong Prevention of Bribery Ordinance (Chapter 201 of the Laws of Hong Kong); and US Foreign Corrupt Practices Act of 1977	✓

Relevant policies, business practices or internal controls of the Group	Relevant laws and regulations that have a significant impact on the Group	Complied with relevant laws and regulations?
• Payment of reasonable and actual travelling and accommodation costs for government officials and business partners is acceptable, provided that pre-approval of the Legal and Compliance Department of the Group is obtained and there is proper record of the commercial purpose of the business trip concerned. No trips of a leisure nature should be organised for government officials and business partners; and • All the offering of gifts, entertainment, hospitality, free travel and accommodation to government officials or business partners should be supported by accurate, true and complete records. No reimbursement of expenses shall be made by the Accounting Department of the Group in the event that there is a lack of true and accurate supporting documents, or there is any violation of the anti-corruption policy of the Group or any relevant anti-corruption law. (iii) In line with the Group's accounting internal control system, all payments and receipts of money require valid supporting documents and proper records in order to identify and prevent possible bribery, extortion, fraud and money laundering activities engaged by any employee or member of the Group.		

	Relevant policies, business practices or internal controls of the Group	Relevant laws and regulations that have a significant impact on the Group	Complied with relevant laws and regulations?
Community			
B8: Community investment	Policies or business practices on community engagement to understand the needs of the communities where the Group operates and to ensure its activities take into consideration the communities' interests: (i) We collaborate closely with government bodies, charitable institutions and sports associations, and sponsor sports development and charity events organised by these parties. The Group has participated in a wide range of charity and sports development events such as Helping the Poor Children in Yunnan Province, Sponsoring Shanghai Youth Girls Soccer Team, AGTech Cup Olympic Photography Competition, Sponsoring Anhui Huangshan Martial Arts Competition Tournament, AGTech 15th He Long Cup Golf Celebrity Invitation, 2013 Shenzhen Charity Exhibition, 2015 Social Responsibility of China Lottery Forum as well as being the strategic partner of the Tennis Association for Central Government Agencies and sponsoring various tennis tournaments and tennis promotional campaign. (ii) We continue to work closely with lottery authorities and endeavour to help the government evaluate new forms of legal and regulated avenues, with a view to fighting illegal gambling and raising funds for sports and welfare projects. (iii) Recognising that employees are assets of the Group, we shall continue to recruit talents to assist with our business expansion and create different job opportunities in the community where the Group operates.	N/A	N/A

Notes:
N/A: Not applicable
✓: Yes

DISCUSSION AND ANALYSIS OF THE GROUP'S RESULTS AND BUSINESS

ABOUT THE GROUP

AGTech Holdings Limited was incorporated in Bermuda and its shares are listed on the GEM. The Group is an integrated lottery technology and services company in the PRC lottery market and is the exclusive platform of Alibaba Group and Ant Financial Group for lottery. The Group has a team of over 300 employees, and the footprint of the Group's lottery business covers multiple provinces and municipalities across the PRC.

The Group's vision and strategy is to be a fully integrated service provider for the PRC lottery industry. Its principal business activities comprise:

(i) Games and systems: the development and supply of lottery and other games, related software and underlying supporting systems;

(ii) Hardware: the development, sale and maintenance of lottery hardware (terminals and other lottery-related equipment);

(iii) Distribution: the sales and distribution of lottery and other games; and

(iv) Ancillary Services: the provision of ancillary services for lottery and other games.

The Group is committed to applying international management concepts and advanced technologies to the PRC lottery industry along the entire value chain, covering lottery systems, lottery hardware, lottery games, internet and mobile smart phone systems and distribution, wireless network and streaming media, thereby providing the PRC's lottery authorities and millions of lottery players in the PRC with professional and integrated lottery services and other games.

The Group is an associate member of each of the World Lottery Association (WLA) and the Asia Pacific Lottery Association (APLA) and is an official organiser and operator of the Chinese card games Guan Dan and Two-on-One poker in China.

CORPORATE STRATEGY AND OBJECTIVES

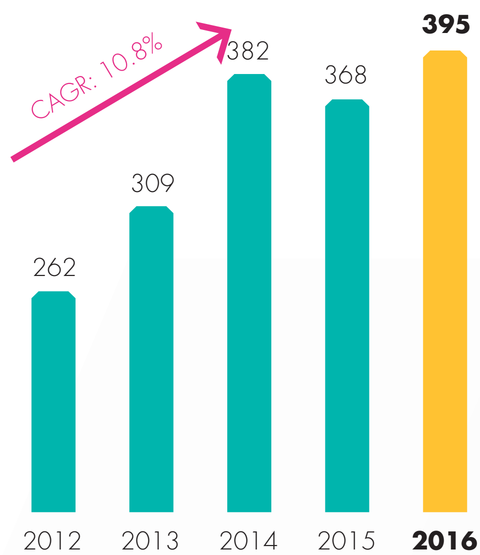
Our long-term objective is to maintain a leading position as an integrated service provider in the PRC lottery market. We will continue to support both of the PRC's legal lottery operators, namely the Welfare Lottery and the Sports Lottery, in this respect. In order to achieve our objectives, we are committed to bringing together international and domestic industry expertise, technologies, management, skills and infrastructure into the PRC lottery market both through the existing and any new remote (online and mobile) channels. The Group has been working with various world-renowned strategic partners in these efforts for many years.

INDUSTRY OVERVIEW

The PRC's Lottery Market Achieved Sales of over RMB395 billion in 2016

PRC Annual lottery sales in 2016 were the highest on record. According to data published by the MOF, total lottery sales reached approximately RMB395 billion for the year. Sales showed an annual increase of approximately 7.3%, and, according to figures published by Tencent, the lotteries were able to distribute approximately RMB104 billion to good causes during the year.

Total Lottery Sales 2012-2016 (RMB billion)



Source: MOF

2016 saw the lottery return to growth after the decline in 2015 (due to the cessation of internet sales in March 2015). As shown in the attached chart, the lottery has delivered a compound annual growth rate ("CAGR") of over 10% during the past five years. This growth has been driven by a number of factors including growth in disposable income, increased prize payout ratios, the introduction of more appealing products.

Despite the impressive size of the lottery industry in the PRC, compared with other countries, the PRC's lottery participation rates are at a relatively low level. Official figures show rates of lottery betting participation in China estimated at around 7.5% in recent years, well below those of developed markets such as Hong Kong and the United States. This low penetration of regulated products is driven by a number of factors which include constraints on distribution with respect to the quality and location of lottery stores and the nascent stage of development of the remote channel, gaps in terms of the breadth of certain products (e.g. sports betting) and, particularly for the products with higher play frequency such as sports betting, virtual sports betting and high frequency games, payout ratios which are not sufficiently high to effectively compete with the illegal market.

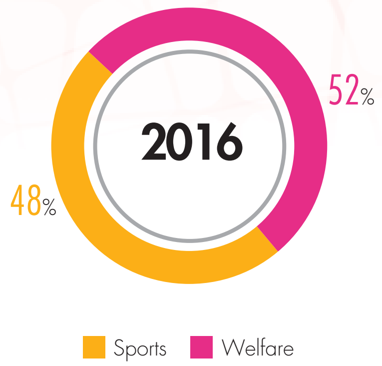
The PRC authorities are committed to channeling the existing vast underground gaming revenues away from the illegal market and into the legal and regulated lottery network. This process is already underway and is a vital step to ensure that the vulnerable in society are adequately protected, that the potential for corruption is minimised and that the funding available for good causes can increase. Through further initiatives such as continued increases in prize payout ratios, the introduction of new rapid-draw lottery and virtual sports betting games, further expansion of the sports betting network and the planned development of online and mobile distribution systems, the PRC lottery authorities will make the regulated lottery even more competitive and appealing to consumers and thereby ensure its rapid but responsible growth.

INDUSTRY HIGHLIGHTS

There are two legal lottery operators in the PRC: the national welfare lottery (Welfare Lottery) and the national sports lottery (Sports Lottery).

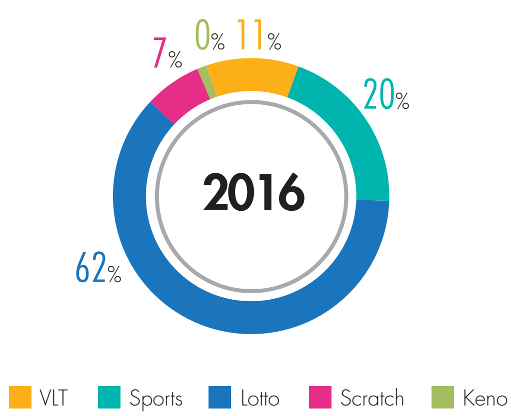
The Welfare Lottery and the Sports Lottery have five main product categories: lotto type lottery game product that are either traditional in nature with a daily or weekly draw pattern as well as modern high frequency games featuring multiple draws per hour ("Lotto"), sport betting ("Sports"), VLT, a keno product ("Keno") and instant scratch cards ("Scratch"). Of these products, Lotto and Scratch have been common to both lottery operators for some years. Historically, VLT has only been permitted in the Welfare Lottery although a trial VLT product was launched in the Sports Lottery during 2015. At present, only the Sports Lottery is permitted to offer Sports (i.e. the sports betting product).

Total Lottery Sales by Lottery (2016)



Source: MOF

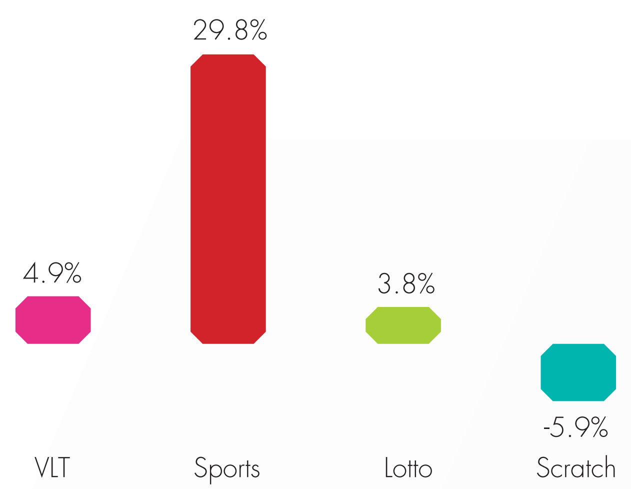
Market Share of Sales by Major Game Type (2016)



Source: MOF

In 2016, with the exception of Scratch, all of the lottery products enjoyed year on year sales growth. Sports was the stand-out product thanks in part to the UEFA 2016 European football tournament. The Scratch product has been in a pattern of decline for several years.

Lottery Sales Growth Rates Comparison by Product (2015–2016)

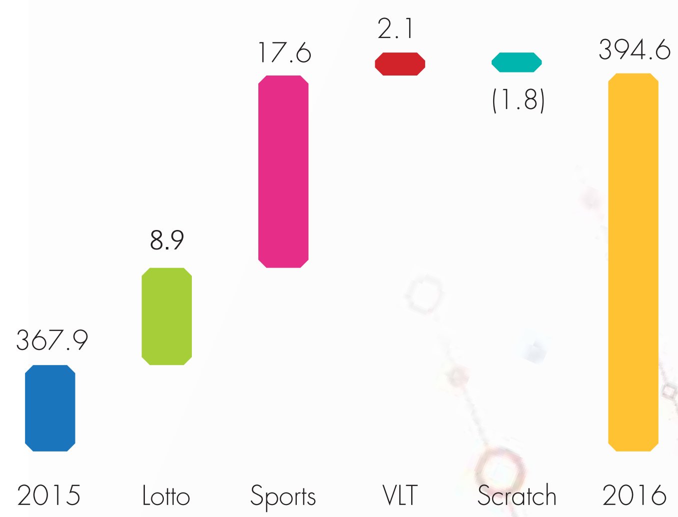


** KENO excluded due to deminimus sales volumes*

Source: MOF

Given that all sales of the Sports product are conducted by the Sports Lottery and in light of the strong growth of this product, it is not surprising that in absolute terms the Sports Lottery posted larger gains than the Welfare Lottery in terms of both growth rates and absolute ticket values.

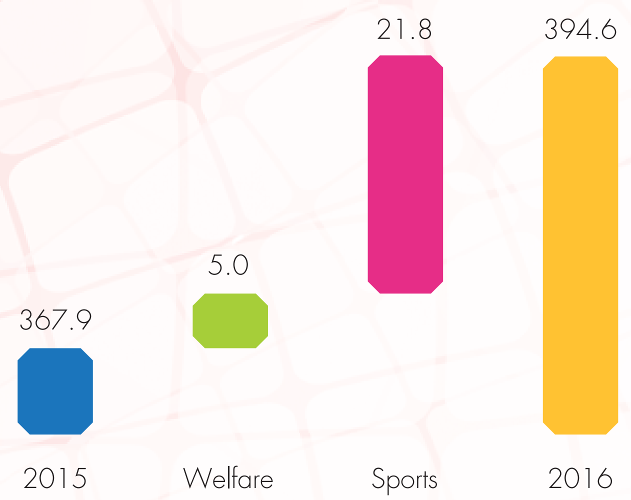
Lottery Sales Bridge 2015–2016: By Product (RMB billion)



** KENO grouped with Lotto due to deminimus sales volumes*

Source: MOF

Lottery Sales Bridge 2015–2016: By Lottery (RMB billion)



Source: MOF

Performance by Major Product Type

1. Sports

Sales of the Sports product grew by approximately 29.8% year on year. This was partly driven by the UEFA FIFA World Cup which was held during the year. Sports is the strongest performing category in the lottery industry in China.

Only the Sports Lottery is permitted to offer the Sports product. There are two main game categories within Sports, single match betting and traditional football betting. Whilst both formats permit betting on FIFA Category A soccer matches (for example the English Premiership, European Champions League, the FIFA World Cup, etc.), single match betting differs from the traditional football betting category in two respects. Traditional football betting obliges the player to predict the outcome of every forthcoming match in a given period whereas in single match betting players can bet on just one event. In addition, single match betting players are not restricted to football betting since they can also bet on the United States' NBA basketball tournament. Within the single match betting category there are two game sub-types: Jing Cai, a product allowing pool or pari-mutuel betting on single matches or fixed odds betting on more than one match (multiples or accumulators) and Beijing single match (available in Beijing, Tianjing and Guangdong province only) where all bets (singles or accumulators) are pari-mutuel in nature.

2. VLT

Video lottery terminals are networked self-service lottery terminals that facilitate rapid play of themed, graphically-rich lottery games that are not available for play via the other product categories. Published figures suggest that the Welfare Lottery has an installed base of approximately 40,000 such terminals in approximately 1,700 VLT halls across the PRC. Although extremely popular and growing rapidly, due to its relatively low base, the overall contribution to national lottery sales from the VLT product remains modest. Sales in 2016 were approximately RMB45 billion, representing approximately 11% of the national market.

3. **Lotto**

Lotto contributed sales of approximately RMB245 billion during the year and remains by far the largest category in the PRC market. The annual growth in sales of 3.8% marks a turnaround from last year's decline of 12.1%. In recent years, the growth of the Lotto category has been driven by modern high (draw) frequency lottery games (HFG).

We expect both the Welfare Lottery and the Sports Lottery to seek to continue to exploit the relative popularity of HFG. Since Lucky Racing, AGT's proprietary game, is classified as a high frequency game we believe that our Virtual Sports Lottery business could benefit from this trend through the planned roll-out of Lucky Racing to more province(s) in the PRC or via new to be approved distribution channels, for example.

4. **Scratch**

In 2016, sales of Scratch tickets were approximately RMB28.5 billion, a decline of approximately 5.9% from the previous year. Sales of the Scratch product are exhibiting a multi-year downward trend. Scratch accounted for approximately 7% of the total lottery market in 2016 compared to approximately 8% and approximately 9% in the preceding two years.

BUSINESS REVIEW

Following completion of the Subscription with Alibaba Group and Ant Financial Group on 10 August 2016, AGTech has become the exclusive lottery business platform of Alibaba Group and Ant Financial Group. We believe that the transaction enhances our ability to develop and expand our existing business and in particular we expect that both our physical and remote lottery and other game business will benefit from significant potential synergies resulting from the cooperation with Alibaba Group and Ant Financial group. Detailed work is currently taking place to identify the short, medium and long-term opportunities available to the parties in order to fully capture the potential synergies. The detailed commercial arrangements that have been entered into among the parties are described under the section headed "Business Cooperation Framework Agreement" in this "Discussion and Analysis of the Group's Results and Business" section.

Games & Systems

The development and supply of lottery and other games, related software and underlying supporting system

The Games & Systems division has a reserve of rich and attractive lottery and other game content in various product categories designed to fulfill the demands of the market and players. This division also benefits from access to the market leading technology support solutions of the Group's shareholders Alibaba Group and Ant Financial Group.

Virtual Lottery Games

AGT, which is a company of which 51% is owned by the Group and 49% is owned by Ladbroke Group (one of the world's largest sports betting companies), supplies the PRC's only virtual sports lottery platform to China Sports Lottery and has successfully launched two virtual sports games in the PRC. AGT's motor racing-themed virtual game "Lucky Racing" ("幸運賽車") was launched in Hunan Province in 2011 while its football themed game "e-Ball Lottery" ("e球彩") was launched in Jiangsu Province during 2013. "Lucky Racing" and "e-Ball Lottery" are virtual sports lottery games that are broadcast to lottery shops via a central computer and cable television, allowing customers to bet on computer generated car races or football matches respectively. The betting options are like those typically offered for live car racing or live football matches in other countries. To date, "Lucky Racing" and "e-Ball Lottery" have been successfully launched in traditional dedicated Sports Lottery shops and the games are targeted to be deployed to more province(s) via this channel. In addition, in due course, the games could be deployed in selected leisure venues (such as coffee shops and restaurants). Since both games are approved lottery products as defined by MOF, we believe that both "Lucky Racing" and "e-Ball Lottery" could be introduced via the internet and mobile channel across the PRC (subject to regulatory approval) where we would expect them to be highly popular.

Throughout 2016, the Group continued to supply its virtual sports lottery games "e-Ball Lottery" and "Lucky Racing" to the launch provinces of Jiangsu and Hunan respectively. "Lucky Racing" has become a very popular lottery game in Hunan Sports Lottery. Our technical partners at the Sports Lottery have completed the technical preparation work of the national high frequency game platform and have satisfied the technical requirements necessary to carry our "Lucky Racing" to other provinces beyond Hunan and we target the game to be supplied to more PRC province(s). "e-Ball Lottery" is a football-themed virtual sports lottery game with a 69% pay-out ratio. Like "Lucky Racing", "e-Ball Lottery" is a NSLAC-approved and fully operational lottery game and has been launched in China's largest Sports Lottery province. "e-Ball Lottery" continues to operate smoothly. In close cooperation with our customer and the relevant lottery authorities in China, we are continually optimising the game and we are encouraged by the potential of this game. Like "Lucky Racing", we aim to roll out "e-Ball Lottery" to more PRC province(s) in China in due course. Virtual sports lottery, pioneered in China by AGTech, is now an established and diversified game category and is fully accepted by the PRC lottery market.

Other Categories

In addition to virtual lottery games, the Group has launched a number of strategic initiatives to introduce new types of lottery games in the PRC, including a mobile smart phone lottery game and system, a high frequency numbers-based lottery game, and other game categories new to the PRC. The Group intends to introduce these new products to the market in the future, subject to the relevant regulatory approvals.

The Group is active in the research and development of various types of, creative and non-lottery social games that are suitable to cater for the evolving tastes of China's consumers. These products will be distributed via various channels of the Alibaba Group and Ant Financial Group and elsewhere.

Hardware

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

AGTech's hardware division supplies both the Welfare Lottery and Sports Lottery and has lottery hardware deployed in multiple provinces, cities and municipalities of the PRC. The Group is a leading manufacturer and supplier of both paper scratch card sales hardware (instant ticket verification terminals, "IVT(s)") and traditional lottery terminals and enjoys international as well as domestic sales.

It is anticipated that the slow pace of ordering seen in the hardware market this year will be a temporary feature. We are continuing to pursue international opportunities for our hardware and currently the Group is in active discussions with a number of potential international customers and/or distributors and we have machines live or on trial in markets such as South Africa, Cyprus, the United Kingdom, Italy, Austria and Canada.

Thanks to the anticipated rapid technology development of the PRC, the Group believes that effective R&D activities are essential to ensure that the Group's hardware business remains up-to-date and equipped with competitive technology. The Group's hardware division plans to continue to focus on R&D, increase its domestic market share and broaden its product spectrum with new hardware ranges such as VLT which would be suitable for both domestic and international users.

Distribution

The sales and distribution of lottery and other games

Thanks to its position as the exclusive lottery and gaming provider on the Alibaba Group and Ant Financial Group lottery platforms, the Group is very well placed to take advantage of lottery sales via mobile and internet channels as and when they are approved and the Group receives the appropriate authorisation. Furthermore, the Group plans to commence offering physical lottery products via Alibaba Group's physical distribution network (including physical stores managed, co-managed or controlled by Alibaba Group). The Group continues to closely monitor policy developments with respect to the government approval of lottery sales via internet and mobile and continues to operate two offline shops for the sale and distribution of lottery games. To date, in line with the relevant lottery regulations, the Group has not conducted any internet lottery sales or maintained any website to conduct such sales.

In the internet channel, the authorities are working on a national (as opposed to provincial) internet distribution system for lottery. It is anticipated that sales of the Group's approved games, "Lucky Racing" and "e-Ball Lottery", could benefit strongly when such a system is introduced.

Away from the regulated lottery space, the Group is now positioning itself to provide non-lottery products via the Alibaba Group, Ant Financial Group and other channels. These products will include fun games like poker and other titles popular with Chinese players.

Services

The provision of ancillary services to Lottery Sales Agencies

The Group has been providing ancillary services to the PRC provincial lottery authorities since early 2007. In this time, we have provided a wide range of products and services to our provincial clients to assist them in growing sales and improving operations in an efficient manner. Our services include consulting, marketing, training and channel management.

Over many years, the track record of this division as a reliable supplier of quality lottery services to the provincial Sports Lottery authorities in China has been an important enabler of the Group's strategy, cementing the Group's first class relationships and reputation across the PRC.

The Services business' contribution to Group revenue is currently modest. However, in light of the Group's valuable experience, solid background as well as its trusting cooperative relationships built up with various provincial lottery administration and distribution authorities over the years, together with new lottery technologies/terminals to be introduced and new developments in the new internet/mobile channel business, it is expected that new opportunities for the Services business will emerge. We are currently exploring and building new business co-operations and business models in this area.

BUSINESS OUTLOOK

As the exclusive lottery business platform of Alibaba Group and Ant Financial Group we expect to benefit from significant potential synergies from our cooperation with Alibaba Group and Ant Financial Group in all areas of our business including in particular our distribution business both in terms of physical and remote (online & mobile) channels.

Our Games & Systems division continues to develop, build and deploy regulated lottery content, such as our successful virtual sports system and its first two games Lucky Racing and e-Ball as well as new lottery games and systems that are suitable for approval by the lottery authorities in China. In addition, we are working hard to research, develop and launch various types of creative, non-lottery social games that can cater for the evolving tastes of China's consumers. We will utilise the various channels of the Alibaba Group and Ant Financial Group to distribute these non-lottery products. For the regulated lottery products we will use a variety of channels including but not limited to those of the Alibaba Group and Ant Financial Group. The Group has been closely monitoring policy developments with respect to the government approval of lottery sales via online and mobile channels for many years. We believe that new online and mobile channels for lottery sales in the PRC are likely to be approved. We believe that any new games and systems that will be approved for online sales will require robust and scalable technology in order to deliver effective and efficient monitoring and control systems. We consider that the Group is well positioned to participate in these areas, particularly now that the Group is part of the Alibaba Group and Ant Financial Group family.

We believe that the PRC lottery market is likely to demand new and more sophisticated hardware solutions over time and that those solutions will increasingly be deployed as bundled products involving the supply of hardware that is integrated with lottery games and underlying supporting systems and which would typically be provided on a revenue sharing basis. Thanks to our leading positions in point of sale and handheld terminals as well as our first class international partnerships and long track-record in the PRC lottery market, we believe that AGTech is very well positioned to take advantage of such new opportunities in hardware.

Since the end of the reporting period and as announced on 18 January 2017, the Group has made a breakthrough in the area of competition poker when it was awarded an exclusive 5-year priority operation right in China by the Chess and Poker Games Administrative Centre under the General Administration of Sport of China (the "Chess and Poker Centre") for all competitive play of the Chinese card game Guan Dan through an open tender. Furthermore, AGTech has recently become one of the strategic partners and organisers of the China Competition Two-on-One Poker Championship. This development marks a major milestone for the Group and presents exciting opportunities in the coming months and years.

Taken together with the underlying revenue growth of the PRC lottery business, the numerous catalysts for strategic growth outlined above suggest a very positive outlook for the Group for the 2017 and the years ahead.

REVIEW OF OPERATING RESULTS

Revenue and Profitability

Revenue of the Group for the year under review amounted to approximately HK$251.5 million (2015: approximately HK$301.6 million), representing a decrease of approximately 16.6% over 2015. Most of the revenue was derived from lottery games and systems, hardware, distribution and ancillary services in the PRC. The decrease in revenue was mainly due to decline in the sales of lottery hardware products during the year.

During the year under review, the Group recorded gross profit of approximately HK$73.3 million (2015: approximately HK$69.2 million). The gross profit margin percentage stood at approximately 29.1% (2015: approximately 22.9%). The improvement was mainly attributable to cost savings in lottery games and systems, and the distribution and ancillary services during the year.

The operating loss for the year was approximately HK$267.6 million (2015: approximately HK$91.0 million). The increase was mainly due to the increase in selling, general and administrative expenses by approximately HK$169.9 million and such increase was due to (i) increase in staff costs by approximately HK$65.9 million due to the Group's business growth and expansion; (ii) payment of the PRC individual income tax ("IIT") of approximately HK$53.9 million in respect of the exercise of share options granted by the Company under the Share Option Schemes to its PRC subsidiaries' employees who are subject to PRC IIT; and (iii) share-based payments of approximately HK$86.6 million (2015: approximately HK$35.2 million) as a result of share options of the Company granted to Directors, eligible employees and other eligible participants under the Share Option Schemes.

