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REXLot Holdings Limited

御泰中彩控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock code: 555)

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

FINANCIAL RESULTS

The board of directors (the “Board”) of REXLot Holdings Limited (the “Company”) announces the audited consolidated results of the Company and its subsidiaries (together, the “Group”) for the year ended 31 December 2016 together with the comparative figures for the corresponding period in 2015 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2016

	<i>Notes</i>	2016 HK\$'000	2015 HK\$'000
Revenue	3	1,252,144	1,554,394
Cost of sales/services rendered		(543,310)	(506,718)
Other income	3	30,222	93,720
Other gains and losses	3	(9,360)	34,043
Selling and distribution expenses		(68,549)	(72,999)
Impairment loss on goodwill		(103,923)	(99,321)
Allowance for impairment of other receivables		(238,467)	(57)
Administrative expenses		(415,000)	(410,541)
Operating (loss)/profit		(96,243)	592,521
Finance costs		(132,257)	(387,721)
Share of (losses)/profits of joint ventures		(187,591)	558
(Loss)/profit before taxation	5	(416,091)	205,358
Taxation	6	(29,898)	(41,124)
(Loss)/profit for the year		(445,989)	164,234

	<i>Note</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Attributable to:			
Equity shareholders of the Company		(393,007)	150,879
Non-controlling interests		(52,982)	13,355
		<u>(445,989)</u>	<u>164,234</u>
(Loss)/earnings per share for (loss)/profit attributable to equity shareholders of the Company	<i>7</i>		
– Basic and diluted		<u>(3.93) cents</u>	<u>1.51 cents</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	2016	2015
	HK\$'000	HK\$'000
(Loss)/profit for the year	<u>(445,989)</u>	<u>164,234</u>
Other comprehensive expense		
Items that may be reclassified subsequently to profit or loss:		
Exchange difference arising from translation of financial statements of foreign operations	(133,720)	(101,948)
Share of other comprehensive expense of joint ventures	<u>(9,207)</u>	<u>(7,496)</u>
Total other comprehensive expense	<u>(142,927)</u>	<u>(109,444)</u>
Total comprehensive (expense)/income for the year	<u>(588,916)</u>	<u>54,790</u>
Attributable to:		
Equity shareholders of the Company	(529,513)	47,957
Non-controlling interests	<u>(59,403)</u>	<u>6,833</u>
	<u>(588,916)</u>	<u>54,790</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	<i>Notes</i>	2016 HK\$'000	2015 <i>HK\$'000</i>
ASSETS			
Non-current assets			
Property, plant and equipment		46,633	59,271
Prepaid lease payments on land use rights		723	735
Goodwill		301,283	405,206
Intangible assets		331	1,920
Interests in joint ventures		169,266	377,614
Available-for-sale financial assets	<i>17</i>	288,806	307,810
Deferred tax assets		77	–
Total non-current assets		807,119	1,152,556
Current assets			
Inventories		7,956	23,494
Trade receivables	<i>8</i>	490,836	760,152
Utility and other deposits		1,533,259	1,600,474
Prepayments and other receivables		1,839,938	1,795,121
Financial assets at fair value through profit or loss		132	63,935
Cash and bank balances	<i>9</i>	2,136,962	1,098,073
		6,009,083	5,341,249
Assets of the disposal group classified as held for sale	<i>16</i>	2,295,597	2,236,663
Total current assets		8,304,680	7,577,912
Total assets		9,111,799	8,730,468
EQUITY			
Capital and reserves attributable to equity shareholders of the Company			
Share capital	<i>10</i>	100,285	99,835
Reserves		5,356,049	5,871,322
		5,456,334	5,971,157
Non-controlling interests		54,843	114,246
Total equity		5,511,177	6,085,403