During the year under review, the Company recorded profit attributable to owners of the Company of approximately HK$333.0 million (2015: loss attributable to owners of the Company of approximately HK$280.2 million). The turnaround from loss to profit attributable to owners of the Company was primarily due to non-operating gains which comprised (i) gain of HK$408.1 million from the remeasurement of the fair value of the convertible bonds; (ii) gain of HK$119.7 million from the remeasurement of the fair value of the outstanding contingent consideration payables; and (iii) gain of HK$79.3 million recognised in the profit or loss which was related to the write-back of the contingent consideration payables relating to the Bonus Options (as defined in the Score Value Circular) as the pre-conditions for the grant of the Bonus Options as stipulated in the acquisition agreement in respect of the Score Value Transaction were not fulfilled within 2 years from the date of such agreement and the Company will no longer grant the Bonus Options to the vendors of Score Value.

Liquidity and financial resources

Net bank balances and cash (defined as total bank balances and cash and pledged bank deposits less total bank borrowings) as at 31 December 2016 were approximately HK$2,336.5 million (2015: approximately HK$224.7 million). The total assets and net current assets of the Group as at 31 December 2016 were approximately HK$4,034.4 million and approximately HK$2,665.4 million respectively (2015: approximately HK$1,613.9 million and approximately HK$235.5 million respectively). Current liabilities of the Group as at 31 December 2016 were approximately HK$228.7 million (2015: approximately HK$173.0 million). As at 31 December 2016, the Group has available banking facilities denominated in RMB of up to RMB48.5 million. Total bank borrowings of the Group as at 31 December 2016 were approximately HK$45.0 million (2015: HK$22.0 million). The liquidity ratio (defined as current assets divided by current liabilities) of the Group as at 31 December 2016 was approximately 12.7 (2015: 2.4) which continuously reflected adequacy of financial resources of the Group.

Capital structure and foreign exchange risk

During the year under review, the Group financed its capital requirements through its equity, bank borrowings, its internally generated cash flows as well as the proceeds from the previous fund raising exercise and the Subscription and from the exercising by grantees of the share options granted under the Share Option Scheme. The gearing ratio (defined as bank borrowings divided by equity) of the Group as at 31 December 2016 was 0.02 (2015: 0.02).

As at 31 December 2016, the bank borrowings of the Group comprised:

(a) RMB28.1 million (equivalent to approximately HK$31.4 million) denominated in RMB, bearing interests at 3.92% per annum, and was secured by the Group's pledged bank deposit of US$5.0 million (equivalent to approximately HK$38.8 million), with credit period from 14 October 2016 to 14 October 2017; and

(b) RMB12.2 million (equivalent to approximately HK$13.6 million) denominated in RMB, bearing interests at 5.22% per annum, and was secured by the property owned by a subsidiary of the Company in the PRC, with credit period from 14 December 2015 to 8 December 2016. The bank borrowing was subsequently settled in January 2017.

As at 31 December 2016, majority of the Group's bank deposits were denominated in US$, HK$ and RMB. Since US$ is pegged to HK$, and substantially all of its revenue-generating operations, monetary assets and liabilities of the Group are conducted or transacted in functional currencies, the Group faced minimal foreign exchange risk during the year under review. The Group had neither foreign currency hedging activities nor any financial instruments for hedging purposes during the year under review.

Contingent liabilities and capital commitment

As at 31 December 2016, the Group did not have any material contingent liabilities and capital commitment.

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

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

Employees' information and remuneration policies

As at 31 December 2016, the Group had 336 (2015: 239) employees in Hong Kong and the PRC. Total staff costs (excluding Directors' emoluments) for the year ended 31 December 2016 amounted to approximately HK$122.5 million (2015: approximately HK$53.9 million).

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

Charges on Group's assets

As at 31 December 2016, bank deposits of approximately HK$41.7 million (2015: HK$15.0 million) were held in designated bank accounts to secure bank borrowings totalling approximately HK$45.0 million and letters of guarantee granted to the Group. The pledged bank deposits will be released upon the settlement of the relevant borrowings and the release of the relevant letters of guarantee granted to the Group.

Property owned by a subsidiary of the Company in the PRC was pledged with a PRC bank to secure bank borrowings totalling RMB40.3 million (equivalent to approximately HK$45.0 million) as at 31 December 2016.

Save as disclosed above, as at 31 December 2016, there was no charge on the assets of the Group.

Future plans for material investments and acquisition of capital assets

As at 31 December 2016, there was no specific plan for material investments and acquisition of capital assets that is required to be disclosed pursuant to Rule 17.10 of the GEM Listing Rules and the inside information provisions under Part XIVA of the SFO.

Significant changes to financial position

Inventories as at 31 December 2016 was approximately HK$18.8 million (2015: HK$56.3 million), with inventory turnover period increased from 64 days in 2015 to 77 days in 2016. Trade receivables as at 31 December 2016 was approximately HK$25.6 million (2015: HK$29.6 million), with debtor turnover period increased from 37 days in 2015 to 40 days in 2016. The increase in inventory turnover period reflected the decrease in the sales of lottery hardware products during the year; whereas the debtor turnover period tends to be stable as there are no significant fluctuations during the year under review.

As at 31 December 2016, gain of HK$408.1 million was recorded from the remeasurement of the fair value of the convertible bonds and gain of HK$119.7 million was recorded from the remeasurement of the fair value of the outstanding contingent consideration payables. In addition, gain of HK$79.3 million was recognized in the profit or loss which was related to a part of the contingent consideration payables as the requirements for these payables as stipulated in the acquisition agreement were not met.

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

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

Significant events after the reporting period

Details of significant events affecting the Group after the end of the year under review can be found in the paragraph headed "(d) Significant events after the reporting period" of the Directors' Report in this annual report.

SUBSCRIPTION FOR SUBSCRIPTION SHARES AND CONVERTIBLE BONDS

As disclosed in the announcement of the Company dated 4 March 2016 (the "Subscription Announcement"), the Company entered into the Subscription Agreement, pursuant to which the Company has conditionally agreed to allot and issue to the Subscriber, and the Subscriber has conditionally agreed to subscribe for:

(i) an aggregate of 4,817,399,245 new Shares (the "Subscription Shares") (representing approximately 45.9% of the issued share capital of the Company as at 31 December 2016) at a subscription price of HK$0.3478 per Share; and

(ii) convertible bonds of the Company in the aggregate principal amount of HK$712,582,483 (the "Convertible Bonds"), which shall entitle the bondholders to subscribe for up to 2,048,918,721 Shares (the "Conversion Shares") at an initial conversion price of HK$0.3478 per Share (subject to adjustment).

As disclosed in the announcements of the Company dated 16 March 2016, 23 March 2016, 10 May 2016, 26 May 2016, 29 August 2016, 23 September 2016, 18 October 2016 and 23 November 2016, the conversion price of the Convertible Bonds was adjusted to HK$0.2915 per Share as of 31 December 2016 (the "Adjusted Conversion Price").

The aggregate nominal value of the 4,817,399,245 Subscription Shares issued under the Subscription Agreement is approximately HK$9,634,798. The subscription price of HK$0.3478 per Share under the Subscription and the Adjusted Conversion Price of HK$0.2915 per Share represents a discount of approximately 82.5% and approximately 85.4% respectively to the closing price of HK$1.99 per Share as quoted on the Stock Exchange on 4 March 2016, being the date of the Subscription Agreement.

Completion of the Subscription (the "Completion") took place on 10 August 2016 following satisfaction and waiver of the conditions precedent in accordance with the terms of the Subscription Agreement. A total of 4,817,399,245 Subscription Shares and Convertible Bonds in the aggregate principal amount of HK$712,582,483 were issued and allotted to the Subscriber in accordance with the terms and conditions of the Subscription Agreement. The allotment and issue of the Subscription Shares and the Conversion Shares under a specific mandate were approved by the independent Shareholders at the New SGM.

Partial conversion of the Convertible Bonds

On 10 August 2016, the Company received a conversion notice from the Subscriber in respect of the exercise of conversion rights attaching to the Convertible Bonds in an aggregate principal amount of HK$205,347,555. Accordingly, the Company has allotted and issued an aggregate of 685,324,748 Conversion Shares (representing approximately 6.5% of the issued share capital of the Company as at 31 December 2016) to the Subscriber at the then adjusted conversion price of HK$0.2996 per Share on the same day. Such Conversion Shares rank pari passu with all the existing Shares as at the date of allotment and among themselves in all respects. Immediately following the aforesaid partial conversion of the Convertible Bonds, the Subscriber held a total of 5,502,723,993 Shares (representing approximately 52.4% of the issued share capital of the Company as at 31 December 2016).

Convertible Bonds in an aggregate principal amount of HK$507,234,928 remained outstanding as at 31 December 2016 and the maximum number of Conversion Shares that would be issued upon full conversion of such outstanding Convertible Bonds at the Adjusted Conversion Price of HK$0.2915 per Share as at 31 December 2016 was 1,740,018,239 (representing approximately 16.6% of the issued share capital of the Company as at 31 December 2016 and approximately 14.2% of the issued share capital of the Company as enlarged by such outstanding Conversion Shares).

Assuming that the aforesaid outstanding Convertible Bonds were converted in full as at 31 December 2016, the respective shareholdings of the substantial shareholders of the Company would have been changed as follows:

	Before conversion of outstanding Convertible Bonds in full		Immediately after conversion of outstanding Convertible Bonds in full	
Name of substantial Shareholders	**Number of Shares held**	**% of total issued Shares**	**Number of Shares held**	**% of total issued Shares**
Ali Fortune	5,502,723,993	52.43%	7,242,742,232	59.20%
Mr. Sun Ho and his wholly-owned corporation, MAXPROFIT GLOBAL INC	2,033,328,000	19.37%	2,033,328,000	16.62%
Total issued Shares as at 31 December 2016	**10,494,956,270**		**12,234,974,509**	

As at 31 December 2016, the Company had cash and bank balances totalling approximately HK$2,769.2 million, which were more than sufficient to meet its redemption obligations under the outstanding Convertible Bonds in the aggregate principal amount of HK$507,234,928.

As the Convertible Bonds bear no interest on the principal amount, it would be equally financially advantageous for the bondholders to convert or redeem the Convertible Bonds (and therefore the bondholders would be indifferent as to whether the Convertible Bonds are converted or redeemed) in the event that the price of each Share traded on the Stock Exchange equals the then adjusted conversion price of the Convertible Bonds.

Implications under GEM Listing Rules and compliance with Takeovers Code

At the time of entering into the Subscription Agreement, the Subscriber and its ultimate beneficial owners were parties independent of the Company and the connected persons (as defined under the GEM Listing Rules) of the Company. Following Completion, the Subscriber has become the "controlling shareholder" (and hence a "connected person") of the Company under the GEM Listing Rules.

In respect of both the Subscription Shares and the Conversion Shares, the Subscriber made a Whitewash Waiver application to the Executive. The Whitewash Waiver (in respect of both the Subscription Shares and the Conversion Shares) was granted by the Executive and approved by the independent Shareholders at the New SGM by way of a poll.

Reasons for the Subscription

The reasons for the Subscription can be found in the section headed "REASONS FOR THE SUBSCRIPTION" in the Subscription Announcement. Having considered the various factors stated therein, the Directors (who served on the Board before Completion) considered that the terms of the Subscription were fair and reasonable and on normal commercial terms and the entering into of the Subscription Agreement was in the interests of the Company and the Shareholders as a whole.

Key terms of the Convertible Bonds

- The Convertible Bonds bear no interest on the principal amount. However, if the Company shall pay any dividend in cash or scrip to the Shareholders, each bondholder shall be entitled to be paid interest in respect of that dividend as if the Convertible Bonds held by such bondholder have been converted into Shares in full at the applicable conversion price.

- The Convertible Bonds may be converted by the Subscriber in full or in part at any time during the period on or after the issuance date of the Convertible Bonds and up to the maturity date (which is the third anniversary of the date of issuance of such bonds), provided that, following such conversion, (i) at least 25% of the Company's total number of issued Shares are held by the public (as defined under the GEM Listing Rules); and (ii) the Company is otherwise in compliance with the public float requirements under Rule 11.23(7) of the GEM Listing Rules.

- On the other hand, the Company may, by giving prior written notice to the bondholders, require all (but not any one) of the bondholders to convert their Convertible Bonds into Shares in full at any time on or after the issuance date of the Convertible Bonds and up to a date no later than five business days prior to the aforesaid maturity date, provided that, following such conversion, (i) at least 25% of the Company's total number of issued Shares are held by the public (as defined under the GEM Listing Rules); and (ii) the Company is otherwise in compliance with the public float requirements under Rule 11.23(7) of the GEM Listing Rules.

- Following the occurrence of any special event as set out in the bond instrument in respect of the Convertible Bonds, such as change of control, each bondholder will have the right to require the Company to redeem in whole but not in part such bondholder's Convertible Bonds at 112% of the principal amount of such Convertible Bonds.

- The conversion price of the Convertible Bonds will be subject to customary anti-dilution adjustment for, among other things, consolidation, subdivision or reclassification of the Shares, capitalisation of profits or reserves, capital distribution, rights issues of Shares or options over Shares, rights issues of other securities and other dilutive events.

- If the Company shall issue Shares or grant options to subscribe for any Shares under the Score Value Transaction, or shall issue Shares under the Rainwood Options or the Consultant Options, the conversion price of the Convertible Bonds shall be adjusted in a manner so that:

  (i) the shareholding of the Subscriber (the "Subscriber Shareholding") in the Company (based on the number of Shares that the Subscriber acquired upon Completion and that it (or any of its affiliates) continues to hold plus such Shares that the Subscriber would acquire upon conversion of the Convertible Bonds in full) on a fully-diluted basis immediately following the issuance of such Shares and/or the grant of such options

  is equal to:

  (ii) the Subscriber Shareholding immediately prior to the issuance of such Shares and/or the grant of such options.

  Following such adjustment due to the grant of the options under the Score Value Transaction, the conversion price of the Convertible Bonds shall not be further adjusted when such options are exercised.

  If, at the time all or any part of the Convertible Bonds are to be converted into Shares, there are outstanding options to subscribe for Shares under the Rainwood Options or the Consultant Options, the conversion price of the Convertible Bonds shall be adjusted as if such options had been exercised.

- The payment obligations of the Company under the Convertible Bonds shall, save for such exceptions as may be provided by mandatory provisions of applicable laws, at all times rank at least equally with all of the Company's other present and future direct, unsubordinated, unconditional and unsecured obligations.

- No application will be made for a listing of the Convertible Bonds.

Use of proceeds from the Subscription

The aggregate consideration for the Subscription Shares and the Convertible Bonds received by the Company from the Subscriber upon Completion amounted to HK$1,675,417,517 and HK$712,582,483, respectively, totalling HK$2.388 billion in cash. The net proceeds, after taking into account the expenses in relation to the Subscription, shall be approximately HK$2.38 billion ("Net Proceeds"), representing a net price of approximately HK$0.3466 per Subscription Share as originally contemplated under the Subscription Agreement as at its execution date on 4 March 2016 (without taking into consideration any subsequent adjustments to the conversion price of the Convertible Bonds).

The Group financed its operations primarily with internally generated cash flows, bank borrowings as well as the proceeds from previous fund raising exercise and the Subscription and from the exercising by grantees of the share options granted under the Share Option Schemes. Immediately upon Completion, the cash position of the Group has been substantially strengthened by approximately HK$2.38 billion.

The Net Proceeds will be used to fund the existing operations and future development of the Company's existing principal businesses. In particular, the Group plans to utilise approximately HK$1,330 million (representing approximately 55.88% of the Net Proceeds) within 12 months from 10 August 2016 (i.e. the date of Completion) and such proceeds shall be allocated to each of the business segments of the Group and for general corporate purposes as set out below and in the section headed "USE OF PROCEEDS" on pages 45 to 51 of the Whitewash Circular.

	Business segments of the Group, or general corporate purposes, to which the Net Proceeds are intended to be allocated	**Amount intended to be used within 12 months from the date of Completion on 10 August 2016 (as disclosed in the Whitewash Circular)**	**Aggregate amount actually used from the date of Completion on 10 August 2016 up to and including 31 December 2016**	**Actual application of Net Proceeds (with explanations for material deviation from intended usage, if any)**
(i)	**Games and systems**: Expansion of the Group's existing business in relation to the development of lottery games, related software and underlying supporting systems			
(a)	*capital investment in on-going development of new lottery games to be introduced to the market pending regulatory approval (approximately HK$300 million to be allocated)*	approximately HK$100 million	Nil	NA
(b)	*research and development of new lottery products of the Group (approximately HK$300 million to be allocated)*	approximately HK$100 million	Nil	NA
(c)	*expansion and development of the Group's research and development ("R&D") capability in technology development for games and systems (approximately HK$150 million to be allocated)*	approximately HK$50 million	approximately HK$18.9 million	Staff costs for new expansion of the R&D team of the Group

Business segments of the Group, or general corporate purposes, to which the Net Proceeds are intended to be allocated	Amount intended to be used within 12 months from the date of Completion on 10 August 2016 (as disclosed in the Whitewash Circular)	Aggregate amount actually used from the date of Completion on 10 August 2016 up to and including 31 December 2016	Actual application of Net Proceeds (with explanations for material deviation from intended usage, if any)
(d) acquisition of lottery systems and lottery games or companies which have such systems and games (approximately HK$400 million to HK$800 million to be allocated)	approximately HK$500 million	Nil	NA
(e) funding the remaining consideration for the Score Value Transaction contingent upon certain performance targets (approximately HK$50 million to be allocated)	approximately HK$50 million	Nil	NA
Sub-total for "Games and systems":	**approximately HK$800 million**	**approximately HK$18.9 million**	

- Total amount earmarked for "Games and systems": approximately HK$1,200 million or approximately 50.42% of Net Proceeds
- Remaining balance of Net Proceeds still available for "Games and systems" as at 31 December 2016: approximately HK$1,181.1 million

(ii) **Hardware**:

R&D activities to upgrade the Group's hardware products with more sophisticated technology that are supplied to customers based on a revenue-sharing model	**approximately HK$80 million**	**Nil**	**NA**

- Total amount earmarked for "Hardware": approximately HK$120 million or approximately 5.04% of Net Proceeds
- Remaining balance of Net Proceeds still available for "Hardware" as at 31 December 2016: approximately HK$120 million

	Business segments of the Group, or general corporate purposes, to which the Net Proceeds are intended to be allocated	Amount intended to be used within 12 months from the date of Completion on 10 August 2016 (as disclosed in the Whitewash Circular)	Aggregate amount actually used from the date of Completion on 10 August 2016 up to and including 31 December 2016	Actual application of Net Proceeds (with explanations for material deviation from intended usage, if any)
(iii)	**Distribution**: Expansion/constructions of the Group's sales and distribution offline/online network			
(a)	*expansion of offline sales and distribution business (approximately HK$100 million to be allocated)*	approximately HK$50 million	approximately HK$36.3 million	Investment for expansion of offline sales business
(b)	*marketing and advertising campaigns for its existing offline lottery games (approximately HK$100 million to be allocated)*	approximately HK$50 million	Nil	NA
(c)	*acquisitions of online and offline distributors (approximately HK$250 million to be allocated)*	approximately HK$150 million	Nil	NA
(d)	*online sales and distribution of lottery products (including but not limited to the future cooperation with Taobao (China) Software Co., Ltd. and Alipay.com Co., Ltd.) (approximately HK$400 million to be allocated)*	approximately HK$100 million	Nil	NA
Sub-total for "Distribution":		**approximately HK$350 million**	**approximately HK$36.3 million**	

- Total amount earmarked for "Distribution": approximately HK$850 million or approximately 35.71% of Net Proceeds
- Remaining balance of Net Proceeds still available for "Distribution" as at 31 December 2016: approximately HK$813.7 million

Business segments of the Group, or general corporate purposes, to which the Net Proceeds are intended to be allocated	Amount intended to be used within 12 months from the date of Completion on 10 August 2016 (as disclosed in the Whitewash Circular)	Aggregate amount actually used from the date of Completion on 10 August 2016 up to and including 31 December 2016	Actual application of Net Proceeds (with explanations for material deviation from intended usage, if any)
(iv) **General corporate purposes:**			
(a) *repayment of existing debts of the Group (approximately HK$60 million to be allocated)*	approximately HK$60 million	approximately HK$31.5 million	Repayment of bank borrowings of the Group
(b) *general working capital of the Group (approximately HK$150 million to be allocated)*	approximately HK$40 million	approximately HK$40 million	Approximately HK$40 million were used as general working capital of the PRC subsidiaries of the Company
Sub-total for "General corporate purposes":	**approximately HK$100 million**	**approximately HK$71.5 million**	

- Total amount earmarked for "General corporate purposes": approximately HK$210 million or approximately 8.82% of Net Proceeds
- Remaining balance of Net Proceeds still available for "General corporate purposes" as at 31 December 2016: approximately HK$138.5 million

Grand total:	**approximately HK$1,330 million**	**approximately HK$126.7 million**	

- Total remaining balance of Net Proceeds as at 31 December 2016: approximately HK$2,253.3 million (Note)

Note: Remaining balance of Net Proceeds is placed in the bank accounts of the Group.

Business Cooperation Framework Agreement

A Business Cooperation Framework Agreement (as defined in the Whitewash Circular) has been entered into among Taobao (China) Software Co., Ltd. ("Taobao Software", a subsidiary of Alibaba Holding), Alipay.com Co., Ltd. ("Alipay", a wholly-owned subsidiary of Ant Financial) and the Company at Completion, pursuant to which the Group has become the exclusive business platform of Alibaba Group and Ant Financial Group for the lottery business.

It is contemplated under the Business Cooperation Framework Agreement that the Group shall pay service fees to the relevant members of Alibaba Group and Ant Financial Group determined as a certain percentage of the commission income received by the Group for lottery sales contributed by the online lottery players introduced through Alibaba Group and Ant Financial Group's platforms. Further, Taobao Software and Alipay will provide technical services and resources, such as, cloud computing services and e-commerce, to the Group on a service fee to be agreed by the parties.

For the purposes of the implementation of part of the business cooperation contemplated under the Business Cooperation Framework Agreement, the Company entered into the Business Cooperation Agreement with Alibaba Holding on 25 January 2017 setting out the specific terms and conditions of the business cooperation, and the transactions contemplated under such agreement constitutes CCTs. Further details of such CCTs are disclosed in the announcement of the Company dated 25 January 2017.

Furthermore, the Company entered into a definitive framework agreement with Alipay.com Co., Ltd.* on 23 March 2017 setting out the specific terms and conditions of the business cooperation. Further details of such agreement are disclosed in the announcement of the Company dated 23 March 2017.

Increase in authorised share capital

In order for the Company to carry out the Subscription and to fulfill its pre-existing obligations involving the issue of Shares, the Company's authorised share capital has been increased from HK$20,000,000 (divided into 10,000,000,000 Shares) to HK$40,000,000 (divided into 20,000,000,000 Shares) by the creation of an additional 10,000,000,000 Shares, and such increase has been approved by the Shareholders at the New SGM.

SETTLEMENT OF PRC TAX LIABILITY

As disclosed in the announcement of the Company dated 4 July 2016 (the "Special Deal and Connected Transaction Announcement"), it has come to the attention of the Company that the Group had, in the past, failed to withhold PRC individual income tax ("IIT") that is payable under relevant PRC tax laws in respect of the exercise of share options granted by the Company to its PRC subsidiaries' employees who are subject to PRC IIT (the "PRC Employees") under the Share Option Schemes.

Since becoming aware of this non-compliance issue, the Company has adopted a policy with effect from 18 December 2015 to ensure that the IIT is properly collected by the Group from the PRC Employees as required by the relevant PRC tax laws in relation to the share options granted by the Company to the PRC Employees and exercised by such employees. Under the new policy, the PRC Employees have to pay any IIT payable upon the exercise of share options. However, given the Group's prior practice, such policy does not apply retrospectively to any share options that had been exercised before the implementation of such policy.

During the period from 1 January 2011 (being approximately five years from the date of the Special Deal and Connected Transaction Announcement) to 17 December 2015 (being the day immediately before the new policy mentioned above took effect), the Company had issued a total of 118,678,603 Shares to a total of 37 PRC Employees (the "Relevant Employees") upon exercise by such employees of the share options granted under the Share Option Schemes.

The Group had made an arrangement with the relevant PRC tax authorities for the settlement of the under-withheld IIT, where such under-withheld IIT was borne and settled by the Group on a grossed-up basis (the "Grossed-up Tax") (which means the share option income received by the PRC Employees was regarded as net income and the settlement by the employer of the IIT constituted an employment benefit which, in itself, was a taxable employment benefit subject to IIT) (the "Tax Settlement").

During the year, for the purpose of the Tax Settlement, the Group used its internal cash resources (other than the proceeds received from the Subscription) to pay Grossed-up Tax totalling approximately RMB47.8 million (equivalent to approximately HK$53.9 million).

The Tax Settlement has resulted in the release of the personal liability of the Relevant Employees under the applicable PRC tax laws in respect of their relevant under-withheld IIT (the "Release of Tax Liability of Relevant Employees"), and constitutes:

(a) a non-exempt connected transaction for the Company in respect of those Relevant Employees who are "connected persons" of the Company (the "Connected Employees") and is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules, as two of the Relevant Employees (namely, Mr. Bai Jinmin and Mr. Liang Yu) were former executive Directors before Completion and two of the Relevant Employees (namely, Mr. Yang Xinwei and Ms. Wang Liying) are currently or was, during the past 12 months preceding the date of the Special Deal and Connected Transaction Announcement, directors of a subsidiary of the Company (other than an insignificant subsidiary within the meaning of the GEM Listing Rules); and

(b) a special deal of the Company under Rule 25 of the Takeovers Code (the "Special Deal") in respect of those Relevant Employees who are Shareholders, as it confers a benefit on such Shareholders. The Special Deal requires (i) the consent of the Executive; (ii) the opinion of the independent financial adviser to the independent board committee of the Board and the independent Shareholders that the terms of the Special Deal are fair and reasonable; and (iii) the approval of the independent Shareholders by way of poll at the New SGM.

The Company has obtained the approval from independent Shareholders for the Release of Tax Liability of Relevant Employees who are Connected Employees and Shareholders at the New SGM. Further details of the Tax Settlement and the Release of Tax Liability of Relevant Employees can be found in the supplemental circular of the Company dated 14 July 2016.

UPDATE ON SCORE VALUE TRANSACTION

(i) Performance of the Score Value Group during the year under review

The Shenzhen Subsidiary of Score Value recorded audited net profit after taxation of approximately RMB20.5 million (equivalent to approximately HK$23.0 million) for the year ended 31 December 2016, and together with its audited net profit after taxation of approximately RMB20.6 million (equivalent to approximately HK$24.8 million) for the year ended 31 December 2015, amounted to an aggregate of approximately RMB41.1 million (the "Aggregate Net Profit for 2015 and 2016").

As disclosed in the Score Value Circular, a profit guarantee of not less than RMB40 million for the aggregate net profit after taxation of the Shenzhen Subsidiary for the two financial years ended 31 December 2015 and 2016 (the "2016 Profit Guarantee") was provided by the vendors of Score Value. Accordingly, the Aggregate Net Profit for 2015 and 2016 achieved by the Shenzhen Subsidiary exceeded the 2016 Profit Guarantee.

(ii) Status of outstanding deferred consideration for the Score Value Transaction

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

As of the date hereof, the Game Approval Pre-condition has not yet been fulfilled but the parties to the Score Value Agreement have mutually agreed to further extend the deadline for fulfilment of such pre-condition to 30 June 2017. Accordingly, the First Deferred Consideration, Second Deferred Consideration and Third Deferred Consideration as described under the paragraph headed "Deferred Consideration" on page 9 of the Score Value Circular have not been paid to the vendors of Score Value.

In addition, as mentioned above, the Shenzhen Subsidiary of Score Value has achieved the 2016 Profit Guarantee. In accordance with the Score Value Agreement, the Purchaser or the Company shall pay to the vendors of Score Value a further amount of HK$30 million which shall be satisfied as to HK$15 million in cash (subject to any amount therefrom that should be withheld by the Company on behalf of such vendors to satisfy their tax obligations under PRC law) and as to HK$15 million by the Company allotting and issuing 10,135,135 Consideration Shares (as defined in the Score Value Circular) to the vendors of Score Value within fifteen business days after the issue of the audit report of the Shenzhen Subsidiary of Score Value for the year ended 31 December 2016. Such Consideration Shares are not subject to any lock-up restriction. Furthermore, as the pre-conditions for the grant of the Bonus Options were not fulfilled within 2 years from the date of the Score Value Agreement, the Company will no longer grant the Bonus Options to the vendors of Score Value.

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Mr. Sun Ho – Executive Director, Chairman & CEO

Mr. Sun Ho, aged 48, is the executive Director, chairman & CEO, authorised representative, compliance officer, member of the nomination committee, and chairman of the corporate governance committee and risk management and internal control committee of the Company. He is also the director of various subsidiaries of the Company and is responsible for the strategic planning, business development and general management of the Group.

Mr. Sun also has extensive experience in auditing and financial management of enterprises. He holds a bachelor degree in Economics from the University of Sydney in Australia and a master degree in Corporate Finance from the Hong Kong Polytechnic University. Mr. Sun is a member of CPA Australia and a fellow member of the Hong Kong Institute of Certified Public Accountants.

Mr. Zhou Haijing – Executive Director and Chief Financial Officer

Mr. Zhou, aged 40, is an executive Director, chief financial officer of the Group and a member of the risk management and internal control committee of the Company. Mr. Zhou joined Alibaba Holding in May 2008. Before joining the Group, Mr. Zhou served as a finance director at the financial planning and analysis department of Alibaba Group and was responsible for budgeting, forecasting and financial analysis for Alibaba Group. Mr. Zhou had extensive financial knowledge and deep understanding of Alibaba Group's businesses including the lottery business. He provided assistance to the senior management and the chief financial officer of Alibaba Group in data and financial analysis during the decision making process.

From 2001 to 2008, Mr. Zhou worked for PricewaterhouseCoopers as audit manager and was a member of each of Certified General Accountants Association of Canada and the Chinese Institute of Certified Public Accountants. He holds a bachelor degree from Tsinghua University School of Economics and Management and a master degree from Sichuan University.

Mr. Zhang Qin – Non-executive Director

Mr. Zhang, aged 43, is a non-executive Director. He joined Alibaba Group in January 2006. He is currently the Vice President of Corporate Development for Alibaba Group. Before the current position, he led Taobao.com marketplace operations, eTao.com and Alibaba's Search Business Unit, 1688.com B2B operations and advertisement business, and Yahoo! Search in China respectively.

He has over 10 years of experience in the internet and e-commerce industry. He holds a bachelor degree in Computer Software from Peking University and a Master of Business Administration degree from China Europe International Business School.

Mr. Yang Guang – Non-executive Director

Mr. Yang, aged 39, is a non-executive Director. He joined Alibaba Group in September 2007. He is currently the general manager of the department of supply chain innovation of Alibaba Group and is responsible for innovative product and business in supply chain and logistics services in Taobao.com. Mr. Yang has extensive experience in the internet industry and the lottery industry. Before the current position, Mr. Yang led the operation team of consumer electronics product in Taobao.com. Mr. Yang was one of the core members of the team responsible for the establishment of Tmall.com and Taobao Travel. From 2012 to 2015, Mr. Yang was responsible for Taobao.com's innovative business including Taobao Lottery. He graduated from Jilin University, majoring in biological pharmacy.

Mr. Ji Gang – Non-executive Director

Mr. Ji, aged 42, is a non-executive Director. He joined Ant Financial in January 2016 as Vice President and Head of Strategic Investment. He is responsible for the global strategic investments for Ant Financial and has many years of experience in investment and the internet industry. Before joining Ant Financial, he served Alibaba Group as Vice President and was responsible for strategic investment. He holds a bachelor degree in international business management from University of International Business and Economics.

Mr. Zhang Wei – Non-executive Director

Mr. Zhang, aged 39, is a non-executive Director. He joined Ant Financial in May 2015. He is currently the general manager of the merchant development division for the payment business of Ant Financial Group and is responsible for the cooperation with merchants and the development of the innovation business. Mr. Zhang has many years of experience in the internet industry and payment service industry. From 2003 to 2006, Mr. Zhang was senior business manager of the external media cooperation division of Sina Corporation and was responsible for liaising with external media. From 2007 to 2015, he worked as director for Internet Media Development at Tencent Holdings Limited and was in charge of various major projects relating to business development, branding and marketing. Mr. Zhang holds an associate degree in automobile application from Hubei University of Automotive Technology.

Ms. Monica Maria Nunes – Independent Non-executive Director

Ms. Monica Maria Nunes, aged 48, has been appointed as independent non-executive Director as well as chairperson of each of the audit, remuneration and nomination committees of the Company. She was first appointed as an executive director of Vodatel Networks Holdings Limited ("Vodatel"), the shares of which are listed on GEM (stock code: 8033), on 13th December 1999. She is the finance director and the Compliance Officer of Vodatel. She graduated from the University of Calgary, Canada with a bachelor degree in commerce and from the University of Hong Kong, with a master degree in social sciences. She has over 22 years of accounting and banking experience. She holds a Certified Management Accountant Designation of Certified Management Accountants of Alberta, Canada. She is a member of the Chartered Professional Accountants of Alberta, Canada and is entitled to use the designation Chartered Professional Accountant. She is an associate of the Chartered Institute of Management Accountants and is entitled to use the description Chartered Management Accountant. She is also entitled to hold and use the designation of Chartered Global Management Accountant.

Mr. Feng Qing – Independent Non-executive Director

Mr. Feng Qing, aged 63, was appointed as the independent non-executive Director of the Company on 4 May 2015. Mr. Feng Qing is the chairman of Beijing Yi Xin Tech Corporation. Mr. Feng was the author of the marketing economics book titled "Practical Market Theory (實用市場理論)" which was well received by the market, and became an instrumental reading in learning western economics. In 1983, Mr. Feng commenced study of macroeconomics in Switzerland.

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

Dr. Gao Jack Qunyao – Independent Non-executive Director

Dr. Gao Jack Qunyao, aged 58, was appointed as the independent non-executive Director of the Company on 6 May 2015. Dr. Gao has extensive experience in information technology ("IT"), media and entertainment, and venture capital. He is currently the Group Vice President and CEO of International Investments and Business Department of 北京萬達文化產業集團有限公司 (Beijing Wanda Culture Industry Group Co., Ltd.*); Vice Chairman of Infront Sports & Media AG; founder and president of Gao Entertainment LLC; an independent director of AirMedia Group Inc. (the American depositary shares ("ADSs") of which are listed on NASDAQ under the symbol: AMCN); and an independent director of 萬通投資控股股份有限公司 (Vantone Holdings Co., Ltd.*). Dr. Gao was previously a director of Bona Film Group Limited (the ADSs of which are listed on NASDAQ under the symbol: BONA); and an alternate director of Phoenix Satellite Television Holdings Limited (a company listed on the Stock Exchange under stock code: 2008). Dr. Gao is also the adjunct professor (客座教授) of the Business School of The Chinese University of Hong Kong. He is the author of the book titled "體驗微軟 (Experience Microsoft)" which has a wide readership in China IT communities.

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

SENIOR MANAGEMENT

Mr. Bai Jinmin – Chief Operating Officer of the Group

Mr. Bai Jinmin is the Chief Operating Officer of the Group. He is also the director of various subsidiaries of the Company in the PRC, responsible for their operational supervision.

Mr. Bai has over 20 years of extensive experience in business development, investment, corporate management and strategic planning. Prior to joining the Group, Mr. Bai was the director of Louis Dreyfus Energy (SPEC) Pte Ltd., managing director of SPEC Overseas (Holdings) Pte Ltd., vice president of Shenzhen Petrochemical Industry Co., Ltd., chairman of Shenzhen GETOS Fine Silicones Co., Ltd., director of Sinoying Logistics Pte Ltd. and executive director of STAR Pharmaceutical Limited, the issued shares of which are listed on Singapore Exchange Limited.

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

Mr. Liang Yu – President of Legal and Compliance of the Group

Mr. Liang Yu is the President of the Group responsible for the Group's legal and compliance matters. He also acts as director of various subsidiaries of the Company in the PRC, responsible for their business development, strategic planning and operational supervision.

Mr. Liang has more than 20 years of law practice experience. Before joining the Company, Mr. Liang was a partner with Haiwen & Partners, a law firm in the PRC. He advised clients on a variety of legal issues involving foreign direct investment and private equity investment in the PRC as well as other forms of foreign trade and economic cooperation activities.

He received his LL.B degree from the University of International Business & Economics in Beijing, the PRC in 1994 and his LL.M degree from the New York University Law School in New York, the United States of America in 2003.

Mr. Cheng Guoming – President of Investment and Global Strategy of the Group

Mr. Cheng Guoming is the President of the Group responsible for the Group's investment and global strategy. Mr. Cheng has extensive experience in China lottery business, private equity investments, special opportunities (e.g. distressed assets and rescue financing), cross-border transactions and operation management of investments in China and overseas. Before joining the Company, Mr. Cheng held various major positions in other renowned or listed companies, including executive director of the global special opportunities group department of J.P. Morgan Securities (Asia Pacific) Limited; director of Greater China – Advisory of HSBC Markets (Asia) Limited; head of investment department of Shanghai Industrial Holdings Limited (a company listed on the Stock Exchange, stock code: 363); deputy chief financial officer (and chief financial officer, China region) of China LotSynergy Holdings Limited (a company listed on the Stock Exchange, stock code: 1371); and senior manager of the reorganisation services group department of Deloitte Touche Tohmatsu Hong Kong. Mr. Cheng holds a bachelor of economics degree from Fudan University in China, and is a non-practising member of the Shanghai Institute of Certified Public Accountants.

Mr. Ng Lok Ming, William – Company Secretary

Mr. Ng Lok Ming, William has been appointed as company secretary of the Company, an authorised representative under Rule 5.24 of the GEM Listing Rules, an authorised representative to accept on behalf of the Company the service of process in Hong Kong under the Companies Ordinance and a member of each of the corporate governance committee and risk management and internal control committee of the Company.

Mr. Ng has more than 9 years of experience working in senior legal positions and as company secretary of companies listed in Hong Kong. Mr. Ng graduated from the University of Hong Kong with a LL.B. and a P.C.LL. in 1995 and 1996, respectively. He later obtained a LL.M. in Comparative and PRC law from the City University of Hong Kong in 2002. Mr. Ng was admitted as a solicitor of the High Court of Hong Kong in 2001. He is also a member of the Law Society of Hong Kong.

Mr. Robert Geoffrey Ryan – Head of Gaming

Mr. Robert Geoffrey Ryan is the head of gaming of the Company. He is also the director of various subsidiaries of the Company, responsible for corporate strategic planning and business development.

Mr. Ryan brings to the Company over 24 years of experience in senior roles within the international gaming and wagering industry. Mr. Ryan has accumulated a broad range of operational, business development and implementation expertise across industry sectors including sports betting operations, on-line lottery operations, pari-mutuel and fixed odds wagering, electronic gaming machine (EGM) and video lottery terminal (VLT) operations, casino operations and gaming systems implementation/integration. Through his tenure with Australia's leading gaming companies, Tabcorp Holdings Limited (Australia's largest gaming and wagering company), Jupiters Limited (casinos and hospitality) and AWA Limited (gaming systems), Mr. Ryan has developed and/or managed gaming operations within Asia and the Asia Pacific region including India, Malaysia, Philippines, Vietnam and Thailand. In his previous role of Regional Manager with Tabcorp, Mr. Ryan was instrumental over a 3-year campaign to have Tabcorp systems, lottery game designs and operations approved in China at the central government level. Mr. Ryan provides advice and assistance to the Group with respect to gaming operations design and implementation, business development and gaming business review.

Mr. Fu Xiaobing

Mr. Fu was appointed as the Chief Technical Officer of the Company. Mr. Fu has over 12 years of experience in the lottery industry in terms of technology business research and development. Prior to joining the Group, Mr. Fu was the chief of the Lottery Technology Security Research and Development Centre in Chinese Academic of Sciences. Mr. Fu has rich experience with lottery industry as well as system architecture technology and has been engaged in researching and developing lottery games, lottery system security, testing as well as industry standard development. Mr. Fu holds a bachelor degree in Engineering from China University of Petroleum as well as EMBA from Renmin University of China.

Mr. Liu Meng

Mr. Liu Meng is the general manager of two subsidiaries of the Company, namely 亞博泰科科技(北京)有限公司 (Asia Gaming Technologies (Beijing) Co., Ltd.*) and a subsidiary of Score Value.

Mr. Liu has been working in the China's lottery industry for many years. He has solid experience in lottery game design; research, development and operational maintenance of lottery technical systems; and team and organisational leadership. Prior to joining the Group, Mr. Liu was the Vice President and Head of Research and Development Centre of 中體彩科技發展有限公司 (China Sports Lottery Technology Group*); and deputy general manager of 北京中體駿彩信息技術有限公司 (China Sports Lottery HKJC Infotech (Beijing) Co., Ltd*), responsible for managing the development of lottery game related technologies, research and development of various kinds of technical systems and project management. Mr. Liu holds a Bachelor of Science degree from Nanjing University and a Master of Science degree from Peking University, the PRC.

Mr. Luo Shihui

Mr. Luo Shihui is the general manager of 世紀星彩企業管理有限公司 (China Lottery Management Co., Ltd.*) and 深圳市銀溪數碼技術有限公司 (Shenzhen Silvercreek Digital Technology Co., Ltd.*), both being indirect wholly-owned subsidiaries of the Company.

Mr. Luo has been working in the China's lottery industry for many years. Prior to joining the Group, Mr. Luo was deputy general manager of 北京太盈科技發展有限公司 (Beijing TaiYing Technology Development Co., Ltd.*), and possessed extensive experience in lottery business management, market operations and project negotiations. As a member of the Group's senior management, Mr. Luo has made remarkable contributions in various significant projects. Mr. Luo graduated from 南昌航空工業學院 (Nanchang Institute of Aeronautical Technology*) (now known as 南昌航空大學 (Nanchang Hangkong University*)) majoring in business administration and marketing.

Mr. Geaspar Byrne, CFA

Mr. Geaspar Byrne is Vice President Investment & Global Strategy and Head of Investor Relations of the Company.

Mr. Byrne joined AGTech in 2012. Prior to this, he was employed by Deutsche Bank as a Corporate Finance professional in London and New York, specialising in the Gaming industry. Mr. Byrne has extensive experience of multi-jurisdictional mergers and acquisitions as well as capital raisings of all types. Over the past 16 years, Mr. Byrne has been directly involved in many of the global Gaming industry's most significant transactions.

Mr. Byrne holds a bachelor degree (Hons) in Financial & Business Economics from Newcastle University and is a Chartered Financial Analyst (CFA) charterholder.

Mr. Adam Greenblatt

Mr. Adam Greenblatt is a director of three of the Company's subsidiaries, namely Asia Gaming Technologies Limited, 亞博泰科科技（北京）有限公司 (Asia Gaming Technologies (Beijing) Co., Ltd.*), and 亞博泰科科技（天津）有限公司 (Asia Gaming Technologies (Tianjin) Co., Ltd.*). Mr. Greenblatt has previously been appointed in 2010 as Director of Corporate Development at Ladbrokes, a major UK-listed international betting and gaming company. Mr. Greenblatt began his career as a Chartered Accountant in the UK with Arthur Anderson before moving into mergers and acquisitions at renowned international investment bank Rothschild, specialising in betting and gaming. Mr. Greenblatt left his role as Director of European Investment Banking in 2008 to effect the successful turnaround of a manufacturing business. He then launched a European internet business focusing on the online recruitment market, before most recently moving back into the betting and gaming sector to join Ladbrokes.

Mr. Michael Charlton

Mr. Michael Charlton is a director of three of the Company's subsidiaries, namely; Asia Gaming Technologies Limited, 亞博泰科科技（北京）有限公司 (Asia Gaming Technologies (Beijing) Co., Ltd.*) and 亞博泰科科技（天津）有限公司 (Asia Gaming Technologies (Tianjin) Co., Ltd.*). Mr. Charlton has over 18 years' experience in the Leisure & Gaming industry and is currently responsible for developing Ladbrokes plc's international business in the Asian region. Mr. Charlton joined Ladbrokes plc following his graduation from Glasgow University in 1995. During his time with Ladbrokes plc he has held various senior management positions, initially within the Retail sector of the business before joining the International Department in 2005. Mr. Charlton is currently China General Manager for Ladbrokes plc and serving as a director of Ladbrokes Lottery (Asia) Co. Limited.

Mr. Paul Southworth

Mr. Paul Southworth is a director of three of the Company's subsidiaries, namely; Asia Gaming Technologies Limited, 亞博泰科科技（北京）有限公司 (Asia Gaming Technologies (Beijing) Co., Ltd.*), and 亞博泰科科技（天津）有限公司 (Asia Gaming Technologies (Tianjin) Co., Ltd.*). Mr. Southworth joined Gala Coral Group as Head of Finance of the online division in 2006 and moved to the Group Director of Financial Control role three years later. In 2013, Mr. Southworth moved to the role of Chief Financial Officer (Italian Division). In 2016 Mr. Southworth was appointed into his current role as International CFO for the merged Ladbrokes Coral Group plc, where he is responsible for the four main trading divisions of Italy, Spain, Belgium and Australia. Paul is a member of the Institute of Chartered Accountants in England and Wales.

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

DIRECTORS' REPORT

The Directors present the annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

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

RESULTS

The results of the Group for the year ended 31 December 2016 are set out in the consolidated statement of profit or loss and other comprehensive income on page 146.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of the Company's share capital are set out in note 30 to the consolidated financial statements.

CONVERTIBLE BONDS

Details of the convertible bonds of the Company are set out in the section headed "SUBSCRIPTION FOR SUBSCRIPTION SHARES AND CONVERTIBLE BONDS" in the "Discussion and Analysis of the Group's Results and Business" section of this annual report and note 29 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Group for the year under review are set out in the consolidated statement of changes in equity.

The Company has no reserves available for distribution to the Shareholders at both balance sheet dates.

DIVIDEND

The Board does not recommend the payment of a final dividend for the year under review (2015: Nil).

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

FINANCIAL SUMMARY

A summary of the results of the Group and of the assets and liabilities of the Group for the past 5 years ended 31 December 2016 is set out on page 138.

DIRECTORS

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

Executive Directors:

Mr. Sun Ho	(appointed on 19 July 2006)
Mr. Zhou Haijing	(appointed on 10 August 2016)
Mr. Bai Jinmin	(appointed on 19 September 2007 and resigned on 10 August 2016)
Mr. Liang Yu	(appointed on 23 April 2008 and resigned on 10 August 2016)
Mr. Cheng Guoming	(appointed on 6 May 2015 and resigned on 10 August 2016)

Non-executive Directors:

Mr. Zhang Qin	(appointed on 10 August 2016)
Mr. Yang Guang	(appointed on 10 August 2016)
Mr. Ji Gang	(appointed on 10 August 2016)
Mr. Zhang Wei	(appointed on 10 August 2016)
Mr. Ho King Fung, Eric	(appointed on 23 May 2013 and resigned on 10 August 2016)

Independent non-executive Directors:

Ms. Monica Maria Nunes	(appointed on 20 June 2013)
Mr. Feng Qing	(appointed on 4 May 2015)
Dr. Gao Jack Qunyao	(appointed on 6 May 2015)

Reason for Directors' resignation:

Mr. Bai Jinmin, Mr. Liang Yu, Mr. Cheng Guoming and Mr. Ho King Fung, Eric resigned from the Board as a result of the change in control of the Company which took effect from 10 August 2016.

In accordance with Bye-law 87 of the Company, certain Directors (namely, Mr. Feng Qing, Dr. Gao Jack Qunyao and Mr. Zhou Haijing) will retire by rotation, but being eligible, shall offer themselves for re-election, at the forthcoming annual general meeting of the Company to be held on 12 May 2017.

DIRECTORS' SERVICE AGREEMENTS

Mr. Sun Ho was appointed as an executive Director and chief executive officer of the Company under a renewed service contract for a term of two years as from 10 August 2016, unless terminated earlier by the Company for cause.

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

Mr. Bai Jinmin (resigned as executive Director but remains as Chief Operating Officer of the Group with effect from 10 August 2016) was appointed as an executive Director under a renewed service agreement for a term commencing from 19 September 2014 until the conclusion of the 2017 annual general meeting of the Company to be held in May 2017, and during such period, the agreement may be terminated by either party thereto giving the other party not less than three months' notice in writing. Mr. Bai was appointed as director of various subsidiaries of the Company.

Mr. Liang Yu (resigned as executive Director but remains as President of the Group for legal and compliance with effect from 10 August 2016) was appointed as an executive Director under a renewed service agreement for a term commencing from 23 April 2014 until 31 December 2016, and during such period, the agreement may be terminated by either party thereto giving the other party not less than three months' notice in writing. Mr. Liang also entered into an employment contract with a wholly-owned subsidiary of the Company in the PRC with no fixed term of service and was appointed as director of various subsidiaries of the Company.

Mr. Cheng Guoming (resigned as executive Director but remains as President of the Group for the Group's investment and global strategy with effect from 10 August 2016) was appointed as executive Director under a service agreement for an initial term of 2 years commencing from 6 May 2015, and during such period, the agreement may be terminated by either party thereto giving the other party not less than three months' notice in writing. Mr. Cheng was also appointed as director of various subsidiaries of the Company.

Each of Mr. Zhang Qin, Mr. Yang Guang, Mr. Ji Gang and Mr. Zhang Wei was appointed by the Company as a non-executive Director by a letter of appointment for a fixed term of one year commencing on 10 August 2016 (with renewal option), unless terminated earlier by either party.

Mr. Ho King Fung, Eric (resigned on 10 August 2016) was appointed as a non-executive Director under a renewed service agreement for a term commencing from 23 May 2015 until the conclusion of the 2017 annual general meeting of the Company to be held in May 2017, and during such period, the agreement may be terminated by either party thereto giving the other party not less than one month's notice in writing.

Ms. Monica Maria Nunes was appointed as independent non-executive Director under a renewed service agreement for a term commencing from 20 June 2015 and ending upon the conclusion of the 2017 annual general meeting of the Company to be held in May 2017.

Mr. Feng Qing was appointed as independent non-executive Director under a service agreement for an initial term of 2 years commencing from 4 May 2015.

Dr. Gao Jack Qunyao was appointed as independent non-executive Director under a service agreement for an initial term of 2 years commencing from 6 May 2015.

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

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

During the year under review, there were no transaction, arrangement or contract of significance to which the Company, any of its holding company, subsidiaries or fellow subsidiaries was a party and in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted at the end of the year under review or at any time during the year under review.

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's Bye-laws, every Director shall be indemnified out of the assets and profits of the Company against all actions, costs, charges, losses, damages and expenses which he/she may incur or sustain in or about the execution of his/her duty, or supposed duty, in his/her office or otherwise in relation thereto, PROVIDED THAT such indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to such Director. The Company has taken out insurance against the liability and costs associated with defending any proceedings which may be brought against Directors of the Group.

CHANGE OF DIRECTORS

With effect from 10 August 2016, (i) Mr. Bai Jinmin and Mr. Liang Yu resigned as executive Directors; (ii) Mr. Cheng Guoming resigned as an executive Director and the chief financial officer of the Company; and (iii) Mr. Ho King Fung, Eric resigned as a non-executive Director; while (i) Mr. Zhou Haijing has been appointed as an executive Director and the chief financial officer of the Company; and (ii) Mr. Zhang Qin, Mr. Yang Guang, Mr. Ji Gang and Mr. Zhang Wei have been appointed as non-executive Directors.

The key management team of the Group remains to be in place following 10 August 2016: Mr. Sun Ho continues to be the Chairman and the CEO of the Group, Mr. Bai Jinmin is the Chief Operating Officer of the Group responsible for the Group's daily operations; Mr. Liang Yu continues to be the President of the Group responsible for its legal and compliance matters; and Mr. Cheng Guoming continues to be the President of the Group responsible for its investment and global strategy.

CHANGE OF COMPANY SECRETARY, AUTHORISED REPRESENTATIVE AND MEMBER OF CORPORATE GOVERNANCE COMMITTEE AND RISK MANAGEMENT AND INTERNAL CONTROL COMMITTEE

During the year under review, with effect from 26 September 2016, Ms. Lo Kei Chi resigned, and Mr. Ng Lok Ming, William was appointed, as the company secretary, authorised representative, and member of each of the corporate governance committee and risk management and internal control committee of the Company.