	<i>Notes</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
LIABILITIES			
Non-current liabilities			
Amount due to a joint venture		46,195	46,195
Deferred tax liabilities		163,245	155,857
Convertible bonds	<i>13</i>	201,740	250,773
Obligations under finance leases		<u>–</u>	<u>8,867</u>
Total non-current liabilities		<u>411,180</u>	<u>461,692</u>
Current liabilities			
Trade payables	<i>11</i>	1,801	2,728
Other payables and accruals		77,271	64,311
Bank borrowings	<i>12</i>	4,901	–
Current portion of convertible bonds	<i>13</i>	1,431,040	1,824,629
Obligations under finance leases		8,268	17,038
Amount due to related parties	<i>18</i>	1,259,967	118,000
Current tax liabilities		<u>2,211</u>	<u>3,051</u>
		2,785,459	2,029,757
Liabilities directly associated with the assets of the disposal group classified as held for sale	<i>16</i>	<u>403,983</u>	<u>153,616</u>
Total current liabilities		<u>3,189,442</u>	<u>2,183,373</u>
Total liabilities		<u>3,600,622</u>	<u>2,645,065</u>
Total equity and liabilities		<u>9,111,799</u>	<u>8,730,468</u>
Net current assets		<u>5,115,238</u>	<u>5,394,539</u>
Total assets less current liabilities		<u>5,922,357</u>	<u>6,547,095</u>

NOTES:

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRS”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKAS”) and Interpretations (“Int”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

2. CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, the following amendments to HKFRS (hereinafter collectively referred to as the “new and revised HKFRS”) issued by HKICPA.

Amendments to HKAS 1	Disclosure initiative
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation
Amendments to HKAS 27	Equity method in separate financial statements
Amendments to HKFRSs	Annual improvements to HKFRSs 2012-2014 cycle
Amendments to HKFRS 11	Accounting for acquisitions of interests in joint operations
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: Applying the consolidation exception

The application of the above new and revised HKFRS in the current year has had no material impact on the Group’s financial performance and position for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3. REVENUE, OTHER INCOME AND OTHER GAINS AND LOSSES

Revenue represents the aggregate of income from provision of lottery machines and related services and commission income.

An analysis of the Group's revenue, other income and other gains and losses for the year is as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Revenue		
Income from provision of lottery machines and related services	<u>1,252,144</u>	<u>1,554,394</u>
Other income		
Interest income on bank deposits	10,368	2,520
Other interest income	4,086	403
Sundry income	11,923	8,740
Rental income from sub-letting of rented premises	3,845	3,811
Dividend income from listed investments	–	61
Dividend income from unlisted investment	<u>–</u>	<u>78,185</u>
	<u>30,222</u>	<u>93,720</u>
Other gains and losses		
Net (losses)/gains on disposal of financial assets at fair value through profit or loss	(2,060)	25,780
Fair value (losses)/gains on financial assets at fair value through profit or loss	(1,149)	7,250
(Loss)/gain on redemption of convertible bonds	<u>(6,151)</u>	<u>1,013</u>
	<u>(9,360)</u>	<u>34,043</u>
	<u>1,273,006</u>	<u>1,682,157</u>
Total interest income on financial assets not at fair value through profit or loss	<u>14,454</u>	<u>2,923</u>

4. SEGMENT INFORMATION

The Group manages its business by divisions, which are organised by a mixture of both business lines (products and services) and geography.

In a manner consistent with the way in which information is reported internally to the Group's most senior executive management, i.e. the Group's Executive Directors, for the purposes of allocating resources to segments and assessing their performance, the Group has presented lottery business as the reportable segment.

Intersegment revenue is eliminated on consolidation. Intersegment sales and transactions are conducted in accordance with the terms mutually agreed between the parties.

The Board assesses the performance of the business segments based on (loss)/profit before taxation without allocation of finance income/(costs), which is consistent with those in the consolidated financial statements.

Information regarding the Group's reportable segments as provided to the Board for the purposes of resources allocation and assessment of segment performance for the years ended 31 December 2016 and 2015 is set out below.

Business Segment

- (a) The segment results for the year ended 31 December 2016 and segment assets and liabilities at 31 December 2016 are as follows:

	As at and for the year ended 31 December 2016 Lottery business HK\$'000
Revenue	<u><u>1,252,144</u></u>
Segment results	(104,549)
Net unallocated expenses	<u>(311,542)</u>
Loss before taxation	(416,091)
Taxation	<u>(29,898)</u>
Loss for the year	<u><u>(445,989)</u></u>
Assets	
Segment assets	6,584,993
Assets of the disposal group classified as held for sale (<i>Note 16</i>)	2,295,597
Unallocated assets	<u>231,209</u>
Total assets	<u><u>9,111,799</u></u>
Liabilities	
Segment liabilities	277,757
Liabilities directly associated with the assets of the disposal group classified as held for sale (<i>Note 16</i>)	403,983
Unallocated liabilities	<u>2,918,882</u>
Total liabilities	<u><u>3,600,622</u></u>