CONNECTED TRANSACTIONS

During the year under review, the Group had the following connected transaction, details of which had been disclosed in compliance with the requirements of Chapter 20 of the GEM Listing Rules and in the section headed "SETTLEMENT OF PRC TAX LIABILITY" in the "Discussion and Analysis of the Group's Results and Business" section of this annual report:

During the year under review, the Group had made an arrangement with the relevant PRC tax authorities for the settlement of the under-withheld PRC individual income tax ("IIT") of approximately RMB47.8 million (equivalent to approximately HK$53.9 million) in respect of the exercise of share options granted by the Company under the Share Option Schemes to its PRC subsidiaries' employees who are subject to PRC IIT (the "Tax Settlement").

The Tax Settlement has resulted in the release of the personal liability of relevant employees under the applicable PRC tax laws in respect of their relevant under-withheld IIT (the "Release of Tax Liability of Relevant Employees"), and constitutes a non-exempt connected transaction for the Company in respect of two of such employees who were former executive Directors (namely, Mr. Bai Jinmin and Mr. Liang Yu) and two of such employees (namely, Mr. Yang Xinwei and Ms. Wang Liying) who are currently or was, during the past 12 months, directors of a subsidiary of the Company (other than an insignificant subsidiary within the meaning of the GEM Listing Rules).

The under-withheld IIT relating to share options of the Company exercised by (a) Mr. Bai Jinmin and Mr. Liang Yu, and (b) Mr. Yang Xinwei and Ms. Wang Liying was estimated to amount to approximately RMB19.0 million (equivalent to approximately HK$21.3 million) and approximately RMB2.3 million (equivalent to approximately HK$2.6 million), respectively.

The Company obtained the approval from independent Shareholders for the Release of Tax Liability of Relevant Employees who are "connected persons" of the Company (namely, Mr. Bai Jinmin, Mr. Liang Yu, Mr. Yang Xinwei and Ms. Wang Liying) at the New SGM. Further details of the Tax Settlement and the Release of Tax Liability of Relevant Employees can be found in the supplemental circular of the Company dated 14 July 2016.

During the year ended 31 December 2016, the Company reviewed its related party transactions and confirmed that, save as disclosed above, there was no connected transaction or continuing connected transaction of the Company which is required to be disclosed pursuant to Chapter 20 of the GEM Listing Rules. Save as disclosed above, none of the related party transactions set out in note 35 to the consolidated financial statements are such transactions required to be disclosed pursuant to Chapter 20 of the GEM Listing Rules.

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

As at 31 December 2016, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange, were as follows:

a. Interests in ordinary Shares:

	Number of Shares			
Name of Director	**Personal interest**	**Corporate interest**	**Total**	**Approximate percentage held (Note 1)**
Mr. Sun Ho	27,078,000	2,006,250,000 (Note 2)	2,033,328,000	19.37%
Mr. Zhou Haijing	–	–	–	0%
Mr. Zhang Qin	–	–	–	0%
Mr. Yang Guang	–	–	–	0%
Mr. Ji Gang	–	–	–	0%
Mr. Zhang Wei	–	–	–	0%
Ms. Monica Maria Nunes	1,375,000	–	1,375,000	0.01%
Mr. Feng Qing	–	–	–	0%
Dr. Gao Jack Qunyao	–	–	–	0%

Notes:

1. Based on a total of 10,494,956,270 Shares in issue as at 31 December 2016.

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

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

Name of Director	Date of grant	Exercise price per Share (HK$)	Exercisable period (Note 2)	Number of underlying Shares	Approximate percentage held (Note 1)
Ms. Monica Maria Nunes	20 June 2013	0.4740	20 June 2015 – 19 June 2018	375,000	0.004%
	21 January 2014	1.3100	21 January 2015 – 20 January 2019	250,000	0.002%
Mr. Feng Qing	1 June 2015	0.8580	1 June 2016 – 31 May 2020	1,500,000	0.014%
Dr. Gao Jack Qunyao	1 June 2015	0.8580	1 June 2016 – 31 May 2020	1,500,000	0.014%

Notes:

1. Based on a total of 10,494,956,270 Shares in issue as at 31 December 2016.

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

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

Name of Director	Nature of interests	Number of shares/ underlying shares held	Percentage of issued shares of Alibaba Holding
Mr. Zhou Haijing	Beneficial and equity derivative interests	31,200 (Note 1)	0.001%
Mr. Zhang Qin	Beneficial and equity derivative interests	50,000 (Note 2)	0.002%
Mr. Yang Guang	Beneficial and equity derivative interests	36,045 (Note 3)	0.001%
Mr. Ji Gang	Beneficial and equity derivative interests	77,269 (Note 4)	0.003%

Notes:

1. It represents 20,000 ordinary shares and 11,200 restricted share units beneficially held by Mr. Zhou Haijing.

2. It represents 20,000 ordinary shares and 30,000 restricted share units beneficially held by Mr. Zhang Qin.

3. It represents 8,920 ordinary shares and 27,125 restricted share units beneficially held by Mr. Yang Guang.

4. It represents 22,219 ordinary shares and 55,050 restricted share units beneficially held by Mr. Ji Gang.

Save as disclosed above, as at 31 December 2016, none of the Directors and chief executives of the Company had any interests or short positions in the Shares, underlying Shares (in respect of share options of the Company which were regarded as unlisted physically settled equity derivatives) and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year under review was the Company, any of its holding company, subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of Shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES AND DEBENTURES

As at 31 December 2016, so far as was known to the Directors or chief executive of the Company, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the Shares, underlying Shares and debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, were directly or indirectly interested in 5% or more of the issued voting shares of any other member of the Group or held any option in respect of such shares and recorded in the register kept by the Company pursuant to section 336 of the SFO:

Long position in the Shares

Name of Shareholder	Capacity	Number of Shares held	Number of underlying Shares entitled	Total (number of Shares)	Approximate percentage of issued share capital of the Company (Note 1)
Ali Fortune (Notes 2 and 8)	Beneficial owner	5,502,723,993	1,740,018,239	7,242,742,232	69.01%
Alibaba Investment Limited (Note 2)	Interest of controlled corporation	5,502,723,993	1,740,018,239	7,242,742,232 (Note 9)	69.01%
API Holdings Limited (Note 2)	Interest of controlled corporation	5,502,723,993	1,740,018,239	7,242,742,232 (Note 9)	69.01%
Alibaba Holding (Note 3)	Interest of controlled corporation	5,502,723,993	1,740,018,239	7,242,742,232 (Note 9)	69.01%
API (Hong Kong) Investment Limited (Note 4)	Interest of controlled corporation	5,502,723,993	1,740,018,239	7,242,742,232 (Note 9)	69.01%
Shanghai Yunju Venture Capital Investment Co., Ltd. (formerly known as Shanghai Yunju Investment Management Co., Ltd.) (Note 5)	Interest of controlled corporation	5,502,723,993	1,740,018,239	7,242,742,232 (Note 9)	69.01%
Ant Financial (Note 6)	Interest of controlled corporation	5,502,723,993	1,740,018,239	7,242,742,232 (Note 9)	69.01%
Hangzhou Yunbo Investment Consultancy Co., Ltd. (Note 7)	Interest of controlled corporation	5,502,723,993	1,740,018,239	7,242,742,232 (Note 9)	69.01%
Mr. Ma Yun (Note 7)	Interest of controlled corporation	5,502,723,993	1,740,018,239	7,242,742,232 (Note 9)	69.01%
Maxprofit Global Inc (Note 10)	Beneficial owner	2,006,250,000	–	2,006,250,000	19.12%

Notes:

1. Based on a total of 10,494,956,270 Shares in issue as at 31 December 2016.

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

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

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

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

6. Ant Financial holds 100% of the equity interests in Shanghai Yunju. Hangzhou Junhan Equity Investment Partnership (Limited Partnership) ("Junhan") and Hangzhou Junao Equity Investment Partnership (Limited Partnership) ("Junao") hold approximately 42.28% and 34.15% of the equity interests in Ant Financial, respectively.

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

8. Ali Fortune holds outstanding convertible bonds of the Company in the aggregate principal amount of HK$507,234,928 and the maximum number of conversion shares that would be issued upon full conversion of such outstanding convertible bonds at the then adjusted conversion price of HK$0.2915 per conversion share as at 31 December 2016 was 1,740,018,239. The allotment and issue of the Subscription Shares and the Conversion Shares under a specific mandate, together with the Whitewash Waiver, were approved by the independent Shareholders at the New SGM.

9. Each of AIL, Alibaba Holding, API Holdings, API (Hong Kong) Investment Limited, Shanghai Yunju, Ant Financial, Junhan, Junao, Yunbo, and Mr. Ma Yun are taken to be interested in an aggregate of 7,242,742,232 Shares by virtue of Part XV of the SFO.

10. As disclosed in the section headed "DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" above, Mr. Sun Ho was deemed to be interested in these 2,006,250,000 Shares by virtue of his interest in MAXPROFIT GLOBAL INC. Mr. Sun Ho is also a director of MAXPROFIT GLOBAL INC.

Save as disclosed above, as at 31 December 2016, the Directors or chief executive of the Company were not aware of any other persons (not being a Director or chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares, underlying Shares and debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or was directly or indirectly interested in 5% or more of the issued voting shares of any other member of the Group or held any option in respect of such shares and recorded in the register kept by the Company pursuant to section 336 of the SFO.

INTERESTS OF OTHER PERSONS

As at 31 December 2016, apart from the interests in the Shares, underlying Shares and debentures of the Company and its associated corporations held by the Directors, chief executives and substantial Shareholders of the Company stated above, there were no other persons with interests recorded in the register of the Company required to be kept under section 336 of the SFO.

SUFFICIENCY OF PUBLIC FLOAT

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

SHARE OPTIONS

A new share option scheme of the Company was approved by the Shareholders at the special general meeting held on 23 December 2014 (the "2014 Scheme") and was adopted by the Company on the same date in place of the former share option scheme of the Company adopted on 18 November 2004 (the "2004 Scheme") (which had expired on 17 November 2014). Particulars of the Company's Share Option Schemes and details of movements in the share options under such schemes during the year under review are set out in note 32 to the consolidated financial statements.

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

During the year ended 31 December 2016, no options were granted by the Company pursuant to the Share Option Schemes. No options were cancelled but options in respect of 15,793,961 Shares were lapsed during the year ended 31 December 2016. As at 31 December 2016, the total number of Shares still available for issue under the Share Option Schemes (excluding, for the purpose of calculating the "scheme mandate limit", any options granted under the 2014 Scheme but lapsed in accordance with the terms of such scheme) shall be 19,962,206 Shares, representing approximately 0.2% (2015: 0.4%) of the Company's issued share capital as at that date.

As a result of the options exercised during the year ended 31 December 2016, 162,699,290 Shares were issued by the Company, and the Company received a total cash consideration of approximately HK$112.4 million in respect of such option exercises. The weighted average closing price of the Shares immediately before the dates on which these options were exercised is HK$1.8178 per Share.

As at 31 December 2016, the number of Shares in respect of which options had been granted and remained outstanding under the Share Option Schemes was 523,605,774 (2015: 702,099,025), representing approximately 5.0% (2015: 15.2%) of the Company's issued share capital as at that date.

EQUITY-LINKED AGREEMENTS

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

1. Subscription Agreement with Ali Fortune

As disclosed in the announcement of the Company dated 4 March 2016, the Company entered into a subscription agreement dated 4 March 2016 ("Subscription Agreement") with, among others, Ali Fortune (i.e. the Subscriber), which is a company indirectly owned as to 60% by Alibaba Holding and as to 40% by Ant Financial. Pursuant to the Subscription Agreement, the Company has conditionally agreed to allot and issue to the Subscriber, and the Subscriber has conditionally agreed to subscribe for:

(i) an aggregate of 4,817,399,245 new Shares at a subscription price of HK$0.3478 per Share; and

(ii) convertible bonds of the Company in the aggregate principal amount of HK$712,582,483.

Completion of the Subscription Agreement took place on 10 August 2016. On the same day, the conversion rights attaching to the convertible bonds in the aggregate principal amount of HK$205,347,555 were exercised and the Company allotted and issued an aggregate of 685,324,748 conversion shares at the then conversion price of HK$0.2996 per conversion share to the Subscriber. As at 31 December 2016, convertible bonds in the aggregate principal amount of HK$507,234,928 remained outstanding (the "Outstanding Convertible Bonds"). The conversion price had been adjusted to HK$0.2915 per Share as of 31 December 2016 (the "Adjusted Conversion Price"), and the maximum number of Shares that would be issued upon full conversion of the Outstanding Convertible Bonds at the Adjusted Conversion Price was 1,740,018,239 as at 31 December 2016. Further details of the Subscription Agreement can be found in the section headed "SUBSCRIPTION FOR SUBSCRIPTION SHARES AND CONVERTIBLE BONDS" in the "Discussion and Analysis of the Group's Results and Business" section of this annual report.

2. Sale and Purchase Agreement in respect of the Score Value Transaction

As disclosed in the Score Value Circular, an agreement dated 17 November 2014 (the "Sale and Purchase Agreement") was entered into between the Company, Silvercreek Technology Holdings Limited (being a wholly-owned subsidiary of the Company, as purchaser (the "Purchaser")), Immense Wisdom Limited ("IWL"), King Achieve Limited ("KAL") (with IWL and KAL together as vendors (the "Vendors")) and Score Value in relation to the acquisition by the Purchaser of a 100% equity interest in Score Value (the "Acquisition") for a maximum consideration of HK$489.5 million (subject to downward adjustments). The maximum consideration is to be satisfied as to HK$239.5 million in cash and as to HK$250.0 million by way of the allotment and issue of a maximum of 168,918,918 Consideration Shares (as defined in the Score Value Circular) at the issue price of HK$1.48 per Share. Subject to the Score Value Group meeting certain operational targets (namely, launching the sales of a lottery game through mobile smart phone channel in prescribed number of provinces in the PRC) as set out in the section headed "Bonus Options" on page 11 of the Score Value Circular, the Company shall also grant the Bonus Options (as defined in the Score Value Circular) to the Vendors which shall entitle the Vendors to subscribe for a maximum of 166,666,666 Bonus Option Shares (as defined in the Score Value Circular) at a subscription price of HK$1.8 per Bonus Option Share (for a maximum total amount of approximately HK$300 million receivable by the Company).

As of the date of this report, initial consideration in respect of the Acquisition comprising HK$109,125,000 in cash and 33,783,783 Consideration Shares has been paid and issued by the Company to the Vendors.

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

The Shenzhen Subsidiary of Score Value met the profit guarantee of not less than RMB20 million for the year ended 31 December 2015 and a further 10,135,135 Shares had been issued to the Vendors accordingly. In addition, the Shenzhen Subsidiary of Score Value has met the profit guarantee of an aggregate of not less than RMB40 million for the two years ended 31 December 2015 and 2016 as disclosed in the section headed "UPDATE ON SCORE VALUE TRANSACTION" in the "Discussion and Analysis of the Group's Results and Business" section of this annual report and a further 10,135,135 Shares shall be issued to the Vendors accordingly. As the pre-condition for the grant of the Bonus Options was not fulfilled within 2 years from the date of the Sale & Purchase Agreement, the Company will no longer grant the Bonus Options to the Vendors. Save as disclosed above, the other pre-conditions for the payment of the other tranches of deferred consideration have not yet been fulfilled.

Save as disclosed above and in the section headed "SHARE OPTIONS" in this Directors' Report, no equity-linked agreements were entered into by the Group during the year under review or subsisted at the end of the year.

MANAGEMENT CONTRACT

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

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of revenue from sales of goods or rendering of services for the year under review attributable to the Group's major customers were as follows:

	2016	2015
– the largest customer	**26.5%**	27.3%
– five largest customers combined	**68.5%**	51.0%

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

	2016	2015
– the largest supplier	**35.6%**	23.6%
– five largest suppliers combined	**67.4%**	75.9%

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

As no single customer accounted for more than 30% of the Group's total revenue from sales of goods or rendering of services for the year under review, we do not consider that the relationships with our customers expose the Group's business to any substantial risks.

INTERESTS IN COMPETING BUSINESS

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

PRE-EMPTIVE RIGHTS

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

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the independent non-executive Directors has confirmed his/her independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers all independent non-executive Directors are independent.

EMOLUMENT POLICY

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

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

RETIREMENT AND PENSION PLAN

To comply with the statutory requirements of the Mandatory Provident Fund ('MPF") Schemes Ordinance (Chapter 485 of the Laws of Hong Kong), the Group has set up the MPF Scheme. Mandatory contributions to the scheme are made by both the employers and employees at 5% of the employees' monthly relevant income capped at HK$30,000. The employees employed by the PRC subsidiaries are members of the state-managed retirement benefit schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the required contributions under the schemes. During the year, the Group made contributions to the MPF Scheme amounted to approximately HK$0.3 million (2015: approximately HK$0.1 million). During the year under review, no forfeited contributions to be used by the employer to reduce the existing level of contributions.

LOANS TO OFFICERS

No loans to the Company's officers were made or outstanding at any time during the year under review or at the end of the year.

DONATIONS

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

CONTROL AGREEMENTS ADOPTED BY THE GROUP TO INDIRECTLY CONTROL AN OPERATING SUBSIDIARY OF THE COMPANY (NAMELY, SILVERCREEK) IN CHINA

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

The Target Company is a company incorporated in Hong Kong with limited liability and is an investment holding company holding a 100% equity interest in 深圳市福悦信息諮詢有限公司 (Shenzhen Fortune Happy Information Advisory Co., Ltd.) (the "WFOE") which is a wholly foreign owned enterprise established under the laws of the PRC. The WFOE, in turn, controls a 100% equity interest in an operating subsidiary, Silvercreek, through a set of control agreements (the "Control Agreements") entered into between the WFOE and two individual shareholders of Silvercreek (the "Nominee Shareholders") who are PRC nationals acting as nominees to together hold the entire equity interest in Silvercreek on behalf of the WFOE. During the year under review, the Nominee Shareholders were Mr. Shen Weihong (who was a director of certain subsidiaries within the Group and held a 95% equity interest in Silvercreek as at 31 December 2016) and Mr. Yao Jinhua (who was the general manager of a subsidiary of the Company and held a 5% equity interest in Silvercreek as at 31 December 2016).

Silvercreek is a limited liability company established under the laws of the PRC and is principally engaged in (i) the provision of comprehensive phone and mobile betting solutions in the PRC which include: development of an intermediate platform between lottery organisations and telecom operators; provision of fund settlement services such as lottery bets investment, withdrawal and lottery prize distribution; provision of lottery information publication services; and phone and mobile betting promotion services (collectively referred to as the "Restricted Business"); and (ii) the provision of consultancy services.

Silvercreek holds the necessary PRC internet content provider and PRC telecom service provider licences to operate the Restricted Business in the PRC which is subject to foreign investment restrictions. Accordingly, the Control Agreements were adopted so as to allow the WFOE (being a wholly-owned subsidiary of a foreign company, namely, the Target Company) to gain full effective control over the management and financial operation of Silvercreek and enable the economic benefits of Silvercreek to be consolidated into the consolidated financial statements of the Group. The Control Agreements were not adopted for reasons or requirements other than the aforesaid foreign investment restrictions in respect of the Restricted Business in the PRC. For the year ended 31 December 2016, revenue totalling approximately HK$0.8 million and net liabilities totalling approximately HK$3.3 million of Silvercreek were consolidated into the consolidated financial statements of the Group via the Control Agreements.

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

(i) under a *loan agreement (貸款協議)* between the WFOE and the Nominee Shareholders, the WFOE (as the lender) agreed to lend a loan amounting to RMB50 million (equivalent to approximately HK$55.8 million) to the Nominee Shareholders (as the borrowers) for their onward investment in Silvercreek such that they will together have 100% equity interest in Silvercreek. The loan must only be repaid by way of the Nominee Shareholders transferring their equity interests in Silvercreek to the WFOE or its nominee and may only be used by the Nominee Shareholders for the purpose of investing in Silvercreek as its increased registered capital. The Nominee Shareholders shall pay any dividends, interests or benefits received from Silvercreek to the WFOE. Where permissible under the PRC law, the WFOE has the right to acquire from the Nominee Shareholders their entire equity interests in Silvercreek or all the assets of Silvercreek and use the outstanding loan owed by the Nominee Shareholders to the WFOE as settlement of the consideration for the acquisition;

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

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

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

All the above-mentioned Control Agreements provide for dispute resolution via arbitration in China. The PRC counsel of the Company is of the view that the Control Agreements do not violate the relevant PRC laws, have proper authorisation for their execution and are valid, legal and enforceable.

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

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

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

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

AUDIT COMMITTEE

The audit committee of the Company comprises three independent non-executive Directors, namely, Ms. Monica Maria Nunes, Mr. Feng Qing and Dr. Gao Jack Qunyao. The audited consolidated financial statements of the Group for the year ended 31 December 2016 have been reviewed and commented on by the audit committee.

AUDITOR

During the year under review, HLB Hodgson Impey Cheng Limited ("HLB") resigned as auditor of the Company with effect from 8 November 2016 as the Company and HLB could not reach a mutual agreement in respect of the audit fee for the financial year ended 31 December 2016, and PricewaterhouseCoopers ("PwC") was appointed by the Company to fill the casual vacancy so arising. Save as aforesaid, there have been no other changes of auditor of the Company in the past three years. A resolution for the re-appointment of PwC as auditor of the Company will be proposed at the forthcoming annual general meeting of the Company.

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

There were no significant investments, material acquisitions and disposals that constituted "notifiable transactions" under Chapter 19 of the GEM Listing Rules during the year ended 31 December 2016.

AMENDMENTS TO BYE-LAWS

During the year under review, certain house-keeping amendments (as disclosed in the circular of the Company dated 11 November 2016) were made to the Bye-laws and such amendments were duly approved by the Shareholders at the special general meeting of the Company held on 5 December 2016.

BUSINESS REVIEW

(a) Review of the Group's business:

Detailed discussion and analysis of the industry in which the Group operates, and the Group's business and performance for the year ended 31 December 2016 are set out in the "Discussion and Analysis of the Group's Results and Business" section of this annual report.

(b) Principal risks and uncertainties facing the Group:

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

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

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

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

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

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

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

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

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

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

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

- commercial contracts with customers, and/or business cooperation agreements with business partners entered into by the Group have incorporated terms that have addressed anti-corruption and responsible lottery gaming concerns as appropriate; and

- counterparties of commercial contracts entered into by the Group are customers which are either governmental lottery authorities or operators authorised by such authorities, or suppliers/subcontractors which have met the Group's "supplier/subcontractor selection standards" for the purpose of addressing environmental protection concerns in their production process.

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

During the year under review, the Group made an arrangement with the relevant PRC tax authorities for the settlement of the under-withheld PRC individual income tax ("IIT") of approximately RMB47.8 million (equivalent to approximately HK$53.9 million) in respect of the exercise of share options granted by the Company under the Share Option Schemes to its PRC subsidiaries' employees who are subject to PRC IIT, details of which are more fully described in the section headed "SETTLEMENT OF PRC TAX LIABILITY" in the "Discussion and Analysis of the Group's Results and Business" section of this annual report. Save as aforesaid, the Group has been complying with the lottery gaming related laws and regulations in the PRC (including but not limited to Lottery Management Regulations (彩票管理條例); The Detailed Rules for the Implementation of Lottery Management Regulations (彩票管理條例實施細則); Measures for Lottery Issuance and Sales Management (彩票發行銷售管理辦法); The Interim Measures for the Administration of Internet Sales of Lottery (互聯網銷售彩票管理暫行辦法); and The Interim Measures for the Administration of Telephone Sales of Lottery (電話銷售彩票管理暫行辦法)), and there is no incidence of non-compliance with any other relevant laws and regulations affecting the Group (including but not limited to Employment Ordinance of Hong Kong (Chapter 57 of the Laws of Hong Kong); Labour Law of the PRC (中華人民共和國勞動法),The Labour Contract Law of the PRC (中華人民共和國勞動合同法); Regulations of Paid Annual Leave of Employees (職工帶薪年休假條例); PRC Criminal Law (中華人民共和國刑法); PRC Anti-Unfair Competition Law (中華人民共和國反不正當競爭法); PRC Interim Provisions on Prohibiting Commercial Bribery (關於禁止商業賄賂行為的暫行規定); The Company Law of the PRC (中華人民共和國公司法); Hong Kong Prevention of Bribery Ordinance (Chapter 201 of the Laws of Hong Kong)) that has come to the knowledge of the Directors.

(d) Significant events after the reporting period:

As of the date hereof, there was no significant event affecting the Group after 31 December 2016, except that:

- On 18 January 2017, the Company announced that the Group has made a breakthrough in the area of competition poker in that it was awarded an exclusive 5-year priority operation right in China by the Chess and Poker Centre for all competitive play of the Chinese card game Guan Dan through an open tender. Furthermore, the Company has become one of the strategic partners and organisers of the China Competition Two-on-One Poker Championship. Further details are disclosed in the announcement of the Company dated 18 January 2017;

- The Company had entered into the business cooperation agreement (the "Business Cooperation Agreement") with Alibaba Holding on 25 January 2017, pursuant to which the Group shall (i) utilize certain channels and networks of the Alibaba Group for sales and distribution of the lottery products and other services on a revenue-sharing basis; and (ii) purchase technology services from Alibaba Group. As disclosed in the announcement of the Company dated 25 January 2017, the transactions contemplated under the Business Cooperation Agreement constituted continuing connected transactions ("CCTs") under Chapter 20 of the GEM Listing Rules. As such CCTs were entered into by the Company in 2017, an annual review of such transactions will be conducted by the independent non-executive Directors and auditor of the Company for the year ending 31 December 2017 and the findings will be disclosed in the annual report of the Company for the year ending 31 December 2017;

- The Company has adopted a share award scheme on 17 March 2017 (the "Adoption Date") which will allow the Company to grant award Shares to selected participants as incentives and/or rewards for their contribution to the Group. The aggregate number of award Shares (whether they are new Shares to be allotted and issued by the Company, award Shares that are not vested and/or are forfeited or lapsed under such scheme, or existing Shares to be purchased on-market by the trustee of such scheme) underlying all grants (including grants to connected persons of the Company) made pursuant to such scheme (excluding award Shares that have been forfeited or lapsed in accordance with such scheme) shall not exceed 6% of the total number of issued Shares as at the Adoption Date without shareholders' approval. The total number of non-vested award Shares granted to any one selected participant under such scheme shall not exceed 1% of the total number of issued Shares from time to time. Further details are disclosed in the announcement of the Company dated 17 March 2017; and

- The Company and Alipay.com Co., Ltd.* (支付寶（中國）網絡技術有限公司) ("Alipay"), a wholly-owned subsidiary of Ant Financial, entered into a business cooperation agreement ("Alipay Framework Agreement") on 23 March 2017, whereby the Group shall provide online activities and services which are not subject to the applicable PRC lottery laws and regulations, including information subscription and other content, and the sales and distribution of the lottery and its relevant products that the Group has developed or is authorised to operate (in online form), in the event that and so long as it is allowed under applicable laws and regulations in the PRC, on the lottery channel(s) on the online platform(s) of the Alipay and its subsidiaries on a revenue-sharing basis under the Alipay Framework Agreement. As disclosed in the announcement of the Company dated 23 March 2017, Ant Financial Group (including Alipay, a wholly-owned subsidiary of Ant Financial) are deemed by the Stock Exchange as connected persons of the Company pursuant to Rule 20.17 of GEM Listing Rules. Accordingly, the transactions contemplated under the Alipay Framework Agreement constituted continuing connected transactions ("Alipay CCTs") under Chapter 20 of the GEM Listing Rules. As such Alipay CCTs were entered into by the Company in 2017, an annual review of such transactions will be conducted by the independent non-executive Directors and auditor of the Company for the year ending 31 December 2017 and the findings will be disclosed in the annual report of the Company for the year ending 31 December 2017.