The segment results for the year ended 31 December 2015 and segment assets and liabilities at 31 December 2015 are as follows:

	As at and for the year ended 31 December 2015 Lottery business <i>HK\$'000</i>
Revenue	<u><u>1,554,394</u></u>
Segment results	718,622
Net unallocated expenses	<u>(513,264)</u>
Profit before taxation	205,358
Taxation	<u>(41,124)</u>
Profit for the year	<u><u>164,234</u></u>
Assets	
Segment assets	6,367,252
Assets of the disposal group classified as held for sale (<i>Note 16</i>)	2,236,663
Unallocated assets	<u>126,553</u>
Total assets	<u><u>8,730,468</u></u>
Liabilities	
Segment liabilities	282,744
Liabilities directly associated with the assets of the disposal group classified as held for sale (<i>Note 16</i>)	153,616
Unallocated liabilities	<u>2,208,705</u>
Total liabilities	<u><u>2,645,065</u></u>

(b) Other segment information

	For the year ended 31 December 2016 Lottery business HK\$'000
Other information	
Depreciation and amortisation	60,922
Impairment loss on goodwill	103,923
Capital expenditure	2,919
	For the year ended 31 December 2015 Lottery business HK\$'000
Other information	
Depreciation and amortisation	64,691
Impairment loss on goodwill	99,321
Capital expenditure	59,294

Geographical Segments

In terms of geographical location, nearly 100% of the Group's revenue is attributable to the market in the PRC.

Total non-current assets by location are as follows:

	2016 HK\$'000	2015 HK\$'000
PRC	773,515	1,117,033
Hong Kong	33,527	35,523
	807,042	1,152,556
Deferred tax assets	77	–
Total non-current assets per consolidated statement of financial position	807,119	1,152,556

Information About Major Customers

None of the customers contributed over 10% of the total revenue of the Group during both years.

5. (LOSS)/PROFIT BEFORE TAXATION

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
The Group's (loss)/profit before taxation is stated after charging the following:		
Auditors' remuneration		
– audit services	3,429	4,149
– non-audit services	350	350
Cost of inventories sold	477,393	433,073
Depreciation and amortisation on		
– property, plant and equipment		
– owned assets	40,217	41,386
– leased assets	6,084	6,635
– prepaid lease payments on land use rights	990	971
– intangible assets	14,699	15,699
Exchange losses	53,091	53,947
Intangible assets written off	1,011	–
Loss on disposal of property, plant and equipment, net	499	128
Operating lease rentals in respect of		
– office premises and warehouses	23,096	27,930
– machinery	8,721	9,259
Research and development costs	1,449	2,039
Written-down of inventories	31,085	1,529
	<u>31,085</u>	<u>1,529</u>

6. TAXATION

Hong Kong profits tax is made in the consolidated financial statements on estimated assessable profits derived from Hong Kong for the year at the tax rate of 16.5% (2015: 16.5%).

Two of the subsidiaries, 廣州市樂得瑞科技有限公司 (Guangzhou Latech Technology Co. Ltd.*) and 深圳市思樂數據技術有限公司 (Shenzhen Sinodata Technology Co. Ltd.*), of the Group's lottery business in the PRC are entitled to a preferential income tax rate of 15% as they are recognised as high technology enterprises for the year ended 31 December 2016 (2015: 15%).

In the current year, certain subsidiaries of the Group in the PRC are entitled to a preferential income tax rate of 10% (2015: 10%). The applicable income tax rate for other subsidiaries of the Group in the PRC is 25% (2015: 25%).

The amount of taxation charged to the consolidated income statement represents:

	2016	2015
	HK\$'000	HK\$'000
Current tax:		
Hong Kong profits tax	765	1,210
PRC income tax	32,804	29,300
(Over-provision)/under-provision in respect of previous years	<u>(1,707)</u>	<u>26</u>
	<u>31,862</u>	<u>30,536</u>
Deferred tax:		
Deferred taxation relating to the origination and reversal of temporary differences	(1,964)	10,999
Attributable to changes in tax rates	<u>-</u>	<u>(411)</u>
	<u>(1,964)</u>	<u>10,588</u>
Taxation charge	<u><u>29,898</u></u>	<u><u>41,124</u></u>

7. (LOSS)/EARNINGS PER SHARE

(a) *Basic (loss)/earnings per share*

The calculation of basic (loss)/earnings per share is based on the Group's (loss)/profit attributable to equity shareholders of the Company for the year divided by the weighted average number of shares in issue during the year.

	2016	2015
(Loss)/profit attributable to equity shareholders of the Company (<i>in thousand HK\$</i>)	<u><u>(393,007)</u></u>	<u><u>150,879</u></u>
Weighted average number of ordinary shares in issue (<i>in thousand</i>):		
Issued ordinary shares at 1 January	9,983,496	9,960,025
Effect of share options exercised	9,536	–
Effect of allotment of scrip shares	<u>–</u>	<u>9,903</u>
Weighted average number of ordinary shares at 31 December (<i>in thousand</i>)	<u><u>9,993,032</u></u>	<u><u>9,969,928</u></u>
Basic (loss)/earnings per share	<u><u>(3.93) cents</u></u>	<u><u>1.51 cents</u></u>

(b) *Diluted (loss)/earnings per share*

The calculation of diluted (loss)/earnings per share is based on the Group's (loss)/profit attributable to equity shareholders of the Company and adjusted to reflect the interest on the convertible bonds. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic (loss)/earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all potentially dilutive ordinary shares into ordinary shares of the Company.

Diluted (loss)/earnings per share for the years ended 31 December 2016 and 2015 is same as the basic (loss)/earnings per share as both the share options and the convertible bonds outstanding during the years had an anti-dilutive effect on the basic (loss)/earnings per share.

8. TRADE RECEIVABLES

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Trade receivables – Lottery business	<u>490,836</u>	<u>760,152</u>

The directors of the Company (the “Directors”) consider that the carrying amounts of trade receivables approximate to their fair values. The Group generally grants credit periods of 90 to 270 days (2015: 90 to 270 days) to its trade customers.

The ageing analysis is as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Three months or less	224,922	358,148
One year or less but over three months	189,745	382,644
Over one year	<u>76,169</u>	<u>19,360</u>
	<u>490,836</u>	<u>760,152</u>

9. CASH AND BANK BALANCES

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Fixed bank deposits	<u>–</u>	<u>491,429</u>
Cash at banks		
– general accounts	2,136,292	605,665
– segregated accounts	–	330
Cash in hand	<u>670</u>	<u>649</u>
	<u>2,136,962</u>	<u>606,644</u>
	<u>2,136,962</u>	<u>1,098,073</u>

10. SHARE CAPITAL

	Number of shares '000	Amount HK\$'000
Ordinary shares of HK\$0.01 each		
<i>Authorised:</i>		
At 1 January 2015, 31 December 2015 and 31 December 2016	<u>20,000,000</u>	<u>200,000</u>
<i>Issued and fully paid:</i>		
At 1 January 2015	9,960,025	99,600
Issue of shares in lieu of cash dividends (<i>Note a</i>)	<u>23,471</u>	<u>235</u>
At 31 December 2015	9,983,496	99,835
Exercise of share options (<i>Note b</i>)	<u>45,000</u>	<u>450</u>
At 31 December 2016	<u><u>10,028,496</u></u>	<u><u>100,285</u></u>

Notes:

- (a) On 31 July 2015, 23,470,628 new ordinary shares were allotted and issued at HK\$0.4598 per share in respect of the final dividend for the year ended 31 December 2014.
- (b) During the year ended 31 December 2016, 45,000,000 share options were exercised by the eligible option holders at their respective exercise prices for a total cash consideration of HK\$4,869,000, resulting in an issue of 45,000,000 new ordinary shares of HK\$0.01 each.

All new ordinary shares issued during the year rank *pari passu* in all respects with the existing shares.