(e) Business outlook of the Group:

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

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

KPIs	Reasons for selection as KPIs	Financial Year 2016	Financial Year 2015	Variance
Revenue (HK$'000)	To assess the sales performance and volume of transactions of the Group.	251,492	301,630	↓ 16.6%
Gross profit (HK$'000)	To assess the Group's profitability (before expenses) and performance of its business model as compared to those of its competitors.	73,261	69,197	↑ 5.9%
Operating loss (HK$'000)	To assess the Group's operating performance and cost management	267,630	91,046	↑ 193.9%
Profit/(Loss) for the year attributable to owners of the Company (HK$'000)	To assess the Group's profitability (after expenses).	332,989	(280,222)	↑ 218.8%

(g) Information on environmental matters of the Group:

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

As we do not run any factories but outsource the manufacturing functions to outside suppliers/subcontractors to help produce our lottery hardware products, we do not anticipate any material risks in our operations in respect of environmental protection concerns, and the environmental related laws and regulations do not apply to our operations. Having said that, as part of our sustainability management strategy, we have the following policies and business practices in place to help minimise the impact of our operations on the environment:

(i) we request our suppliers/subcontractors to adopt minimal packaging for our finished hardware products in order to save on costs of packaging materials and delivery, as well as to reduce the use of paper and make it easier for storage and recycling;

(ii) the Group has its own "supplier/subcontractor selection standards" for selecting suppliers/subcontractors which can demonstrate that their production process has adequately addressed environmental protection concerns; and

(iii) the Group has made continuous effort to support low-carbon offices, in that employees are encouraged to observe our policies and business practices on energy and resource savings, such as:

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

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

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

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

(h) Relationships with our stakeholders:

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

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

Stakeholders of the Group	Relationships with the Group
Shareholders	The Group strives to not only maximise the Shareholders' return through continuous business development, but also to maintain a high level of transparency and accountability to the Shareholders in various ways, such as: • maintaining and employing a policy of open and timely disclosure of relevant information to the Shareholders through announcements, circulars, quarterly, interim and annual reports; • maintaining effective communications with the Shareholders through annual general meeting and the official website of the Company; • implementing policies of the Group in respect of sustainability management of its operations so as to reduce their impact on the environment but create a positive social impact on the community where the Group operates; and • setting up a Risk Management and Internal Control Committee of the Company with effect from 1 January 2016 to help detect risks associated with our operations and minimise their impact.
Business partners	The Group places emphasis on research and development of its products and continues to work closely with our business partners (which are leading international gaming and/or gaming technology companies) with an aim to introducing innovative lottery products and services to the PRC lottery markets and enabling responsible lottery gaming.

Stakeholders of the Group	Relationships with the Group
Employees	Apart from salaries, the Group offers to its employees other fringe benefits including year-end bonus, discretionary bonus, share options under the Share Option Schemes, contributory provident fund, social security fund and medical benefits. In addition, the Group offers valuable opportunities for our employees to enhance their professional knowledge and skills through (i) on-the-job training, and (ii) other training activities sponsored by the Group. (i) On-the-job training: The research and development team of the Group comprises veteran professionals in the PRC lottery industry. Through working with these professionals and other business partners (which are leading international gaming and/or gaming technology companies), employees can share knowledge base and learn state-of-the-art technology and business practices from other renowned companies. (ii) Other training activities: In-house briefing materials on latest corporate governance and listing rule requirements are provided to Directors and company secretary. Directors and employees also attend in-house and outside training seminars on job-related topics, or participate in industry-specific seminars and conferences from time to time.
Suppliers/subcontractors	The Group does not run any factories but outsources the manufacturing functions to outside suppliers/subcontractors to help produce our lottery hardware products. As part of our sustainability management strategy, we request our suppliers/subcontractors to adopt minimal packaging for our finished hardware products in order to save on costs of packaging materials and delivery, as well as to reduce the use of paper and make it easier for storage and recycling. Furthermore, the Group has its own "supplier/subcontractor selection standards" for selecting suppliers/subcontractors which can demonstrate that their production process has adequately addressed environmental protection concerns.

Stakeholders of the Group	Relationships with the Group
Customers (including governmental lottery authorities or operators authorised by such authorities)	During the year under review, the largest customer and the five largest customers (combined) of the Group accounted for approximately 26.5% and approximately 68.5% of the total revenue of the Group respectively. As no single customer accounted for more than 30% of the Group's total revenue from sales of goods or rendering of services for the year under review, we do not consider that the relationships with our customers expose the Group's business to any substantial risks. The Group works closely with its customers to implement responsible lottery measures and prevent problem gaming in various ways: • we provide our products and services only to customers which are governmental lottery authorities or operators authorised by such authorities in order to preclude from involvement in any possible illegal gaming activities in any jurisdiction where the Group has business; • where we are engaged by our customers to provide consultancy services, we shall advise our customers as to how to educate lottery players in order to avoid problem gaming issues of the players, where appropriate; • our lottery games are launched only after obtaining all necessary approval from PRC governmental lottery authorities; • our lottery games are played in lottery shops where betting by underage players and credit betting are prohibited, and where players can have access to responsible lottery information contained in product promotion materials; and • to the extent possible, anti-addiction features are embedded in our lottery game design (in collaboration with our business partners), such as setting limit on the maximum amount per bet that can be placed by a player, the frequency and maximum number of draws of the games per day.

Stakeholders of the Group	Relationships with the Group
Community	We strive to actively contribute to the development of a responsible lottery gaming industry which will raise important public funds for charity, welfare and sports development projects in China. We are actively involved in sports development and charity events, and we have been the sponsor of a wide range of sports events. We liaise closely with the PRC lottery authorities and strive to help them develop healthy lottery markets for the community. We not only introduce new lottery types to the PRC lottery markets, but also propose to the PRC lottery authorities to evaluate new forms of legal and regulated lottery distribution channels with a view to cracking down on the illegal gambling market in China. The footprint of our lottery business covers multiple provinces and municipalities across China. We employ over 300 employees and help create job opportunities in the communities where we operate.

On behalf of the Board

Sun Ho
Chairman & CEO

24 March 2017

FINANCIAL SUMMARY

RESULTS

	For the year ended 31 December				
	2016	2015	2014	2013	2012
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**251,492**	301,630	211,051	208,360	229,329
Gross profit	**73,261**	69,197	69,582	91,268	101,635
Operating loss	**(267,630)**	(91,046)	(189,233)	(77,518)	(30,170)
Profit/(Loss) for the year attributable to owners of the Company	**332,989**	(280,222)	(189,184)	(82,940)	(32,862)

ASSETS AND LIABILITIES

	As at 31 December				
	2016	2015	2014	2013	2012
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**4,034,351**	1,613,920	1,335,556	1,314,398	1,152,177
Total liabilities	**(1,730,606)**	(555,397)	(113,649)	(79,019)	(86,826)
	2,303,745	1,058,523	1,221,907	1,235,379	1,065,351
Equity attributable to owners of the Company	**2,267,872**	1,059,205	1,218,840	1,234,088	1,063,224
Non-controlling interests	**35,873**	(682)	3,067	1,291	2,127
	2,303,745	1,058,523	1,221,907	1,235,379	1,065,351

AGTech
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AGTech Holdings Limited

(Incorporated in Bermuda with limited liability)

Stock Code: 8279

FINANCIAL REPORT 2016

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INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

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

OPINION

What we have audited

The consolidated financial statements of AGTech Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 146 to 222, which comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

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

Independence

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

KEY AUDIT MATTERS

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

Key audit matters identified in our audit are summarised as follows:

- Impairment assessment of goodwill
- Re-measurement of contingent consideration payables
- Recognition and measurement of convertible bonds

Key Audit Matter	How our audit addressed the Key Audit Matter
1. Impairment assessment of goodwill	
Refer to Note 16 to the consolidated financial statements. We focused on this area due to the size of the goodwill balance (approximately HK$1,067,388,000 as at 31 December 2016) and because management's assessment of the value in use of the cash generating units ("CGU"), namely Lottery hardware, games and related services, involved significant judgement and estimates about the future results of the business, the revenue growth rates within the forecast period, the long term growth rates and the discount rates applied to the future cash flow forecasts.	We evaluated the composition of management's future cash flow forecasts, and the process by which they were drawn up. We found that the forecasts were subject to timely oversight and challenged by the Directors and were consistent with the Board approved budgets. We compared the current year actual results of the CGU of Lottery hardware, games and related services with the figures included in the prior year forecasts to consider whether any forecasts included assumptions that, with hindsight, had been optimistic. We found that actual performance of the CGU was lower than previously expected, and therefore management has adjusted the projected revenue and gross margins in this year's model accordingly. We considered this judgement is appropriate given the past performance of the CGU. We challenged management's assumptions in the forecasts, including the revenue growth rates within the forecast period and the long term growth rates, by comparing them to economic and industry forecasts; and the discount rates, by assessing the cost of capital for the Group and comparable companies and considering country and industry specific factors. We found the assumptions to be consistent and in line with our expectations.

Key Audit Matter	How our audit addressed the Key Audit Matter
1. Impairment assessment of goodwill (continued)	
	We evaluated management on the adequacy of their sensitivity calculations over the CGU. We determined that the calculations were most sensitive to assumptions used for revenue growth rates and discount rates. We calculated the extent to which these assumptions would need to move before an impairment conclusion was triggered. We discussed the likelihood of such movements with management and found their sensitivity assumptions on plausible changes to be reasonable.
2. Re-measurement of contingent consideration payables	
Refer to Notes 27 and 34 to the consolidated financial statements. We focused on this area because management's re-measurement of the contingent consideration payables involved estimation uncertainty and significant judgement, including discount rates applied to the future cash flow forecasts. The valuation was contingent upon the occurrence or non-occurrence of future events including granting of the approval of a lottery game by the relevant government authority of the PRC, the commencement of sales of the lottery game in the PRC and the future profitability ("profit guarantee") of the acquired subsidiary, namely Score Value Limited.	We evaluated management's assumptions about the granting approval of the lottery game by the relevant government authority of the PRC and the commencement of sales of the lottery game in the PRC. We independently assessed those assumptions and obtained evidence with reference to industry knowledge and external market data. We evaluated the composition of management's future profit forecasts of Score Value Limited. We found that the forecasts were subject to timely oversight and challenged by the Directors and were consistent with the Board approved budgets. We compared the current year actual net profit of Score Value Limited with the profit guarantee for 2016. We found that actual net profit of Score Value Limited was higher than the profit guarantee. We challenged management's assumption of the discount rates, by assessing the cost of capital for Score Value Limited and comparable companies and considering country and industry specific factors. We found the assumptions adopted by management's valuation of the contingent consideration payables to be supported by available evidence.

Key Audit Matter	How our audit addressed the Key Audit Matter
3. Recognition and measurement of convertible bonds	
Refer to Note 29 to the consolidated financial statements. We focused on this area due to the size of the convertible bonds balance (approximately HK$1,329,881,000 as at 31 December 2016) and because management's assessment of the recognition and measurement of convertible bonds involved significant judgement and estimates. The valuation of the conversion option involved significant unobservable inputs including expected volatility of share price and the likelihood of future issues of shares due to settlement of the contingent considerations and exercise of the outstanding consultant options.	We examined the terms of the convertible bonds and evaluated management's assessment that the convertible bonds do not meet the "fixed-for-fixed" criteria (i.e. it will or may be settled other than by exchange of fixed amount of cash or another financial asset for a fixed number of shares) and the resulting treatment of the conversion option as a financial liability was appropriate. We evaluated management's assumption of the expected volatility of share price, by assessing the historical volatility of share prices of other companies in the similar industry over the expected life of the bonds. We evaluated management's assumption about the likelihood of future issues of shares due to settlement of the contingent considerations and exercise of the outstanding consultant options. We found the assumptions to be reasonable and in line with our expectations.

OTHER INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Shin Wai Kit, Ricky.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 24 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
Revenue	5	**251,492**	301,630
Cost of sales		**(178,231)**	(232,433)
Gross profit		**73,261**	69,197
Other income	7	**3,920**	3,099
Net other losses	8	**(12,123)**	(592)
Selling, general and administrative expenses		**(332,688)**	(162,750)
Operating loss		**(267,630)**	(91,046)
Gain on fair value changes of convertible bonds	29	**408,077**	–
Gain/(Loss) on fair value changes of contingent consideration payables	27	**119,696**	(191,402)
Write-back of contingent consideration payables	27	**79,345**	–
Net finance (cost)/income	10	**(1,590)**	2,095
Share of losses of a joint venture		**(3)**	(1)
Profit/(Loss) before income tax		**337,895**	(280,354)
Income tax expense	11	**(5,230)**	(3,064)
Profit/(Loss) for the year	12	**332,665**	(283,418)
Other comprehensive income:			
Item that will not be reclassified subsequently to profit or loss			
Currency translation differences		**(68,840)**	(65,200)
Other comprehensive income for the year, net of tax		**(68,840)**	(65,200)
Total comprehensive income for the year		**263,825**	(348,618)
Profit/(Loss) attributable to:			
Owners of the Company		**332,989**	(280,222)
Non-controlling interests		**(324)**	(3,196)
		332,665	(283,418)
Total comprehensive income attributable to:			
Owners of the Company		**264,628**	(344,869)
Non-controlling interests		**(803)**	(3,749)
		263,825	(348,618)
Earning/(Loss) per share			
Basic	13	**HK4.71 cents**	(HK6.20 cents)
Diluted	13	**(HK1.30 cents)**	(HK6.20 cents)

The notes on pages 152 to 222 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
Non-current assets			
Property, plant and equipment	14	**7,447**	11,814
Investment properties	15	**49,100**	52,536
Goodwill	16	**1,067,388**	1,119,289
Other intangible assets	17	**1,742**	1,742
Investment in a joint venture	18	**–**	645
Other receivables, deposits and prepayments	19	**6,580**	11,899
Deferred income tax assets	20	**7,950**	7,500
		1,140,207	1,205,425
Current assets			
Inventories	21	**18,801**	56,306
Trade receivables	22	**25,584**	29,597
Other receivables, deposits and prepayments	19	**80,587**	75,892
Amount due from a joint venture	18	**–**	11
Fixed deposits held at bank with original maturity over three months	23	**387,765**	–
Pledged bank deposits	23	**41,676**	15,042
Cash and cash equivalents	23	**2,339,731**	231,647
		2,894,144	408,495
Total assets		**4,034,351**	1,613,920
Current liabilities			
Trade payables	24	**18,418**	36,664
Accruals and other payables	25	**100,172**	47,950
Current income tax liabilities		**2,700**	2,264
Amount due to a joint venture	18	**–**	650
Secured bank borrowings	26	**44,957**	21,982
Contingent consideration payables	27	**62,471**	63,503
		228,718	173,013

Consolidated Statement of Financial Position

At 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
Non-current liabilities			
Deferred income tax liabilities	20	**5,212**	5,576
Provision for warranties	28	**52,998**	50,002
Convertible bonds	29	**1,329,881**	–
Contingent consideration payables	27	**113,797**	326,806
		1,501,888	382,384
Total liabilities		**1,730,606**	555,397
Net assets		**2,303,745**	1,058,523
Equity attributable to owners of the Company			
Share capital	30	**20,990**	9,213
Reserves		**2,246,882**	1,049,992
		2,267,872	1,059,205
Non-controlling interests		**35,873**	(682)
Total equity		**2,303,745**	1,058,523

The consolidated financial statements on pages 146 to 222 were approved by the Board of Directors on 24 March 2017 and were signed on its behalf by:

Sun Ho	**Zhou Haijing**
Director	*Director*

The notes on pages 152 to 222 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Attributable to owners of the Company											
	Share capital HK$'000 (Note 30)	Share premium HK$'000	Share options reserve HK$'000	Statutory reserve HK$'000 (Note (a))	Exchange reserve HK$'000	Contributed surplus HK$'000 (Note (b))	Property revaluation reserve HK$'000 (Note (c))	Other reserve HK$'000 (Note (d))	Accumulated losses HK$'000	Subtotal HK$'000	Attributable to non-controlling interests HK$'000	Total HK$'000
Balance at 1 January 2016	**9,213**	**1,540,597**	**168,549**	**18,189**	**128,335**	**47,191**	**14,402**	**60,811**	**(928,082)**	**1,059,205**	**(682)**	**1,058,523**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**332,989**	**332,989**	**(324)**	**332,665**
Other comprehensive income for the year	**–**	**–**	**–**	**–**	**(68,361)**	**–**	**–**	**–**	**–**	**(68,361)**	**(479)**	**(68,840)**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(68,361)**	**–**	**–**	**–**	**332,989**	**264,628**	**(803)**	**263,825**
Recognition of equity settled share-based payments	**–**	**–**	**86,576**	**–**	**–**	**–**	**–**	**–**	**–**	**86,576**	**–**	**86,576**
Issue of shares upon exercise of share options under share option scheme	**325**	**156,245**	**(44,176)**	**–**	**–**	**–**	**–**	**–**	**–**	**112,394**	**–**	**112,394**
Issue of shares upon exercise of share options by Rainwood Resources Limited	**426**	**123,358**	**(38,632)**	**–**	**–**	**–**	**–**	**–**	**–**	**85,152**	**–**	**85,152**
Lapse of share options	**–**	**–**	**(4,025)**	**–**	**–**	**–**	**–**	**–**	**4,025**	**–**	**–**	**–**
Issue of shares upon subscription	**11,006**	**648,911**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**659,917**	**–**	**659,917**
Issue of shares upon settlement of contingent consideration	**20**	**9,101**	**–**	**–**	**–**	**–**	**–**	**(9,121)**	**–**	**–**	**–**	**–**
Capital contribution from non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**37,358**	**37,358**
Balance at 31 December 2016	**20,990**	**2,478,212**	**168,292**	**18,189**	**59,974**	**47,191**	**14,402**	**51,690**	**(591,068)**	**2,267,872**	**35,873**	**2,303,745**
Balance at 1 January 2015	8,880	1,428,088	193,144	15,262	192,982	47,191	14,402	–	(681,109)	1,218,840	3,067	1,221,907
Loss for the year	–	–	–	–	–	–	–	–	(280,222)	(280,222)	(3,196)	(283,418)
Other comprehensive income for the year	–	–	–	–	(64,647)	–	–	–	–	(64,647)	(553)	(65,200)
Total comprehensive income for the year	–	–	–	–	(64,647)	–	–	–	(280,222)	(344,869)	(3,749)	(348,618)
Recognition of equity-settled share-based payments	–	–	35,192	–	–	–	–	–	–	35,192	–	35,192
Issue of shares upon exercise of share options under share option scheme	265	82,172	(23,611)	–	–	–	–	–	–	58,826	–	58,826
Lapse of share options	–	–	(36,176)	–	–	–	–	–	36,176	–	–	–
Issue of shares upon acquisition of a subsidiary	68	30,337	–	–	–	–	–	–	–	30,405	–	30,405
Contingent consideration related to acquisition of a subsidiary	–	–	–	–	–	–	–	60,811	–	60,811	–	60,811
Transfer from accumulated losses	–	–	–	2,927	–	–	–	–	(2,927)	–	–	–
Balance at 31 December 2015	9,213	1,540,597	168,549	18,189	128,335	47,191	14,402	60,811	(928,082)	1,059,205	(682)	1,058,523

Notes:

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

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

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

(d) Other reserve represents the equity portion of contingent considerations related to the acquisition of a subsidiary.

The notes on pages 152 to 222 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
Cash flows from operating activities			
Profit/(Loss) before income tax		**337,895**	(280,354)
Adjustments for:			
Share-based payments		**86,576**	35,192
Depreciation of property, plant and equipment		**4,735**	5,551
Amortisation of other intangible assets		**–**	454
Allowance for impairment of other receivables, deposits and prepayments		**7,082**	2,017
Provision for warranties		**12,758**	13,856
Loss on disposals of property, plant and equipment		**76**	211
Gain on fair value changes of investment properties		**–**	(1,202)
Impairment charge of goodwill		**2,857**	–
Net loss on winding-up of a joint venture		**8**	–
(Gain)/Loss on fair value changes of contingent consideration payables		**(119,696)**	191,402
Gain on fair value changes of convertible bonds		**(408,077)**	–
Write-back of contingent consideration payables		**(79,345)**	–
Net finance cost/(income)		**1,590**	(2,095)
Share of losses of a joint venture		**3**	1
		(153,538)	(34,967)
Changes in working capital			
Inventories		**37,505**	948
Trade receivables		**4,013**	1,499
Other receivables, deposits and prepayments		**(1,902)**	2,113
Amount due from a joint venture		**–**	(2)
Trade payables		**(18,246)**	(14,089)
Accruals and other payables		**37,222**	(23,781)
Provision for warranties		**(6,516)**	(3,037)
Cash used in operations		**(101,462)**	(71,316)
Income taxes paid		**(5,596)**	(3,570)
Net cash used in operating activities		**(107,058)**	(74,886)

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
Cash flows from investing activities			
Acquisition of a subsidiary, net of cash acquired		–	(55,757)
Purchases for property, plant and equipment		(1,421)	(1,428)
Proceeds from disposal of property, plant and equipment		346	–
Proceeds from fixed deposits held at bank with original maturity over three months		–	37,914
Fixed deposits held at bank with original maturity over three months		(387,765)	–
Increase in pledged bank deposits		(26,634)	(12,066)
Interest received		5,727	2,290
Net cash used in investing activities		(409,747)	(29,047)
Cash flows from financing activities			
Proceeds from issue of ordinary shares		2,078,312	58,826
Proceeds from issue of convertible bonds		507,235	–
Proceeds from borrowings		55,102	21,982
Repayments of borrowings		(31,451)	–
Capital contribution from non-controlling interests		37,358	–
Interest paid		(1,654)	(195)
Net cash generated from financing activities		2,644,902	80,613
Net increase/(decrease) in cash and cash equivalents		2,128,097	(23,320)
Cash and cash equivalents at the beginning of year		231,647	274,710
Exchange losses on cash and cash equivalents		(20,013)	(19,743)
Cash and cash equivalents at the end of year		2,339,731	231,647

Note: The principal non-cash transactions included issues of shares upon acquisition of a subsidiary and settlement of contingent consideration discussed in Note 30.

The notes on pages 152 to 222 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

AGTech Holdings Limited (the "Company") and its subsidiaries (together "the Group") are principally engaged in the sales of lottery games and systems, hardware, and the provision of distribution and ancillary services in the People's Republic of China ("PRC").

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

The Company's shares are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

At 31 December 2016, the Directors regard Ali Fortune Investment Holding Limited, a private limited company incorporated in the British Virgin Islands ("BVI"), as the immediate holding company of the Company, and Alibaba Group Holding Limited ("Alibaba"), a company incorporated in the Cayman Islands and the American depository shares of which are listed on the New York Stock Exchange, as the ultimate holding company of the Company.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

Amended standards adopted by the Group

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

Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for acquisitions of interests in joint operations
HKFRS 14	Regulatory Deferral Accounts
Amendments to HKAS 1	Disclosure initiative
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRSs	Annual improvements to HKFRSs 2012–2014 cycle

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

New and amended standards not yet adopted

The following new standards and amendments to standards are effective for annual periods beginning after 1 January 2016 and have not been applied in preparing these consolidated financial statements:

		Effective for accounting periods beginning on or after
Amendments to HKAS 7	Statement of Cash Flows	1 January 2017
Amendments to HKAS 12	Income Taxes	1 January 2017
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions	1 January 2018
HKFRS 9	Financial Instruments	1 January 2018
HKFRS 15	Revenue from Contracts with Customers	1 January 2018
HKFRS 16	Leases	1 January 2019
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

New and amended standards not yet adopted (continued)

HKFRS 9 "Financial instruments"

HKFRS 9 replaces HKAS 39 "Financial Instruments: Recognition and Measurement". The new standard addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces a new impairment model for financial assets and new rules for hedge accounting.

HKFRS 9 has three financial asset classification categories for investments in debt instruments: amortised cost, fair value through other comprehensive income and fair value through profit or loss. Classification is driven by the entity's business model for managing the debt instruments and their contractual cash flow characteristics. Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

For financial liabilities there are two classification categories: amortised cost and fair value through profit or loss. Where non-derivative financial liabilities are designated at fair value through profit or loss, the changes in the fair value due to changes in the liability's own credit risk are recognised in other comprehensive income, unless such changes in fair value would create an accounting mismatch in profit or loss, in which case, all fair value movements are recognised in profit or loss. There is no subsequent recycling of the amounts in other comprehensive income to profit or loss. For financial liabilities held for trading (including derivative financial liabilities), all changes in fair value are presented in profit or loss.

HKFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses model, which constitutes a change from the incurred loss model in HKAS 39. HKFRS 9 contains a 'three stage' approach, which is based on the change in credit quality of financial assets since initial recognition. Assets move through the three stages as credit quality changes and the stages dictate how an entity measures impairment losses and applies the effective interest rate method. The new rules mean that on initial recognition of a non-credit impaired financial asset carried at amortised cost a day-1 loss equal to the 12-month expected credit losses is recognised in profit or loss. In the case of accounts receivables this day-1 loss will be equal to their lifetime expected credit losses. Where there is a significant increase in credit risk, impairment is measured using lifetime expected credit losses rather than 12-month expected credit losses.