11. TRADE PAYABLES

	2016 HK\$'000	2015 HK\$'000
Other client payables	314	314
Trade payables – Lottery business	<u>1,487</u>	<u>2,414</u>
	<u><u>1,801</u></u>	<u><u>2,728</u></u>

Other client payables are repayable on demand and bear interest at prevailing market rates.

No ageing analysis is disclosed for other client payables as, in the opinion of the Directors, the ageing analysis does not give additional value in view of the nature of business.

Trade payables are expected to be settled within one year or are repayable on demand.

The Directors consider that the carrying amount of trade payables approximate to their fair values.

The ageing analysis of the Group's trade payables – Lottery business is as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Three months or less	–	966
Over three months	<u>1,487</u>	<u>1,448</u>
	<u>1,487</u>	<u>2,414</u>

12. BANK BORROWINGS

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Bank loans		
– secured and due within one year	<u>4,901</u>	<u>–</u>

The bank loans are repayable within one year or when the facility is withdrawn. These borrowings are used to finance the lottery business of the Group.

The bank loans of approximately HK\$4,901,000 (2015: HK\$Nil) are secured by the trade receivables of a subsidiary of approximately HK\$15,052,000 (2015: HK\$Nil) and guaranteed by a subsidiary of the Group.

The effective interest rates on the Group's borrowings are equal to contractual interest rates.

The Directors considered that the fair values of borrowings at the end of reporting period approximate to their carrying amounts.

Bank borrowings included the following amount denominated in a currency other than the Company's functional currency, HK dollars:

	2016	2015
	'000	'000
Renminbi	4,412	–

13. CONVERTIBLE BONDS

The movements of the liability components of the convertible bonds originally due 2016 and extended to 2017 (the "2016 Bonds") and the convertible bonds due 2019 (the "2019 Bonds") (collectively, the "Bonds") for the year are set out below:

	2019 Bonds	2016 Bonds	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Carrying amounts at 1 January 2015	1,599,686	300,766	1,900,452
Redemption during the year (<i>Note a</i>)	(82,714)	(16,193)	(98,907)
Interest expense	144,128	45,948	190,076
Interest payable	(84,669)	(20,718)	(105,387)
Acceleration of unwinding interest	175,881	13,287	189,168
	<u>1,752,312</u>	<u>323,090</u>	<u>2,075,402</u>
Carrying amounts at 31 December 2015	1,752,312	323,090	2,075,402
Redemption during the year (<i>Note b</i>)	(400,873)	(74,585)	(475,458)
Interest expense	100,748	25,560	126,308
Interest payable	(75,138)	(18,334)	(93,472)
	<u>1,377,049</u>	<u>255,731</u>	<u>1,632,780</u>
Carrying amounts at 31 December 2016	1,377,049	255,731	1,632,780
Portion classified as current	<u>(1,175,309)</u>	<u>(255,731)</u>	<u>(1,431,040)</u>
Non-current portion	<u>201,740</u>	<u>–</u>	<u>201,740</u>

Notes:

- (a) On 30 November 2015, the Company redeemed the Bonds with principal amount of HK\$112,385,000 at HK\$112,385,000 and a gain of approximately HK\$1,013,000 from the redemption was recognised in profit or loss.
- (b) On 22 June 2016, the Company redeemed the Bonds with principal amount of approximately HK\$145,000,000 at approximately HK\$145,000,000 and a loss of approximately HK\$1,750,000 from the redemption was recognised in profit or loss. On 30 September 2016, the Company redeemed the Bonds with principal amount of HK\$337,155,000 at HK\$337,155,000 and a loss of approximately HK\$4,401,000 from the redemption was recognised in profit or loss.

On 31 March 2016, the Company received redemption notices from some of the bondholders of the Company (the “Bondholders”) to redeem the convertible bonds with principal amount of HK\$1,848,415,000. As a result, the outstanding convertible bonds with principal amount of HK\$1,848,415,000 became payable on 31 March 2016 and unwinding of interest totaling HK\$189,168,000 was accelerated at 31 December 2015 and the carrying amount of liability component of the convertible bonds that subject to redemption on 31 March 2016 has been classified as current liabilities.

As at 31 December 2016, the aggregate principal amount of the Bonds remaining outstanding following the partial redemptions of the Bonds was approximately HK\$1,653,160,000 (2015: HK\$2,135,315,000).

14. CONTINGENT LIABILITIES

Financial guarantees issued

As at 31 December 2016 and 2015, certain subsidiaries of the Group have issued corporate guarantees in respect of the finance lease obligation under a sales and leaseback arrangement granted to a subsidiary of the Group which will expire when the lease is terminated.

As at 31 December 2016, one of the subsidiaries of the Group has issued a corporate guarantee to a bank for the bank loans granted to a subsidiaries of the Group (2015: HK\$Nil).

The Group has not recognised any deferred income and the related expenses in respect of such guarantees, as in the opinion of the Directors, their fair values cannot be reliably measured using observable market data and their transaction price was nil.

As at 31 December 2016 and 2015, the Directors do not consider it probable that a claim will be made against these subsidiaries under any of the guarantees.

15. COMMITMENTS

- (a) Capital commitments outstanding at 31 December 2016 not provided for in the consolidated financial statements are as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Contracted for		
– purchase of property, plant and equipment	–	383
– increase in registered capital of a subsidiary	<u>84,000</u>	<u>84,000</u>
	<u>84,000</u>	<u>84,383</u>

- (b) At 31 December 2016, the Group's future aggregate minimum lease payments under non-cancellable operating leases are payable as follows:

	As at 31 December 2016		
	Land and buildings <i>HK\$'000</i>	Factory equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Within one year	10,879	8,378	19,257
In the second to fifth year inclusive	1,723	33,405	35,128
More than five years	<u>–</u>	<u>41,319</u>	<u>41,319</u>
	<u>12,602</u>	<u>83,102</u>	<u>95,704</u>

	As at 31 December 2015		
	Land and buildings <i>HK\$'000</i>	Factory equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Within one year	17,105	8,960	26,065
In the second to fifth year inclusive	6,160	35,730	41,890
More than five years	<u>–</u>	<u>53,199</u>	<u>53,199</u>
	<u>23,265</u>	<u>97,889</u>	<u>121,154</u>

The Group leases various office and factory premises, office equipment and warehouses under operating leases. The leases run for an initial period of 1 to 10 years (2015: 1 to 11 years). The leases do not include any contingent rentals.

16. ASSETS/LIABILITIES OF THE DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

On 4 January 2016, a wholly-owned subsidiary of the Company entered into a sale and purchase agreement (as supplemented and amended on 23 February 2016 and 2 August 2016) (the “Sale and Purchase Agreement”) with a related party, Sunjet Investments Limited in which a director (also a substantial shareholder) of the Company has beneficial interest, for the disposal of the entire interest in Multi Glory Limited (“Multi Glory”) and the loan due from Multi Glory to the Group for a cash consideration of HK\$2,150,000,000 (the “Disposal”). Restructuring (the “Restructuring”) was carried out to put the Disposal Group (as defined below) in place before completion of the Disposal. After the Restructuring, Multi Glory, through certain wholly-owned subsidiaries, held 100% interest in 港樂貿易(深圳)有限公司 (Gang Le Trading (Shenzhen) Co., Ltd*), which in turn held 100% interest in 深圳市鵬樂實業發展有限公司 (Shenzhen Peng Le Industrial Development Co., Ltd.*), which in turn held 100% interest in 深圳市思樂數據技術有限公司 (Shenzhen Sinodata Technology Co. Ltd.*), which in turn held 100% interest in 深圳市思樂數據設備服務有限公司 (Shenzhen Sinodata Equipment Services Co., Ltd.*) and 50% interest in 深圳市思遠卓越科技開發有限公司 (Shenzhen Siyuan Zhuoyue Technology Development Co., Ltd.*) (hereinafter collectively referred to as the “Disposal Group”). As at 31 December 2016, it was intended that the net proceeds from the Disposal firstly be applied by the Company for the redemption of the convertible bonds which were subject to redemption notices and in the aggregate principal amount of approximately HK\$1,431,042,000 (2015: HK\$1,848,145,000). The principal activities of the Disposal Group are design and provision of lottery systems and equipment for lottery in the PRC for traditional Welfare Computer Ticket Games operations. The disposal was completed in February 2017. Further details are set out in the Company’s announcements dated 5 January 2016, 23 February 2016, 29 March 2016, 29 April 2016, 19 May 2016, 27 July 2016, 2 August 2016, 9 January 2017, 27 January 2017, 14 February 2017 respectively and circulars dated 29 February 2016 and 30 September 2016.