HKFRS 9 applies to all hedging relationships, with the exception of portfolio fair value hedges of interest rate risk. The new guidance better aligns hedge accounting with the risk management activities of an entity and provides relief from the more "rule-based" approach of HKAS 39.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

New and amended standards not yet adopted (continued)

HKFRS 15, "Revenue from contracts with customers"

HKFRS 15 replaces HKAS 18 "Revenue" and HKAS 11 "Construction Contracts", and the related interpretations on revenue recognition. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

HKFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach: (1) Identify the contract with customer; (2) Identify separate performance obligations in a contract; (3) Determine the transaction price; (4) Allocate transaction price to performance obligations; and (5) recognise revenue when performance obligation is satisfied. The core principle is that a company should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an 'earnings processes' to an 'asset-liability' approach based on transfer of control.

HKFRS 15 provides specific guidance on capitalisation of contract cost and licence arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

HKFRS 16 "Leases"

HKFRS 16 replaces HKAS 17 "Leases", and related interpretations. HKFRS 16 addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from HKFRS 16 is that most operating leases will be accounted for on balance sheet for lessees.

Comparative figures

Certain comparative figures have been reclassified to conform with the consolidated financial statements presentation adopted for the current year.

2.2 Subsidiaries

2.2.1 Consolidation

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Subsidiaries (continued)

2.2.1 Consolidation (continued)

(a) Business combinations

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

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

Acquisition-related costs are expensed as incurred.

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

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss (Note 2.8).

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Subsidiaries (continued)

2.2.1 Consolidation (continued)

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

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

2.2.2 Separate financial statements

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

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

2.3 Joint arrangements

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Segment reporting

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

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency').

In prior years, the directors regarded Renminbi ("RMB") as the functional currency of the Company. Upon the completion of the issue of new shares and convertible bonds which are denominated in Hong Kong dollar ("HK$") on 10 August 2016, the directors consider that the Company's funds have been substantially financed by HK$ and determined to change the functional currency of the Company from RMB to HK$. The change in functional currency of the Company was applied prospectively from the date of change in accordance with HKAS 21 "The Effect of Changes in Foreign Exchange Rates".

As the Company is listed in Hong Kong, the Directors consider that it is appropriate and consistent to present the consolidated financial statements in HK$.

(b) Transactions and balances

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

Foreign exchange gains and losses are presented in profit or loss within net other losses.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Foreign currency translation (continued)

(c) Group companies

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

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

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

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

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

2.6 Property, plant and equipment

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Property, plant and equipment (continued)

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

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

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

2.7 Investment properties

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

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

2.8 Intangible assets

(a) Goodwill

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Intangible assets (continued)

(a) Goodwill (continued)

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

(b) Internally-generated intangible assets – research and development expenditure

Development costs that are directly attributable to the design and testing of identifiable and unique intangible assets controlled by the Group are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the product so that it will be available for use;
- Management intends to complete the product and use or sell it;
- There is an ability to use or sell the product;
- It can be demonstrated how the product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the product are available; and
- The expenditure attributable to the product during its development can be reliably measured.

Costs associated with research activities and other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Development costs recognised as assets are amortised over their estimated useful lives.

(c) Intangible assets acquired separately

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Intangible assets (continued)

(d) Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised at fair value at the acquisition date. Intangible assets that have a finite useful life are carried at cost less accumulated amortisation and impairment. Amortisation is calculated using the straight-line method over the expected lives of the intangible assets. Intangible assets with indefinite useful lives are carried at cost less accumulated impairment.

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

2.9 Impairment of non-financial assets

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

2.10 Financial assets

(a) Classification

The Group classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise trade receivables, other receivables and deposits, amount due from a joint venture, fixed deposits held at bank with maturity original maturity over three months, pledged bank deposits and cash and cash equivalents in the consolidated statement of financial position (Notes 2.13 and 2.14).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Financial assets (continued)

(b) Recognition and measurement

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

Loans and receivables are subsequently carried at amortised cost using the effective interest method.

2.11 Impairment of financial assets

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

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

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Inventories

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

2.13 Trade and other receivables

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

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. See Note 2.10 for further information about the Group's accounting for trade receivables and Note 2.11 for a description of the Group's impairment policies.

2.14 Cash and cash equivalents

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

2.15 Share capital

Ordinary shares are classified as equity.

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

2.16 Trade payables

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Borrowings

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

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

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

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

2.18 Borrowing costs

Borrowing costs are recognised in profit or loss in the period in which they are incurred. Borrowing costs include interest.

2.19 Convertible bonds

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Current and deferred income tax

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

(a) Current income tax

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

(b) Deferred income tax

Inside basis differences

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

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

Outside basis differences

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Current and deferred income tax (continued)

(c) Offsetting

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

2.21 Employee benefits

(a) Pension obligations – defined contribution plan

A defined contribution plan is a pension plan under which the Group pays fixed contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

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

(b) Bonus plans

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

2.22 Share-based payments

(a) Equity-settled share-based payment transactions

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22 Share-based payments (continued)

(a) Equity-settled share-based payment transactions (continued)

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

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

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

When the options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated losses.

2.23 Provisions

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

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

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

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

Warranties

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.24 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

(a) Sales of goods

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

(b) Provision of services

For provision of after-sales repair and maintenance services and distribution and ancillary services, revenue is recognised in the accounting period in which the services are rendered.

(c) Rental income

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

(d) Interest income

Interest income is recognised using the effective interest method.

2.25 Leases

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

The Group as lessee

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.25 Leases (continued)

The Group as lessee (continued)

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

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

The Group as lessor

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

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

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

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

(ii) Interest rate risk

The Group's bank balances have exposure to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate. The Group is also exposed to fair value interest rate risk related primarily to its fixed deposits held at banks and bank borrowings. The Directors consider the Group's exposure of fair value interest rate risk on fixed deposits and bank borrowings is not significant as the interest bearing fixed deposits and bank borrowings are within short maturity period.

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

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

(iii) Other price risk

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk

As at 31 December 2016, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties provided by the Group is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

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

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies or with good reputation.

As at 31 December 2016, the Group is subject to concentration of credit risk as 25% (2015: 12%) of the Group's trade receivables were due from the Group's largest customer. Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in Note 22.

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

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

(c) Liquidity risk

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

At 31 December 2016, the Group has available unutilised banking facilities of approximately HK$54,076,000 (2015: HK$25,478,000).

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

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

	Weighted average interest rate %	On demand or within 1 year HK$'000	More than 1 year but not more than 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amounts HK$'000
At 31 December 2016					
Trade payables	–	18,418	–	18,418	18,418
Accruals and other payables	–	96,190	–	96,190	96,190
Secured bank borrowings	4.53%	46,992	–	46,992	44,957
Contingent consideration payables settled by cash	–	65,000	20,000	85,000	80,321
Debt instrument of convertible bonds	–	–	507,235	507,235	341,081
		226,600	527,235	753,835	580,967
At 31 December 2015					
Trade payables	–	36,664	–	36,664	36,664
Accruals and other payables	–	37,138	–	37,138	37,138
Amount due to a joint venture	–	650	–	650	650
Secured bank borrowings	3.75%	22,358	–	22,358	21,982
Contingent consideration payables settled by cash	–	65,000	35,000	100,000	92,814
		161,810	35,000	196,810	189,248

3 FINANCIAL RISK MANAGEMENT (continued)

3.2 Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2015.

The capital structure of the Group consists of net debt (which includes trade payables, accruals and other payables, amount due to a joint venture, secured bank borrowings, contingent consideration payables and convertible bonds, net of cash and cash equivalents) and equity attributable to owners of the Company (comprising issued share capital and reserves).

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

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

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

	2016 HK$'000	2015 HK$'000
Debt	**1,669,696**	497,555
Less: cash and cash equivalents	**(2,339,731)**	(231,647)
Net (cash)/debt	**(670,035)**	265,908
Equity attributable to owners of the Company	**2,267,872**	1,059,205
Net debt-to-equity ratio	**N/A**	25.10%

As at 31 December 2016, the Group was in net cash position, taking into accounts its debt and cash and cash equivalents.

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2016 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

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

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Financial liabilities at fair value through profit or loss				
Contingent consideration payables	95,947	–	80,321	176,268
Embedded derivative of convertible bonds	–	–	988,800	988,800
	95,947	–	1,069,121	1,165,068

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2015:

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Financial liabilities at fair value through profit or loss				
Contingent consideration payables	136,486	–	253,823	390,309
	136,486	–	253,823	390,309

There were no transfers between level 1, level 2 and level 3 during the year.

See Notes 15, 27 and 29 for disclosures of the measurement of investment properties, contingent consideration payables and convertible bonds that are measured at fair value.

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

Valuation processes of the Group

The fair values of the Group's investment properties and contingent consideration payables as at 31 December 2016 and 2015 have been arrived at on the basis of valuation carried out on the respective dates by Asset Appraisal Limited ("AAL"). The fair values of the convertible bonds as at 10 August 2016 and 31 December 2016 have been arrived at on the basis of valuation carried out by GW Financial Advisory Services Limited ("GWFASL"). AAL and GWFASL are independent professional valuers not connected to the Group, and are members of the Hong Kong Institute of Surveyors and have appropriate qualifications and relevant experience.

The Group's finance team reviewed the valuations performed by the independent valuers for financial reporting purposes. This team reports directly to the management. Discussions of valuation processes and results are held between the management, finance team and valuers at least two times per year, in line with the Group's interim and annual reporting dates.

At each financial year end, the finance team:

- verifies all major inputs to the independent valuation reports;
- assess valuations movements when compared to the prior year valuation reports;
- holds discussions with the independent valuers.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(a) Fair value of investment properties

The fair value of investment properties is determined by using valuation technique. Details of the judgement and assumptions have been disclosed in Note 15.

(b) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.8. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. Details of the judgement and assumptions have been disclosed in Note 16.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(c) Recognition of deferred income tax assets

Deferred tax assets in relation to temporary differences have been recognised in the consolidated statement of financial position. The recognition of deferred tax assets mainly depends on whether sufficient taxable temporary differences of future assessable profits will be available in the future. In cases where the actual future assessable profits generates are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in profit or loss in the period of the reversal takes place.

(d) Withholding taxes arising from the distributions of dividends

The Group's determination as to whether to accrue for withholding taxes from the distribution of dividends from subsidiaries in the PRC according to the relevant tax jurisdictions is subject to judgement on the timing of the payment of the dividend, where the Group considers that if it is probable that the profits of the subsidiaries in the PRC will not be distributed in the foreseeable future, then no withholding taxes are provided.

(e) Recognition and measurement of convertible bonds

The Group's recognition and measurement of convertible bonds involved significant judgement and estimates. The fair value of convertible bonds that are not traded in an active market is determined by using valuation techniques with estimates including expected volatility of share price. Details of the judgement and assumptions have been disclosed in Notes 29.

(f) Re-measurement of contingent consideration payables

The fair value of contingent consideration payables has been determined based on discounted cash flows. These calculations require the use of estimates and judgement, including discount rates and contingency of the occurrence or non-occurrence of future events. Details of the judgement and assumptions have been disclosed in Notes 27.

(g) Estimated impairment of trade and other receivables

The Group estimates the provisions for impairment of trade and other receivables by assessing their recoverability based on credit history and prevailing marking conditions. This requires the use of estimates and judgements. Provisions are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. Where the expectation is different from the original estimate, such difference will affect the carrying amount of trade and other receivables and thus the impairment loss in the period in which such estimate is changed. The Group reassesses the provisions at the end of each reporting period.

(h) Provision for warranties

The Group generally offers three to six year warranties for its hardware. Management estimates the related provision for future warranty claims based on historical warranty claim information, as well as recent trends that might suggest that past cost information may differ from future claims. Factors that could impact the estimated claim information include the success of the Group's productivity and quality initiatives, as well as parts and labour costs.

5 REVENUE

Revenue represents the amounts received and receivable from sales of lottery games and systems, hardware (including provision of related after-sales services) and provision of distribution and ancillary services primarily in the PRC for the year, and is analysed as follows:

	2016 HK$'000	2015 HK$'000
Lottery games and systems and hardware	**228,311**	282,058
Provision of distribution and ancillary services	**23,181**	19,572
	251,492	301,630

6 SEGMENT INFORMATION

Information reported to the Executive Directors, being the CODM, for the purposes of resources allocation and assessment of performance focuses specifically on the revenue analysis by principal categories of the Group's business and the profit or loss of the Group as a whole.

Accordingly, the CODM have determined that the Group has one sole operating segment (as lottery games and systems, hardware and services provider). The information regarding revenue derived from the principal businesses described above is set out in Note 5.

Additional disclosure in relation to segment information is not presented as the CODM assess the performance of the sole operating segment identified based on the consistent information as disclosed in the consolidated financial statements.

The total segment profit or loss is equivalent to profit or loss for the year as shown in the consolidated statement of profit or loss and other comprehensive income and the total segment assets and total segment liabilities are equivalent to total assets and total liabilities as shown in the consolidated statement of financial position.

6 SEGMENT INFORMATION (continued)

Geographical information

The Group's operations are mainly located in the PRC.

The Group's revenue from external customers by location of operations and information about its non-current assets* by location of assets are detailed below:

	Revenue from external customers		Non-current assets*	
	2016	2015	**2016**	2015
	HK$'000	HK$'000	**HK$'000**	HK$'000
PRC	**249,108**	300,689	**1,130,554**	1,195,342
Hong Kong	**–**	–	**1,703**	2,583
Others	**2,384**	941	**–**	–
	251,492	301,630	**1,132,257**	1,197,925

* Non-current assets excluding deferred income tax assets.

Information about major customers

Revenue from customers contributing over 10% of total revenue of the Group is as follows:

	2016	2015
	HK$'000	HK$'000
Customer A	**66,525**	N/A*
Customer B	**44,016**	82,220
Customer C	**32,223**	N/A*
	142,764	82,220

* The corresponding customer did not contribute over 10% to the Group's revenue in 2015.

7 OTHER INCOME

	2016 HK$'000	2015 HK$'000
Rental income from investment properties	**3,920**	3,099

8 NET OTHER LOSSES

	2016 HK$'000	2015 HK$'000
Gain on fair value changes of investment properties (Note 15)	**–**	1,202
Allowance for impairment of other receivables, deposits and prepayments	**(7,082)**	(2,017)
Impairment charge of goodwill (Note 16)	**(2,857)**	–
Foreign exchange (loss)/gain	**(2,100)**	434
Loss on disposals of property, plant and equipment	**(76)**	(211)
Loss on winding-up of a joint venture	**(8)**	–
	(12,123)	(592)

9 EMPLOYEE BENEFITS EXPENSES

	2016 HK$'000	2015 HK$'000
Fees, salaries, discretionary bonuses and other benefits	**117,277**	55,048
Share-based payments	**25,387**	32,175
Pension costs – defined contributions plans	**13,655**	9,935
Total employee benefits expenses	**156,319**	97,158

9 EMPLOYEE BENEFITS EXPENSES (continued)

(a) Pension costs – defined contribution plans

The Group participates in employee social security plans as required by the regulations in the PRC. The Group also participates in the Mandatory Provident Fund scheme to which all qualified employees of the Group in Hong Kong are entitled. The assets of the retirement benefit schemes are held, separately from those of the Group, in funds under the control of the trustees. The employees of the subsidiaries in the PRC are members of social security schemes operated by the relevant local government authorities. The pension plans are funded by payments from employees and by the relevant group companies. The amounts charged to profit or loss represent contributions payable by the Group at the specified rates according to the respective plans. The only obligation of the Group in respect of the retirement benefit schemes is to make the specified contributions.

Contributions totalling approximately HK$1,037,000 (2015: HK$489,000) were payable to the fund at the year-end.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2015: four) Directors whose emoluments are reflected in the analysis shown in Note 36. The emoluments payable to the remaining four (2015: one) individuals during the year are as follows:

	2016 HK$'000	2015 HK$'000
Salaries and other benefits	**5,410**	1,309
Pension costs – defined contribution plans	**232**	117
Discretionary bonus	**–**	80
Share-based payments	**18,437**	6,878
	24,079	8,384

Their emoluments fell within the following bands:

	2016 Number of individuals	2015 Number of individuals
HK$4,000,001 to HK$4,500,000	**1**	–
HK$5,000,001 to HK$5,500,000	**1**	–
HK$6,000,001 to HK$6,500,000	**1**	–
HK$8,000,001 to HK$8,500,000	**–**	1
HK$8,500,001 to HK$9,000,000	**1**	–
	4	1

10 NET FINANCE (COST)/INCOME

	2016 HK$'000	2015 HK$'000
Interest income on bank deposits	9,938	2,290
Interest expense on secured bank borrowings	(1,654)	(195)
Interest expense on convertible bonds (Note 29)	(9,874)	–
Net finance (cost)/income	(1,590)	2,095

11 INCOME TAX EXPENSE

Taxation has been calculated on the estimated assessable profit for the year at the rates prevailing in the countries in which the members of the Group operate.

No provision for Hong Kong profits tax has been made, as there were no assessable profits arising in or derived from Hong Kong for both years.

北京亞博高騰科技有限公司 (Beijing AGTech GOT Technology Co., Ltd.*) ("GOT"), 北京思德泰科科技發展有限公司 (Bejing Systek Science & Technology Development Co., Ltd.*) ("Beijing Systek") and 深圳中林瑞德科技有限公司 (Shenzhen Zoom Read Tech Co., Ltd.*) ("Shenzhen Subsidiary") are subject to PRC Enterprise Income Tax ("EIT") at 15% for both years, as GOT, Beijing Systek and Shenzhen Subsidiary are recognised as an Advanced and New Technology Enterprise under the PRC EIT Law. Other PRC subsidiaries of the Group are subject to PRC EIT at 25% for both years.

* For identification purpose only

	2016 HK$'000	2015 HK$'000
Current tax:		
– PRC EIT on assessable profit for the year	4,448	4,464
– Adjustments in respect of prior years	1,692	41
Deferred tax (Note 20):		
– Origination and reversal of temporary differences	(910)	(1,441)
Income tax expense	5,230	3,064

11 INCOME TAX EXPENSE (continued)

The tax on the Group's profit/loss before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profit/loss of the consolidated entities as follows:

	2016 HK$'000	2015 HK$'000
Profit/(Loss) before tax	**337,895**	(280,354)
Tax calculated at domestic income tax rates	**48,442**	(48,122)
Income not subject to tax	**(101,572)**	(203)
Expenses not deductible for tax purposes	**24,003**	44,843
Utilisation of previously unrecognised tax losses	**(103)**	(1,291)
Tax losses for which no deferred income tax asset was recognised	**32,768**	7,796
Adjustments in respect of prior years	**1,692**	41
Income tax expense	**5,230**	3,064

12 PROFIT/(LOSS) FOR THE YEAR

Profit/(Loss) for the year has been arrived at after charging:

	2016 HK$'000	2015 HK$'000
Auditor's remuneration	**1,100**	1,100
Operating lease rentals in respect of rented premises	**14,862**	16,156
Research and development costs	**13,493**	20,881
Share-based payments	**86,576**	35,192
PRC individual income tax ("IIT") in respect of the exercise of share options (Note)	**53,898**	–

Note:

During the year, the Group agreed an arrangement with the relevant PRC tax authorities and settled the under-withheld IIT in respect of the exercise of share options by its PRC employees totalling approximately HK$53,898,000.

13 EARNING/(LOSS) PER SHARE

(a) Basic

Basic earning/(loss) per share is calculated by dividing the profit attributable to owners of the Company for the year ended 31 December 2016 of approximately HK$332,989,000 (2015: loss of approximately HK$280,222,000) by the weighted average number ordinary shares in issue during the year of approximately 7,063,295,000 shares (2015: approximately 4,522,154,000 shares).

(b) Diluted

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible bonds and contingent considerations. The convertible bonds are assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the interest expense and the gain on fair value changes. The contingent considerations are assumed to have been settled in ordinary shares, and the net profit is adjusted to eliminate the gain on fair value changes.

	2016 **HK$'000**
Profit attributable to owners of the Company	**332,989**
Adjustments for:	
– Interest expense on convertible bonds	**9,874**
– Gain on fair value changes of convertible bonds	**(408,077)**
– Gain on fair value changes of contingent consideration payables settled by issue of shares	**(40,539)**
Loss used to determine diluted loss per share	**(105,753)**
Weighted average number of ordinary shares in issue (thousands)	**7,063,295**
Adjustments for:	
– Assumed conversion of convertible bonds (thousands)	**951,390**
– Assumed settlement of contingent considerations (thousands)	**125,000**
Weighted average number of ordinary shares for diluted loss per share (thousands)	**8,139,685**

For the year ended 31 December 2016, the computation of the diluted loss per share does not assume the exercise of the outstanding share options, as it would decrease the loss per share.

For the year ended 31 December 2015, the computation of the diluted loss per share does not assume the exercise of the outstanding share options and settlement of the outstanding contingent considerations, as it would decrease the loss per share.

14 PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Sports lottery sales terminals HK$'000	Leasehold improvements HK$'000	Computer equipment HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost							
Balance at 1 January 2015	932	7,019	6,074	6,255	9,929	9,739	39,948
Additions	–	–	158	730	540	–	1,428
Acquisition of a subsidiary	–	–	–	32	1,396	324	1,752
Disposals	–	–	–	(955)	(855)	–	(1,810)
Currency translation differences	(51)	(388)	(310)	(298)	(902)	(434)	(2,383)
Balance at 31 December 2015	881	6,631	5,922	5,764	10,108	9,629	38,935
Additions	–	–	430	374	336	281	1,421
Disposals	–	(6,186)	–	(351)	(375)	(2,255)	(9,167)
Transfers	–	(12)	–	–	12	–	–
Currency translation differences	(58)	(433)	(359)	(320)	(1,006)	(476)	(2,652)
Balance at 31 December 2016	823	–	5,993	5,467	9,075	7,179	28,537
Accumulated depreciation and impairment							
Balance at 1 January 2015	303	7,019	2,116	5,281	5,860	4,187	24,766
Depreciation charge	44	–	1,320	869	1,799	1,519	5,551
Disposals	–	–	–	(950)	(649)	–	(1,599)
Currency translation differences	(17)	(388)	(99)	(244)	(613)	(236)	(1,597)
Balance at 31 December 2015	330	6,631	3,337	4,956	6,397	5,470	27,121
Depreciation charge	41	–	1,436	631	1,303	1,324	4,735
Disposals	–	(6,186)	–	(348)	(316)	(1,895)	(8,745)
Transfers	–	(12)	–	–	12	–	–
Currency translation differences	(21)	(433)	(195)	(270)	(768)	(334)	(2,021)
Balance at 31 December 2016	350	–	4,578	4,969	6,628	4,565	21,090
Net book amount							
Balance at 31 December 2016	473	–	1,415	498	2,447	2,614	7,447
Balance at 31 December 2015	551	–	2,585	808	3,711	4,159	11,814

Depreciation expense of approximately HK$4,735,000 (2015: HK$5,551,000) was included in selling, general and administrative expenses.

15 INVESTMENT PROPERTIES

	2016 HK$'000	2015 HK$'000
At fair value		
Balance at beginning of year	**52,536**	54,343
Gain on fair value changes	**–**	1,202
Currency translation differences	**(3,436)**	(3,009)
Balance at end of year	**49,100**	52,536

	2016 HK$'000	2015 HK$'000
Amounts recognised in profit or loss		
Rental income	**3,920**	3,099
Direct operating expenses from properties that generated rental income	**(738)**	(328)
	3,182	2,771

The Group's properties interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

As at 31 December 2016, the Group's investment properties with an aggregate carrying amount of approximately HK$49,100,000 (2015: HK$52,536,000) have been pledged to secure certain bank borrowings and banking facilities granted to the Group.

15 INVESTMENT PROPERTIES (continued)

Details of the Group's investment properties and information about the fair value hierarchy as at 31 December 2016 and 2015 are as follows:

	Quoted prices in active markets for identical assets (Level 1) HK$'000	Significant other observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Office units in the PRC				
31 December 2016	–	49,100	–	49,100
31 December 2015	–	52,536	–	52,536

There were no transfers between level 1, level 2 and level 3 during the year.

Valuation techniques

The fair value was determined using the market comparable approach based on recent market prices without any significant adjustments being made to the market observable data. In estimating the fair value of the properties, the highest and best use of the properties is their current use. The most significant input into this valuation approach is price per square foot.

There were no changes to the valuation techniques during the year.

16 GOODWILL

	2016 HK$'000	2015 HK$'000
Cost		
Balance at beginning of year	1,119,289	793,618
Acquisition of a subsidiary	–	369,503
Currency translation differences	(49,044)	(43,832)
Balance at end of year	1,070,245	1,119,289
Accumulated impairment		
Balance at beginning of year	–	–
Impairment charge	2,857	–
Balance at end of year	2,857	–
Net book amount		
Balance at end of year	1,067,388	1,119,289

Management reviews the business performance based on type of business. It has identified information technology solutions and lottery hardware, games and related services as the main types of business. The following is a summary of goodwill allocation for each cash-generating units ("CGU").

	2016 HK$'000	2015 HK$'000
Information technology solutions	–	3,057
Lottery hardware, games and related services	1,067,388	1,116,232
	1,067,388	1,119,289

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial forecasts approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates.

In performing the impairment testing, the Directors have made reference to a valuation performed by an independent qualified professional valuer not connected to the Group.

16 GOODWILL (continued)

Information technology solutions

During the year ended 31 December 2016, management reviewed the business performance and outlook of the CGU of information technology solutions and expected that no positive cash flows will be generated from the CGU in the foreseeable future. Accordingly, an impairment charge of approximately HK$2,857,000 was recognised, resulting in the carrying amount of the CGU being written down to nil. The Group reassessed the property, plant and equipment and other intangible assets in the CGU and adjusted for impairment and write-off.

Lottery hardware, games and related services

The key assumptions used in the value-in-use calculations of the CGU of lottery hardware, games and related services were the revenue annual growth rates for the next five years ranging from 50% to 56% (2015: 10% to 70%), the average gross margin of 46% (2015: 59%), the long term growth rate for the extrapolated periods of 3% (2015: 3%) and the discount rate of 16% (2015: 16%).

Sales growth was based on past performance, current industry trends, inflation forecasts and management's expectations of market development. Gross margin was based on the current sales margin levels and sales mix and the expected price rises in cost of sales. Long term growth rate was consistent with the economic and industry forecasts. Discount rate was post-tax and reflected specific risks relating to the CGU.

During the year ended 31 December 2016, the management determined that there was no impairment of goodwill of the CGU of lottery hardware, games and related services (2015: Nil).

17 OTHER INTANGIBLE ASSETS

	Club membership HK$'000	Capitalised development costs HK$'000	Non-competition agreements HK$'000	Contracted customer HK$'000	Total HK$'000
Cost					
Balance at 1 January 2015	1,742	2,863	6,254	212,202	223,061
Currency translation differences	–	(170)	(372)	(11,720)	(12,262)
Balance at 31 December 2015	1,742	2,693	5,882	200,482	210,799
Amounts written off	–	(2,517)	(5,497)	(187,368)	(195,382)
Currency translation differences	–	(176)	(385)	(13,114)	(13,675)
Balance at 31 December 2016	1,742	–	–	–	1,742
Accumulated amortisation and impairment					
Balance at 1 January 2015	–	2,386	6,254	212,202	220,842
Amortisation charge	–	454	–	–	454
Currency translation differences	–	(147)	(372)	(11,720)	(12,239)
Balance at 31 December 2015	–	2,693	5,882	200,482	209,057
Amounts written off	–	(2,517)	(5,497)	(187,368)	(195,382)
Currency translation differences	–	(176)	(385)	(13,114)	(13,675)
Balance at 31 December 2016	–	–	–	–	–
Net book amount					
Balance at 31 December 2016	1,742	–	–	–	1,742
Balance at 31 December 2015	1,742	–	–	–	1,742

Nil amortisation expense (2015: approximately HK$454,000) was included in selling, general and administrative expenses for the year.

The Directors consider that the club membership has indefinite useful life.

17 OTHER INTANGIBLE ASSETS (continued)

Capitalised development costs represents the expenditure capitalised for development of certain sports lottery products. The amount was amortised on a straight-line method over the estimated useful life of 6 years.

Non-competition agreements represents the fair value of the non-competition clause embedded in the employment contracts between top management and SYSTEK LTD and its subsidiary ("Systek Group") upon the acquisition of Systek Group by the Group. The amount was amortised on a straight-line method over the estimated useful life of 5 years.

Contracted customer represents the fair value of the contractual rights stated in the consultancy agreements with a principal customer of SHINING CHINA INC and its subsidiaries ("Shining China Group") for providing consultancy services upon the acquisition of Shining China Group by the Group. The amount was amortised on a straight-line method over the period of 4 to 6 years in accordance with the terms of the consultancy agreements.

Capitalised development costs, non-competition agreements and contracted customer were fully amortised in prior years. During the year, their respective costs and accumulated amortisation and impairment were written off given that these intangible assets no longer generate economic benefits to the Group.

18 JOINT VENTURE

The amounts recognised in the consolidated statement of financial position are as follows.

	2016 **HK$'000**	2015 HK$'000
Unlisted investment, at cost	–	650
Share of post-acquisition profit or loss and other comprehensive income, net of dividends received	–	(5)
Amount due from a joint venture	–	11
Amount due to a joint venture	–	(650)
	–	6

The amounts recognised in the consolidated statement of profit or loss and other comprehensive income are as follows:

	2016 **HK$'000**	2015 HK$'000
Share of profit or loss	**(3)**	(1)
Share of other comprehensive income	–	–
	(3)	(1)

18 JOINT VENTURE (continued)

Details of the Group's joint venture at 31 December 2015 are as follows:

Name of entity	Country of incorporation	Class of shares held	% of ownership interest	Principal activities	Measurement method
AG Inspired Lottech Limited	Hong Kong	Ordinary	50% (held indirectly)	Investment holding	Equity

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

There are no contingent liabilities relating to the Group's interest in the joint venture.

As at 31 December 2015, the amounts due from/to the joint venture were unsecured, interest-free and repayable on demand.

The joint venture was wound up and the amounts due from/to the joint venture were written off during the year ended 31 December 2016.

19 OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2016 HK$'000	2015 HK$'000
Other receivables	**51,339**	49,532
Interest receivable	**4,666**	–
Rental, utility and guarantee other deposits	**4,661**	4,804
Deposits paid to suppliers	**3,839**	438
Prepayments	**22,662**	33,017
	87,167	87,791
Less non-current portion	**(6,580)**	(11,899)
	80,587	75,892

At 31 December 2016, none of the above assets was past due nor impaired (2015: Nil). The financial assets included in the above balances related to receivables on which there was no recent history of default.

The fair value of other receivables and deposits approximated to their carrying amount.

The carrying amounts of the other receivables and deposits were mainly denominated in RMB and HK$.

The maximum exposure to credit risk at the reporting date was the carrying value of each class of receivables mentioned above. The Group did not hold any collateral as security.

20 DEFERRED INCOME TAX

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	2016 HK$'000	2015 HK$'000
Deferred tax assets:		
Deferred tax asset to be recovered after more than 12 months	**5,963**	5,625
Deferred tax asset to be recovered within 12 months	**1,987**	1,875
	7,950	7,500
Deferred tax liabilities:		
Deferred tax liability to be recovered after more than 12 months	**5,212**	5,576
Deferred tax liability to be recovered within 12 months	**–**	–
	5,212	5,576

The movement in deferred income tax assets and liabilities during the year, without consideration of the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax assets

	Provision for warranties	
	2016 HK$'000	2015 HK$'000
Balance at beginning of year	**7,500**	6,227
Currency translation differences	**(460)**	(354)
Credited to the profit or loss	**910**	1,627
Balance at end of year	**7,950**	7,500

20 DEFERRED INCOME TAX (continued)

Deferred tax liabilities

	Investment properties	
	2016	2015
	HK$'000	HK$'000
Balance at beginning of year	**5,576**	5,706
Currency translation differences	**(364)**	(316)
Charged to the profit or loss	**–**	186
Balance at end of year	**5,212**	5,576

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. As at 31 December 2016, no withholding tax had been provided for the earning of approximately HK$169,510,000 (2015: HK$146,524,000) expected to be retained by the PRC subsidiaries and not to be remitted to a foreign investor in the foreseeable future based on managements estimation of overseas funding requirements.

At the end of the reporting period, the Group has estimated unused tax losses of approximately HK$333,967,000 (2015: HK$263,900,000) available for offsetting against future profits of the companies in which the losses arose. Included in the estimated unused tax losses are losses of approximately HK$84,701,000 (2015: HK$37,733,000) that will expire within 5 years. Other estimated unused tax losses of approximately HK$249,266,000 (2015: HK$226,167,000) may be carried forward indefinitely. No deferred tax asset has been recognised in respect of these estimated unused tax losses due to unpredictability of future profit streams.

21 INVENTORIES

	2016	2015
	HK$'000	HK$'000
Raw materials	**8,384**	29,236
Work in progress	**428**	–
Finished goods	**9,989**	27,070
	18,801	56,306

The cost of inventories recognised as expense and included in cost of sales amounted to approximately HK$129,161,000 (2015: approximately HK$176,240.000). There is no inventory write-down for the years ended 31 December 2016 and 2015.

22 TRADE RECEIVABLES

	2016 HK$'000	2015 HK$'000
Trade receivables	**25,584**	29,597

The credit terms granted to customers are varied and are generally the result of negotiations between individual customers and the Group. No interest is charged on trade receivables.

The following is an analysis of trade receivables by age, presented based on the terms of the related contracts or delivery dates, which approximate the respective revenue recognition dates:

	2016 HK$'000	2015 HK$'000
0 to 30 days	**25,584**	25,646
61 to 90 days	**–**	16
91 to 120 days	**–**	–
121 to 365 days	**–**	3,935
	25,584	29,597

At 31 December 2016, trade receivables of HK$25,584,000 (2015: HK$29,597,000) were fully performings.

The fair value of trade receivables approximated to their carrying amount.

The carrying amounts of trade receivables were denominated in RMB.

The maximum exposure to credit risk at the reporting date was the carrying value of trade receivables. The Group did not hold any collateral as security.

23 CASH AND BANK BALANCES

	2016 HK$'000	2015 HK$'000
Cash and cash equivalents	**2,339,731**	231,647
Fixed deposits held at bank with original maturity over three months	**387,765**	–
Pledged bank deposits	**41,676**	15,042
	2,769,172	246,689

Cash and cash equivalents comprised cash held by the Group and short-term bank deposits carrying effective interest ranging from 0.001% to 1.370% (2015: 0.001% to 3.250%) per annum with original maturity of three months or less.

23 CASH AND BANK BALANCES (continued)

Fixed deposits held at bank with original maturity over three months carried effective interest at 1.730% per annum.

Pledged bank deposits represented deposits pledged with banks to secure letters of guarantee granted to the Group carrying effective interest at 1.831% (2015: 3.300%) per annum. The pledged bank deposits will be released upon expiry of the relevant letters of guarantee.

As at 31 December 2016 and 2015, cash and bank balances were denominated in the following currencies:

	2016 HK$'000	2015 HK$'000
HK$	**153,801**	55,599
RMB	**284,780**	190,376
United States dollars	**2,330,315**	558
Others	**276**	156
	2,769,172	246,689

RMB is currently not a freely convertible currency in the international market. The conversion of RMB into foreign currencies and remittance of RMB out of the PRC are subject to the rules and regulations of the foreign exchange control promulgated by the PRC government

24 TRADE PAYABLES

At 31 December 2016, the ageing analysis of the trade payables based on invoice date were as follows:

	2016 HK$'000	2015 HK$'000
0 to 30 days	**14,347**	25,174
31 to 60 days	**373**	2,274
61 to 90 days	**378**	1,707
91 to 120 days	**20**	178
121 to 365 days	**2,789**	6,943
Over 365 days	**511**	388
	18,418	36,664

The average credit period is 30 days.

The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe. Trade payables were non-interest-bearing.

25 ACCRUALS AND OTHER PAYABLES

	2016 HK$'000	2015 HK$'000
Accrued expenses	**60,723**	15,202
Receipts in advance	**2,344**	9,131
Other payables	**37,105**	23,617
	100,172	47,950

As at 31 December 2016, other payables included an amount due to non-controlling interests of approximately HK$964,000 (2015: HK$19,542,000), which was unsecured, interest-free and repayable on demand.

The Group has financial risk management policies in place to ensure that all payables are paid within the credit time frame. Other payables were non-interest-bearing.

26 SECURED BANK BORROWINGS

	2016 HK$'000	2015 HK$'000
Secured term loans wholly repayable within one year	**44,957**	21,982

As at 31 December 2016, bank borrowings bear interest at RMB benchmark interest rates of financial institutions ranging from 3.92% to 5.22% per annum. As at 31 December 2015, bank borrowings bear interest at RMB ranging benchmark interest rates of financial institutions ranging from 3.22% to 4.35% per annum and HIBOR plus 2.75% per annum respectively.

At 31 December 2016 and 2015, bank borrowings were repayable within one year.

Bank borrowings were secured by a charge over a letter of guarantee and investment properties with an aggregate carrying amount of approximately HK$49,100,000 (2015: HK$52,536,000).

The fair value of bank borrowings approximated to their carrying amount.

As at 31 December 2016, the carrying amount of bank borrowings were denominated in RMB. As at 31 December 2015, the carrying amount of bank borrowings were denominated in RMB and HK$ respectively.

27 CONTINGENT CONSIDERATION PAYABLES

	2016 HK$'000	2015 HK$'000
Payables settled by cash		
Upon obtaining the game approval	47,768	48,819
Upon meeting 2015 profit guarantee	–	14,684
Upon meeting 2016 profit guarantee	14,703	13,331
Upon meeting 2017 profit guarantee	17,850	15,980
	80,321	92,814
Payable settled by issue of shares upon commencing first round game sales	95,947	136,486
Payable settled by grant of bonus options upon commencing second round game sales	–	161,009
	176,268	390,309
Less non-current portion	(113,797)	(326,806)
	62,471	63,503

	2016 HK$'000	2015 HK$'000
At the beginning of year	390,309	–
Acquisition of a subsidiary	–	198,907
(Gain)/Loss on fair value changes recognised in the profit or loss	(119,696)	191,402
Write-back of contingent consideration payable settled by grant of bonus options upon commencing second round game sales	(79,345)	–
Transfer of contingent consideration payable settled by cash upon meeting 2015 profit guarantee to 'other payables'	(15,000)	–
At the end of year	176,268	390,309

27 CONTINGENT CONSIDERATION PAYABLES (continued)

Valuation techniques

The fair value of contingent consideration payables settled by cash (upon obtaining the game approval and upon meeting 2015, 2016 and 2017 profit guarantees) was determined by discounting the contractual cash flows over the contractual term of the consideration payables at discount rates which were appropriate to the riskiness of the consideration payables, with reference to the prevailing market rates, the latest financial information of Shenzhen Subsidiary, the financial performance forecast of Shenzhen Subsidiary, the opinion from legal advisor and other relevant indicators.

The fair value of contingent consideration payable settled by issue of shares (upon commencing first round game sales) was determined by using the published closing price per share, with reference to the opinion from legal advisor and other relevant indicators.

The fair value of contingent consideration payable settled by grant of bonus options (upon commencing second round game sales) was determined by using the binominal model, with reference to the opinion from legal advisor and other relevant indicators.

There were no changes to the valuation techniques during the year.

As at 31 December 2016

Description	Fair value (HK$'000)	Valuation technique	Unobservable inputs	Range (Weighted average)	Relationship of unobservable inputs to fair value
Payables settled by cash	80,321	Discounted cash flow	Discount rate	9.571% to 9.782%	The higher the discount rate, the lower the fair value

As at 31 December 2015

Description	Fair value (HK$'000)	Valuation technique	Unobservable inputs	Range (Weighted average)	Relationship of unobservable inputs to fair value
Payables settled by cash	92,814	Discounted cash flow	Discount rate	10.091% to 10.636%	The higher the discount rate, the lower the fair value
Payable settled by grant of bonus options	161,009	Binominal model	Expected volatility	68.780%	The higher the expected volatility, the higher the fair value

27 CONTINGENT CONSIDERATION PAYABLES (continued)

As at 31 December 2016, the conditions of obtaining the game approval and commencing first round game sales have not yet been fulfilled by the deadline stated in the acquisition agreement, but the parties to the acquisition agreement have mutually agreed to extend the deadline for fulfilment of such conditions to 30 June 2017.

As at 31 December 2016, the condition of commencing second round game sales was not fulfilled by the deadline stated in the acquisition agreement. The respective contingent consideration payable settled by grant of bonus options of approximately HK$79,345,000 was written back and recognised in the profit or loss.

During the year ended 31 December 2016, the condition of meeting 2015 profit guarantee was fulfilled. The respective contingent consideration payable of approximately HK$15,000,000 was reclassified to other payables.

28 PROVISION FOR WARRANTIES

	2016 HK$'000	2015 HK$'000
Balance at beginning of year	**50,002**	41,514
Provision for warranties	**12,758**	13,856
Amounts utilised	**(6,516)**	(3,037)
Currency translation differences	**(3,246)**	(2,331)
Balance at end of year	**52,998**	50,002

The Group provides warranties to its customers on certain of its products, under which faulty products are repaired or replaced. The amount of provision for the warranties was estimated based on sales volumes and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

At the end of the reporting period, the Group estimated that provision for warranties of approximately HK$13,249,000 (2015: HK$12,500,000) will be utilised within 12 months.

Provision for warranties of approximately HK$12,758,000 (2015: HK$13,856,000) was included in cost of sales.

29 CONVERTIBLE BONDS

On 10 August 2016, convertible bonds in the aggregate principal amount of HK$712,582,483 were allotted and issued to Ali Fortune Investment Holding Limited in accordance with the terms of the subscription agreement dated 4 March 2016. On the same day, Ali Fortune Investment Holding Limited exercised the conversion rights attaching to the convertible bonds in an aggregate principal amount of HK$205,347,555, and an aggregate of 685,324,748 shares were allotted and issued at the then conversion price of HK$0.2996 per share. At 31 December 2016, the convertible bonds in an aggregate principal amount of approximately HK$507,234,928 were outstanding.

The bonds bear no interest on the principal amount. The bonds mature three years from the issue date or can be converted into shares at the holder's or the issuer's option (subject to public float requirement of the GEM Listing Rules) on or before the maturity date at the prevailing conversion price of HK$0.2915 subject to adjustment.

	Debt instrument HK$'000	Embedded derivative HK$'000	Total HK$'000
Issue of convertible bonds	331,207	1,396,877	1,728,084
Gain on fair value changes	–	(408,077)	(408,077)
Interest expenses	9,874	–	9,874
At 31 December 2016	341,081	988,800	1,329,881

The fair value of the conversion option embedded in convertible bonds at 31 December 2016 amounted to approximately HK$988,880,000 (2015: Nil).

Valuation techniques

The fair value of conversion option embedded in convertible bonds was determined by using the binominal model.

Information about fair value measurement using significant unobservable inputs (level 3) – Embedded derivative of convertible bonds

Description	Fair value (HK$'000)	Valuation technique	Unobservable inputs	Range (Weighted average)	Relationship of unobservable inputs to fair value
Embedded derivative of convertible bonds	988,880	Binominal Model	Expected volatility of share prices	60.324%	The higher the expected volatility, the higher the fair value

30 SHARE CAPITAL

	Number of shares (in thousand)	HK$'000
Authorised:		
Ordinary shares of HK$0.002 each at 31 December 2015	10,000,000	20,000
Ordinary shares of HK$0.002 each at 31 December 2016	20,000,000	40,000
Issued and fully paid:		
Ordinary shares of HK$0.002 each at 1 January 2015	4,440,384	8,880
Exercise of share options under share option scheme (Note (i))	132,351	265
Acquisition of a subsidiary (Note 34)	33,784	68
Ordinary shares of HK$0.002 each at 31 December 2015	4,606,519	9,213
Exercise of share options under share option scheme (Note (i))	162,699	325
Exercise of share options by Rainwood Resources Limited (Note (ii))	212,879	426
Issue of new shares (Note (iii))	5,502,724	11,006
Settlement of contingent consideration (Note (iv))	10,135	20
Ordinary shares of HK$0.002 each at 31 December 2016	10,494,956	20,990

Notes:

(i) During the year ended 31 December 2016, part of the options granted under the share option scheme for 162,699,290 (2015: 132,350,981) shares of HK$0.002 each were exercised at exercise prices ranging from HK$1.1006 to HK$1.3100 (2015: HK$1.1006 to HK$1.3100) per share, resulting in the issue of 162,699,290 (2015: 132,350,981) shares of HK$0.002 each. The shares rank pari passu in all respects with other shares in issue.

(ii) On 21 May 2013, Rainwood Resources Limited was granted a share option under general mandate by the Company entitling it to subscribe for up to 212,879,224 shares at an exercise price of HK$0.40 per share (subject to adjustments) exercisable within a period of three years. Such option had been exercised in full on 16 March 2016. The shares rank pari passu in all respects with other shares in issue.

(iii) On 10 August 2016, a total of 4,817,399,245 shares at a subscription price of HK$0.3478 per share and convertible bonds in the aggregate principal amount of HK$712,582,483 were allotted and issued to Ali Fortune Investment Holding Limited in accordance with the terms of the subscription agreement dated 4 March 2016. On the same day, Ali Fortune Investment Holding Limited exercised the conversion rights attaching to the convertible bonds in an aggregate principal amount of HK$205,347,555, and an aggregate of 685,324,748 shares were allotted and issued at the then conversion price of HK$0.2996 per share. The shares rank pari passu with all the existing shares in issue.

(iv) During the year ended 31 December 2016, the condition of part of the contingent considerations related to the acquisition of a subsidiary was fulfilled, and an aggregate of 10,135,135 shares were allotted and issued to the vendors in accordance with the terms of the acquisition agreement dated 17 November 2014. The shares rank pari passu with all the existing shares in issue.

31 DIVIDEND

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

32 SHARE-BASED PAYMENT TRANSACTIONS

Share option scheme prior to 17 November 2014 ("2004 Share Option Scheme")

The 2004 Share Option Scheme was adopted pursuant to a resolution passed on 18 November 2004 for the primary purpose of providing incentives to Directors and eligible participants (as defined in the 2004 Share Option Scheme). Under the 2004 Share Option Scheme, the Board may at its discretion grant options to eligible employees, including Directors of the Company and its subsidiaries, certain consultants, suppliers or customers of the Group who, in the sole discretion of the Board, have contributed or will contribute or can contribute to the Group, to subscribe for shares in the Company from time to time. The maximum number of shares which may be issued upon exercise of all options to be granted under the 2004 Share Option Scheme and any other schemes shall not exceed 10% of the shares in issue at the date of approval of the 2004 Share Option Scheme, without prior approval from the Shareholders. The number of shares in respect of which options may be granted under the 2004 Share Option Scheme to any individual in any one year is not permitted to exceed 1% of the shares in issue at the date of approval of the 2004 Share Option Scheme, without prior approval from the Shareholders.

Options granted to a Director, the chief executive or substantial Shareholder of the Company or any of their associates (as defined in the GEM Listing Rules) require the approval of independent non-executive Directors (excluding an independent non-executive Director who is the prospective grantee in question). Options granted to substantial Shareholders or independent non-executive Directors or their respective associates in excess of 0.1% of the Company's share capital and with a value in excess of HK$5 million must be approved in advance by the Shareholders.

Options granted must be taken up within 28 days of the date of grant, upon payment of HK$1 per option. Options may be exercised at any time from the date of grant of the share option to a period to be notified by the Board to each grantee at the time of making such offer, which shall expire in 10 years from the date of grant.

The subscription price of the share option is determined by the Board, and the amount will not be less than the higher of (a) the closing price of shares on the Stock Exchange on the date of grant; (b) the average closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange for the 5 business days immediately preceding the date of grant; and (c) the nominal value of a Share on the date of grant.

The 2004 Share Option Scheme is valid for a period of 10 years commencing on the adoption date of 18 November 2004 and was expired in 2014. Thereafter, no further options would be granted under the 2004 Share Option Scheme but the subsisting options granted thereunder prior to the expiry date will continue to be valid and exercisable in accordance with the terms of the 2004 Share Option Scheme.

32 SHARE-BASED PAYMENT TRANSACTIONS (continued)

Share option scheme on or after 23 December 2014 ("2014 Share Option Scheme")

The 2014 Share Option Scheme was adopted pursuant to a resolution passed on 23 December 2014 for the primary purpose of providing incentives to Directors and eligible participants (as defined in the 2014 Share Option Scheme). Under the 2014 Share Option Scheme, the Board may at its discretion grant options to eligible employees, including Directors of the Company and its subsidiaries, certain consultants, suppliers or customers of the Group who, in the sole discretion of the Board, have contributed or will contribute or can contribute to the Group, to subscribe for shares in the Company from time to time. The maximum number of shares which may be issued upon exercise of all options to be granted under the 2014 Share Option Scheme and any other schemes shall not exceed 10% of the shares in issue at the date of approval of the 2014 Share Option Scheme, without prior approval from the Shareholders. The number of shares in respect of which options may be granted under the 2014 Share Option Scheme to any individual in any one year is not permitted to exceed 1% of the shares in issue at the date of approval of the 2014 Share Option Scheme, without prior approval from the Shareholders.

Options granted to a Director, the chief executive or substantial Shareholder of the Company or any of their associates (as defined in the GEM Listing Rules) require the approval of independent non-executive Directors (excluding an independent non-executive Director who is the prospective grantee in question). Options granted to substantial Shareholders or independent non-executive Directors or their respective associates in excess of 0.1% of the Company's share capital and with a value in excess of HK$5 million must be approved in advance by the Shareholders.

Options granted must be taken up within 28 days of the date of grant, upon payment of HK$1 per option. Options may be exercised at any time from the date of grant of the share option to a period to be notified by the Board to each grantee at the time of making such offer, which shall expire in 10 years from the date of grant.

The subscription price of the share option is determined by the Board, and the amount will not be less than the higher of (a) the closing price of shares on the Stock Exchange on the date of grant; (b) the average closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange for the 5 business days immediately preceding the date of grant; and (c) the nominal value of a Share on the date of grant.

The 2014 Share Option Scheme is valid for a period of 10 years commencing on the adoption date of 23 December 2014.

32 SHARE-BASED PAYMENT TRANSACTIONS (continued)

The following table discloses details and movements of the Company's share options held by Directors, eligible employees and other eligible participants of the Group during the years ended 31 December 2016 and 2015:

	Outstanding at 1 January 2016	Transferred during the year	Exercised during the year	Expired during the year	Forfeited during the year	Outstanding at 31 December 2016
Directors:						
2004 Share Option Scheme	63,622,883	(16,500,000)	(35,853,922)	–	(10,643,961)	625,000
2014 Share Option Scheme	47,944,800	(44,944,800)	–	–	–	3,000,000
Eligible employees:						
2004 Share Option Scheme	73,413,679	16,500,000	(15,757,500)	–	(262,500)	73,893,679
2014 Share Option Scheme	64,619,500	44,944,800	(16,124,875)	–	(187,500)	93,251,925
Other eligible participants:						
2004 Share Option Scheme	141,405,383	–	(72,417,461)	(4,200,000)	(500,000)	64,287,922
2014 Share Option Scheme	311,092,780	–	(22,545,532)	–	–	288,547,248
Total	702,099,025	–	(162,699,290)	(4,200,000)	(11,593,961)	523,605,774
Exercisable at the end of year	42,637,423					96,524,884
Weighted average share price	HK$0.9282	–	HK$0.6908	HK$1.3100	HK$0.5299	HK$1.0076

32 SHARE-BASED PAYMENT TRANSACTIONS (continued)

	Outstanding at 1 January 2015	Granted during the year	Transferred during the year	Exercised during the year	Expired during the year	Forfeited during the year	Outstanding at 31 December 2015
Directors:							
2004 Share Option Scheme	125,846,844	–	(8,625,000)	(50,098,961)	(250,000)	(3,250,000)	63,622,883
2014 Share Option Scheme	–	47,944,800	–	–	–	–	47,944,800
Eligible employees:							
2004 Share Option Scheme	253,644,738	–	(55,348,500)	(73,708,059)	(342,500)	(50,832,000)	73,413,679
2014 Share Option Scheme	–	66,419,500	–	–	–	(1,800,000)	64,619,500
Other eligible participants:							
2004 Share Option Scheme	351,277,844	–	63,973,500	(8,543,961)	–	(265,302,000)	141,405,383
2014 Share Option Scheme	–	311,092,780	–	–	–	–	311,092,780
Total	730,769,426	425,457,080	–	(132,350,981)	(592,500)	(321,184,000)	702,099,025
Exercisable at the end of year	53,150,672						42,637,423
Weighted average share price	HK$0.9106	HK$1.0378	–	HK$0.4445	HK$0.7478	HK$1.2329	HK$0.9282

Share options exercised in the year ended 31 December 2016 resulted in 162,699,290 (2015: 132,350,981) shares being issued at a weighted average price of HK$0.6908 (2015: HK$0.4445) each. The related weighted average share price at the time of exercise was HK$1.7123 (2015: HK$1.3476) per share.

At 31 December 2016, the number of shares in respect of which options had been granted and remained outstanding under the 2014 Share Option Scheme was approximately 384,799,000 (2015: 423,657,000), under the 2004 Share Option Scheme was approximately 138,807,000 (2015: 278,442,000), totally representing approximately 5.0% (2015: 15.2%) of the Company's issued share capital as at that date.

32 SHARE-BASED PAYMENT TRANSACTIONS (continued)

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

Expiry date	Range of exercise price per share option	Number of share options 2016	2015
2016	HK$0.1006 – HK$1.3100	–	54,887,422
2017	HK$0.1006 – HK$1.3100	**96,524,883**	208,536,752
2018	HK$0.4250 – HK$1.3100	**183,442,791**	194,661,752
2019	HK$0.8580 – HK$1.3100	**137,786,330**	138,098,829
2020	HK$0.8580 – HK$1.3100	**105,851,770**	105,914,270
		523,605,774	702,099,025

No share options were granted during the year ended 31 December 2016.

For the year ended 31 December 2015, the fair values of options granted were calculated using the binominal model, details of which are as follows:

	Date of grant 7 July 2015	1 June 2015	20 January 2015
Number of shares to be issued upon exercise of options granted	300,312,280	72,944,800	52,200,000
Estimated fair values of options granted (rounded to HK$'000)	HK$143,454	HK$29,474	HK$22,915
Significant inputs into the model:			
Closing share price at date of grant	HK$1.0200	HK$0.8400	HK$0.9200
Exercise price	HK$1.1020	HK$0.8580	HK$0.9200
Expected volatility	66.39%-75.55%	66.59%-73.87%	65.85%-72.71%
Expected life of options	2-5 years	2-5 years	2-5 years
Risk-free interest rate	0.401%-1.156%	0.444%-1.104%	0.344%-0.971%
Dividend yield	Nil	Nil	Nil

Expected volatility was determined by using the historical volatility of the share prices of other companies in the similar industry over the expected life of the options. No other feature of the options granted was incorporated into the measurement of fair values.

32 SHARE-BASED PAYMENT TRANSACTIONS (continued)

The variables and assumptions used in computing the fair values of the share options are based on the Directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

On 22 June 2015, certain options previously granted to eligible employee were forfeited by cancellation. On 7 July 2015, the Company granted options carrying rights to subscribe a total of 19,219,500 shares under the Share Option Scheme to eligible employee and other eligible participants, options carrying rights to subscribe 19,219,500 shares were identified by the Company as replacement equity instruments for the cancelled equity instruments. The decreased value arising from the aforementioned cancellation and replacement was approximately HK$13,220,000, which represented the difference between the fair value of the replacement options and the fair value of the cancelled options at the date of the replacement options were granted. Then fair values of the replacement options and cancelled options were estimated using the binominal method. The following table lists the inputs to the model used:

	Number of shares in respect of the cancelled options	**Number of shares in respect of the replacement options**
Number of shares to be issued upon exercise of options granted	19,219,500	19,219,500
Estimated fair values of options granted (rounded to HK$'000)	HK$22,486	HK$9,266
Significant inputs into the model:		
Closing share price at date of the replacement options were granted	HK$1.2700	HK$1.0200
Exercise price	HK$0.1006	HK$1.1020
Expected volatility	65.10%-68.49%	66.39%-71.74%
Expected life of options	1.15-2.15 years	2-5 years
Risk-free interest rate	0.158%-0.464%	0.401%-1.156%
Dividend	Nil	Nil

Expected volatility was determined by using the historical volatility of the share prices of other companies in the similar industry over the expected life of the options. No other feature of the options granted was incorporated into the measurement of fair values.

The variables and assumptions used in computing the fair values of the share options are based on the Directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

33 OPERATING LEASE COMMITMENTS

The Group as lessee

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

	2016 HK$'000	2015 HK$'000
Within one year	8,569	11,903
In the second to fifth years inclusive	–	7,277
	8,569	19,180

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated for terms of one to four years (2015: one to four years) and rentals are fixed over the lease periods. The Group does not have an option to purchase the leased asset at the expiry of the lease period.

The Group as lessor

Property rental income earned during the year was approximately HK$3,920,000 (2015: HK$3,099,000). All of the Group's investment properties are held for rental purposes. All of the properties held have committed tenants for the next two and a half years.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2016 HK$'000	2015 HK$'000
Within one year	1,900	3,232
In the second to fifth years inclusive	–	1,885
	1,900	5,117

34 BUSINESS COMBINATION

On 8 January 2015, the Group completed the acquisition of a 100% equity interest in Score Value Limited and its subsidiaries (collectively, "Score Value Group"). Score Value Group are principally engaged in the research and development, quality assurance and sale of handheld lottery sales equipment, as well as the provision of after sale maintenance services of such devices; and in the design of lottery games and system development in the PRC. The acquisition was made with the aims to expand the Group's existing sale of operation and enlarge the Group's market presence in the PRC lottery industry.

Pursuant to the acquisition agreement dated 17 November 2014 ("Acquisition Agreement") and the supplemental agreement dated 8 January 2015 ("Supplemental Agreement"), the maximum nominal consideration for the acquisition is HK$489,500,000 which will be satisfied by:

Initial consideration ("Initial Consideration")

(i) as to HK$37,000,000 in cash on completion date ("First Tranche Initial Consideration");

(ii) as to HK$50,000,000 in cash on or before 15 January 2015 ("Second Tranche Initial Consideration");

(iii) as to HK$50,000,000 by the Company allotting and issuing 33,783,783 new ordinary shares on or before 15 January 2015 ("Third Tranche Initial Consideration"); and

(iv) as to HK$52,500,000 in cash on or before 30 June 2015 ("Fourth Tranche Initial Consideration"). Pursuant to the Supplemental Agreement, in the event that the vendors of Score Value Limited fail to satisfy their undertaking to collect outstanding receivables of Shenzhen Subsidiary, a subsidiary of Score Value Limited, totalling RMB24,300,000 (equivalent to HK$30,375,000 at the exchange rate of RMB1 to HK$1.25 as agreed in the Supplemental Agreement) ("Outstanding Receivables") on or before 1 April 2015, the Group would deduct the amount of the Outstanding Receivables which remains outstanding as of 1 April 2015 from the Fourth Tranche Initial Consideration;

Deferred consideration ("Deferred Consideration") (to be paid in the following sequence)

(i) as to HK$50,000,000 ("First Deferred Consideration") by the Company allotting and issuing 33,783,783 new ordinary shares within fifteen business days after the granting of the approval of the lottery game by the relevant government authority of the PRC ("Approval") (on the condition that the Approval should have been granted on or before the first anniversary date of the Acquisition Agreement or another date mutually agreed among the parties to the Acquisition Agreement);

(ii) as to HK$50,000,000 ("Second Deferred Consideration") in cash within fifteen business days after the granting of the Approval;

34 BUSINESS COMBINATION (continued)

Deferred consideration ("Deferred Consideration") (to be paid in the following sequence) (continued)

(iii) as to HK$100,000,000 ("Third Deferred Consideration") by the Company allotting and issuing 67,567,568 new ordinary shares within thirty business days after the official commencement date of sales of the lottery game through mobile smart phone channel in the first trial province in the PRC in accordance with the Approval;

(iv) in the event that the net profit after taxation of Shenzhen Subsidiary for the financial year ended 31 December 2015 is not less than RMB20,000,000 (equivalent to approximately HK$25,200,000) ("2015 Profit Guarantee"), the Group shall pay to the vendors a further amount of HK$30,000,000 which shall be satisfied as to HK$15,000,000 in cash and as to HK$15,000,000 by the Company allotting and issuing 10,135,135 new ordinary shares to the vendors within fifteen business days after the issue of the audit report of Shenzhen Subsidiary for the year ended 31 December 2015;

(v) in the event that the aggregate net profit after taxation of Shenzhen Subsidiary for the two financial years ended 31 December 2015 and 2016 is not less than RMB40,000,000 (equivalent to approximately HK$50,400,000) ("2016 Profit Guarantee"), the Group shall pay to the vendors a further amount of HK$30,000,000 which shall be satisfied as to HK$15,000,000 in cash and as to HK$15,000,000 by the Company allotting and issuing 10,135,135 new ordinary shares to the vendors within fifteen business days after the issue of the audit report of Shenzhen Subsidiary for the year ended 31 December 2016; and

(vi) in the event that the aggregate net profit after taxation of Shenzhen Subsidiary for the three financial years ending 31 December 2015, 2016 and 2017 is not less than RMB60,000,000 (equivalent to approximately HK$75,600,000) ("2017 Profit Guarantee"), the Group shall pay to the vendors a further amount of HK$40,000,000 which shall be satisfied as to HK$20,000,000 in cash and as to HK$20,000,000 by the Company allotting and issuing 13,513,514 new ordinary shares to the vendors within fifteen Business Days after the issue of the audit report of Shenzhen Subsidiary for the year ending 31 December 2017.

34 BUSINESS COMBINATION (continued)

Bonus options

Within two years from the date of the Acquisition Agreement and provided that the Approval has been granted, the Company shall grant to the vendors the bonus options, entitling them to subscribe for up to 166,666,666 bonus option shares ("Bonus Options"), subject to the fulfilment of the following milestone conditions:

(i) in the event that Score Value Group has launched the sales of the lottery game through mobile smart phone channel in five provinces or more in the PRC, the Company shall grant to the vendors the Bonus Options entitling them to subscribe for up to 55,555,555 Bonus Option shares at the subscription price of HK$1.80 per Bonus Option share within an exercise period of two years from the date of such grant; and

(ii) in the event that Score Value Group has launched the sales of the lottery game through mobile smart phone channel in ten provinces or more (inclusive of those provinces mentioned in (i) above) in the PRC, the Company shall grant to the vendors the Bonus Options entitling them to subscribe for up to 111,111,111 Bonus Option shares at the subscription price of HK$1.80 per Bonus Option share within an exercise period of two years from the date of such grant.

Considerations transferred and to be transferred:

	HK$'000
Initial Consideration	
• First Tranche Initial Consideration by cash	37,000
• Second Tranche Initial Consideration by cash	50,000
• Third Tranche Initial Consideration by the issue of 33,783,783 ordinary shares of the Company with par value of HK$0.002 with reference to the published closing price of HK$0.90 per share	30,405
• Fourth Tranche Initial Consideration by cash	22,125
Deferred Consideration	
• First Deferred Consideration by the issue of 33,783,783 ordinary shares of the Company with par value of HK$0.002	30,405
• Second Deferred Consideration by cash	45,934
• Third Deferred Consideration by the issue of 67,567,568 ordinary shares of the Company with par value of HK$0.002	60,811
• 2015 Profit Guarantee by:	
– cash	13,406
– by the issue of 10,135,135 ordinary shares of the Company with par value of HK$0.002	9,122
• 2016 Profit Guarantee by:	
– cash	12,115
– by the issue of 10,135,135 ordinary shares of the Company with par value of HK$0.002	9,122
• 2017 Profit Guarantee by:	
– cash	14,508
– by the issue of 13,513,514 ordinary shares of the Company with par value of HK$0.002	12,162
Bonus Options	52,133
	399,248

34 BUSINESS COMBINATION (continued)

The Directors consider it is probable that the Outstanding Receivables would not be collected on or before 1 April 2015 and therefore, the Company deducted the amount of the Outstanding Receivables from the Fourth Tranche Initial Consideration as at 8 January 2015.

The fair value of the Deferred Consideration as at 8 January 2015 was estimated to be approximately HK$259,718,000 by the independent valuer.

The valuation of the Second Deferred Consideration, the cash portion of 2015 Profit Guarantee, 2016 Profit Guarantee and 2017 Profit Guarantee has been undertaken by discounting the contractual cash flows over the contractual term of the consideration payables at the discount rates ranging from 9.611% to 10.560%, which were appropriate to the riskiness of the consideration payables in cash, with reference to the prevailing market rates, the latest financial information of Shenzhen Subsidiary, the financial performance forecast of Shenzhen Subsidiary, the opinion from legal advisor and other relevant indicators. The Directors consider it is probable that these contingent considerations would be settled in full and therefore, contingent consideration of approximately HK$85,963,000 is recognised as at 8 January 2015.

The valuation of the First Deferred Consideration, the Third Deferred Consideration, the share portion of 2015 Profit Guarantee, 2016 Profit Guarantee and 2017 Profit Guarantee has been with reference to the published closing price, the latest financial information of Shenzhen Subsidiary, the financial performance forecast of Shenzhen Subsidiary, the opinion from legal advisor and other relevant indicators. The Directors consider it is probable that full allotment of the new ordinary shares by the Company would be required and therefore, contingent consideration of approximately HK$121,622,000 (being 135,135,135 shares valued at HK$0.90 each) is recognised as at 8 January 2015.

The valuation of the Bonus Options has been undertaken by using the binominal model, of which significant inputs are as follows:

Closing share price at date of grant	HK$0.90
Exercise price	HK$1.80
Expected volatility	69.75%
Risk-free interest rate	1.131%
Dividend yield	Nil

Acquisition-related costs amounting to approximately HK$1,037,000 have been excluded from the consideration transferred and have been recognised as an expense.

34 BUSINESS COMBINATION (continued)

Assets acquired and liabilities recognised at the date of acquisition are as follows:

	HK$'000
Non-current assets	
Property, plant and equipment	1,752
Current assets	
Inventories	30,777
Trade receivables	25
Other receivables, deposits and prepayments	1,857
Bank balances and cash	53,368
Current liabilities	
Trade payables	(24,671)
Accruals and other payables	(32,294)
Current tax liabilities	(1,069)
Net assets	29,745

Goodwill arising on acquisition:

	HK$'000
Considerations transferred and to be transferred	399,248
Less: fair value of net identifiable assets acquired	(29,745)
Goodwill arising on acquisition	369,503

Goodwill arose in the acquisition of Score Value Group because of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in valuation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Score Value Group. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill rising on this acquisition is expected to be deductible for tax purpose.

34 BUSINESS COMBINATION (continued)

Net cash outflow arising on acquisition:

	HK$'000
Considerations paid in cash	109,125
Less: cash and cash equivalents acquired	(53,368)
	55,757

35 RELATED PARTY TRANSACTIONS

Details of balances with related parties are set out in the consolidated statement of financial position and respective notes. Save as those disclosed elsewhere in these consolidated financial statements, the Group entered into the following transactions with related parties:

Compensation of key management personnel

The remuneration of the Directors (who are the key management personnel of the Group) during the year was as follows:

	2016 HK$'000	2015 HK$'000
Short-term employee benefits	**8,330**	10,890
Share-based payments	**5,483**	11,048
Post-employment benefits	**69**	161
	13,882	22,099

36 DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The remuneration of every Director and the chief executive is set out below:

For the year ended 31 December 2016

	Fees HK$'000	Salaries and other benefits in kind HK$'000	Share-based payments HK$'000	Contributions to retirement benefit schemes HK$'000	Total emoluments HK$'000
Executive Directors:					
Mr. Sun Ho	3,600	800	–	45	4,445
Mr. Zhou Haijing (Note (i))	589	200	–	–	789
Mr. Bai Jinmin (Note (ii))	912	83	875	12	1,882
Mr. Liang Yu (Note (ii))	737	60	481	–	1,278
Mr. Cheng Guoming (Note (ii))	876	80	4,871	12	5,839
Non-executive Directors:					
Mr. Zhang Qin (Note (i))	–	–	–	–	–
Mr. Yang Guang (Note (i))	–	–	–	–	–
Mr. Ji Gang (Note (i))	–	–	–	–	–
Mr. Zhang Wei (Note (i))	–	–	–	–	–
Mr. Ho King Fung, Eric (Note (ii))	73	–	(1,276)	–	(1,203)
Independent non-executive Directors:					
Ms. Monica Maria Nunes	120	–	90	–	210
Mr. Feng Qing	100	–	221	–	321
Dr. Gao Jack Qunyao	100	–	221	–	321
Total emoluments	7,107	1,223	5,483	69	13,882

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

For the year ended 31 December 2015

	Fees HK$'000	Salaries and other benefits in kind HK$'000	Share-based payments HK$'000	Contributions to retirement benefits schemes HK$'000	Total emoluments HK$'000
Executive Directors:					
Mr. Sun Ho	3,600	800	–	18	4,418
Mr. Robert Geoffrey Ryan	554	46	496	–	1,096
Mr. Bai Jinmin	1,494	603	2,369	18	4,484
Mr. Liang Yu	1,229	601	1,435	113	3,378
Mr. Cheng Guoming	943	580	5,035	12	6,570
Non-executive Directors:					
Mr. Ho King Fung, Eric	120	–	1,633	–	1,753
Independent non-executive Directors:					
Ms. Monica Maria Nunes	120	–	152	–	272
Mr. Wang Ronghua	35	–	(204)	–	(169)
Mr. Hua Fengmao	35	–	(204)	–	(169)
Mr. Feng Qing	65	–	168	–	233
Dr. Gao Jack Qunyao	65	–	168	–	233
Total emoluments	8,260	2,630	11,048	161	22,099

Notes:

(i) Appointed on 10 August 2016.

(ii) Resigned on 10 August 2016.

Mr. Sun Ho is also the chief executive and his emoluments disclosed above include those for services rendered by him as the chief executive.

No emoluments were paid by the Group to any of the Directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the Directors waived their emoluments during the year ended 31 December 2016 (2015: Nil).

There are no loans, quasi-loans or other dealings in favour of Directors, their controlled bodies corporate and connected entities with such Directors (2015: Nil).

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2015: None).

37 STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2016 HK$'000	2015 HK$'000
Non-current assets		
Investments in subsidiaries	–	–
Current assets		
Amounts due from subsidiaries	3,946,272	1,422,210
Deposits and prepayments	355	311
Amount due from a joint venture	–	8
Cash and cash equivalents	53,359	41,856
Total assets	3,999,986	1,464,385
Current liabilities		
Accruals and other payables	20,105	4,362
Amounts due to subsidiaries	170	38
Secured bank borrowings	–	11,640
Contingent consideration payables	62,471	63,503
	82,746	79,543
Non-current liabilities		
Convertible bonds	1,329,881	–
Contingent consideration payables	113,797	326,806
	1,443,678	326,806
Total liabilities	1,526,424	406,349
Net assets	2,473,562	1,058,036
Equity attributable to owners of the Company		
Share capital	20,990	9,213
Reserves	2,452,572	1,048,823
Total equity	2,473,562	1,058,036

The financial statements were approved by the Board of Directors on 24 March 2017 and were signed on its behalf by:

Sun Ho
Director

Zhou Haijing
Director

37 STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Reserve movement

	Share premium HK$'000	Share options reserve HK$'000	Contributed surplus HK$'000	Other reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
Balance at 1 January 2015	1,428,088	193,144	47,191	–	(455,579)	1,212,844
Loss for the year	–	–	–	–	(348,922)	(348,922)
Recognition of equity-settled share-based payments	–	35,192	–	–	–	35,192
Issue of shares upon exercise of share options	82,172	(23,611)	–	–	–	58,561
Lapse of share options	–	(36,176)	–	–	36,176	–
Issue of shares upon acquisition of a subsidiary	30,337	–	–	–	–	30,337
Contingent consideration related to acquisition of a subsidiary	–	–	–	60,811	–	60,811
Balance at 31 December 2015	1,540,597	168,549	47,191	60,811	(768,325)	1,048,823
Profit for the year	–	–	–	–	471,487	471,487
Recognition of equity settled share-based payments	–	86,576	–	–	–	86,576
Issue of shares upon exercise of share options	156,245	(44,176)	–	–	–	112,069
Issue of share upon exercise of share options by Rainwood Resources Limited	123,358	(38,632)	–	–	–	84,726
Lapse of share options	–	(4,025)	–	–	4,025	–
Issued of shares upon subscription	648,911	–	–	–	–	648,911
Issue of shares upon settlement of contingent consideration	9,101	–	–	(9,121)	–	(20)
Balance at 31 December 2016	2,478,212	168,292	47,191	51,690	(292,813)	2,452,572

38 PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2016 and 2015 are set out as follows:

Name of subsidiary	Form of business structure	Place of incorporation/ registration and kind of legal entity	Principal place of operations	Issued and fully paid share capital/ registered capital/paid-up capital	Proportion of nominal value of issued capital/ registered capital held by the Company	Principal activities
Asia Gaming Technologies Limited	Incorporated	Hong Kong, limited liability company	PRC	Ordinary shares of HK$5,122	51% (held indirectly)	Sales and distribution of software games and system and provision of maintenance, after-sales, training and consultancy services for such products
亞博泰科科技(北京)有限公司 (Asia Gaming Technologies (Beijing) Co., Ltd.*)	Wholly-foreign owned enterprise	PRC, limited liability company	PRC	Paid-up capital of HK$11.8 million	51% (held indirectly)	Sales and distribution of software games and system and provision of maintenance, aftersales, training and consultancy services for such products
亞博泰科科技(天津)有限公司 (Asia Gaming Technologies (Tianjin) Co., Ltd.*)	Wholly-foreign owned enterprise	PRC, limited liability company	PRC	Paid-up capital of RMB10 million	51% (held indirectly)	Sales and distribution of software games and system and provision of maintenance, aftersales, training and consultancy services for such products
Maxprofit Management Limited	Incorporated	Hong Kong, limited liability company	Hong Kong	Ordinary shares of HK$600,000	100% (held indirectly)	Provision of management services for the Group
Beijing Systek	Wholly-foreign owned Enterprise	PRC, limited liability company	PRC	Registered capital of HK$21 million	100% (held indirectly)	Research and development of sports lottery information technology
世紀星彩企業管理有限公司 (China Lottery Management Co., Ltd.*)	Wholly-foreign owned Enterprise	PRC, limited liability company	PRC	Registered capital of HK$150 million	100% (held indirectly)	Provision of sports lottery management and marketing consultancy services and supply of sports lottery sales terminals (and accessories)
SYSTEK LTD	Incorporated	BVI, limited liability company	PRC	1 ordinary share of US$1	100% (held indirectly)	Investment holding
SHINING CHINA INC	Incorporated	BVI, limited liability company	PRC	50,000 ordinary shares of US$1 each	100% (held indirectly)	Investment holding
Exequs Co. Ltd.	Incorporated	BVI limited liability company	PRC	50,000 ordinary shares of US$1 each	100% (held indirectly)	Investment holding
Fortune Happy Investment Limited	Incorporated	Hong Kong, limited liability company	Hong Kong	Ordinary shares of HK$10,000	100% (held indirectly)	Investment holding

38 PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Form of business structure	Place of incorporation/ registration and kind of legal entity	Principal place of operations	Issued and fully paid share capital/ registered capital/paid-up capital	Proportion of nominal value of issued capital/ registered capital held by the Company	Principal activities
北京世紀德彩科技有限公司 (Beijing Century Decai Technology Co., Ltd.*)	Domestic enterprise	PRC, limited liability company	PRC	Registered capital of RMB30 million	100% (held indirectly)	Investment holding
GOT	Domestic enterprise	PRC, limited liability company	PRC	Registered capital of RMB100 million	100% (held indirectly)	Research, development and production of sports lottery terminals and systems
深圳市银溪數碼技術有限公司 (Shenzhen Silvercreek Digital Technology Co., Ltd.*) (Note)	Domestic enterprise	PRC, limited liability company	PRC	Paid-up capital of RMB30 million	100% (held indirectly)	Provision for lottery organisations with comprehensive phone and mobile betting solutions
Score Value Limited	Incorporated	BVI, limited liability company	PRC	50,000 ordinary shares of US$1 each	100% (held indirectly)	Investment holding
Sincere Honor Holdings Limited	Incorporated	Hong Kong, limited liability company	Hong Kong	Ordinary shares of HK$10,000	100% (held indirectly)	Investment holding
Shenzhen Subsidiary	Domestic enterprise	PRC, limited liability company	PRC	Paid-up capital of RMB5 million	100% (held indirectly)	Research and development, quality assurance and sale of handheld lottery sales equipment, provision of after-sales maintenance services
北京名影科漫科技有限公司 (Beijing MTC Creative Mind Tech Co., Ltd.*)	Domestic enterprise	PRC, limited liability company	PRC	Paid-up capital of RMB10 million	100% (held indirectly)	Research and development, quality assurance and sale of handheld lottery sales equipment, provision of after-sales maintenance services

* *For identification purpose only*

Note:

The equity interest of Shenzhen Silvercreek Digital Technology Co., Ltd. is held by individual nominees on behalf of the Group.

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

None of the subsidiaries had issued any debt securities during the year and at the end of the reporting period.

The amounts due from/to subsidiaries are unsecured, interest-free and repayable on demand.

The Group had no subsidiaries which have material non-controlling interests for the years ended 31 December 2016 and 2015.

39 EVENTS AFTER THE REPORTING DATE

On 18 January 2017, the Group was awarded an exclusive 5-year priority operation right in China by the Chess and Poker Games Administrative Centre under the General Administration of Sport of China for all competitive play of the Chinese card game Guan Dan through an open tender. Furthermore, the Company has become one of the strategic partners and organisers of the China Competition Twoon-One Poker Championship. Further details are disclosed in the announcement of the Company dated 18 January 2017.

The Company entered into a business cooperation agreement with Alibaba Group on 25 January 2017, pursuant to which the Group shall distribute and sell lottery products and other services on certain channels and networks of Alibaba Group on a revenue-sharing basis, and purchase technology services from Alibaba Group. Further details are disclosed in the announcement of the Company dated 25 January 2017.

The Company entered into a business cooperation agreement with Ant Financial Group on 23 March 2017, whereby the Group shall provide online activities and services, and distribute and sell lottery products on the lottery channels on the online platforms of Alipay on a revenue-sharing basis. Further details of such business transactions are disclosed in the announcement of the Company dated 23 March 2017.