Upon completion of the Disposal, it is estimated that the proceeds of the Disposal would exceed the carrying amount of the net assets of the Disposal Group, and accordingly, no impairment loss has been recognised on the assets which were classified as assets held for sale as at the end of the reporting period.

The results of the Disposal Group classified as held for sale that are included in the consolidated income statement are shown as below:

	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the year from the Disposal Group:		
Revenue	486,643	485,823
Cost of sales/services rendered	(214,004)	(217,879)
Other income and other gains and losses	11,315	4,236
Selling and distribution expenses	(21,009)	(14,961)
Administrative expenses	(126,772)	(115,873)
	<hr/>	<hr/>
Operating profit	136,173	141,346
Finance costs	(3,859)	(6,190)
	<hr/>	<hr/>
Profit before taxation	132,314	135,156
Taxation	(22,300)	(21,084)
	<hr/>	<hr/>
Profit for the year	<u>110,014</u>	<u>114,072</u>

The major classes of assets and liabilities of the Disposal Group classified as held for sale as at 31 December are as follows:

	2016	2015
	HK\$'000	HK\$'000
Assets		
Property, plant and equipment	117,459	138,690
Prepaid lease payments on land use rights	41,853	42,615
Goodwill	1,026,795	1,026,795
Intangible assets	22,054	37,991
Deposit for acquisition of leasehold building	169,511	452
Deferred tax assets	5,963	–
Inventories	98,474	116,397
Trade receivables	84,692	97,231
Utility and other deposits	103,393	103,885
Prepayments and other receivables	525,317	527,889
Cash and bank balances	100,086	144,718
	<hr/>	<hr/>
Assets of the disposal group classified as held for sale	2,295,597	2,236,663
	<hr/>	<hr/>
Liabilities		
Trade payables	(44,397)	(36,549)
Other payables and accruals	(202,759)	(31,280)
Bank borrowings	(137,456)	(71,429)
Current tax liabilities	(18,731)	(9,526)
Deferred tax liabilities	(640)	(4,832)
	<hr/>	<hr/>
Liabilities directly associated with the assets of the disposal group classified as held for sale	(403,983)	(153,616)
	<hr/>	<hr/>
Net assets of the disposal group classified as held for sale	1,891,614	2,083,047
	<hr/> <hr/>	<hr/> <hr/>

At 31 December 2016, bank loans of approximately HK\$55,556,000 (2015: HK\$71,429,000) are secured on leasehold buildings and land use rights in the PRC for the carrying values of approximately HK\$16,689,000 (2015: approximately HK\$18,406,000) and HK\$26,678,000 (2015: approximately HK\$29,378,000) respectively.

As 31 December 2016, a Company's director, Mr. Chan How Chung, Victor has given personal guarantee in respect of bank borrowings of approximately HK\$81,900,000 (2015: HK\$Nil).

17. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Unlisted investments, at cost		
Balance at 1 January	307,810	77,182
Exchange realignment	(18,255)	(2,056)
Addition (<i>notes (a)</i>)	556	–
Further capital injection (<i>note (b)</i>)	–	232,684
	<u>290,111</u>	<u>307,810</u>
Less: Investment refund	(1,305)	–
Balance at 31 December	<u><u>288,806</u></u>	<u><u>307,810</u></u>

Notes:

- (a) The Group invested the sum of RMB500,000 in an unlisted investment fund with a bank during the year (2015: HK\$Nil).
- (b) In 2014, the Group injected RMB200,000,000 (the “Injection”) in an indirect non wholly-owned subsidiary of the Company (the “PRC Company”). HK\$5,682,000 (RMB4,546,000) of the Injection was recognised as registered share capital in the PRC Company and recognised as an available-for-sale financial asset in 2014. The remaining amount of the Injection of HK\$232,684,000 (RMB195,454,000) was transferred from prepayments and other receivables and recognised as an available-for-sale financial asset in 2015 when the relevant legal formality was completed.
- (c) The other unlisted investment of HK\$32,695,000 (2015: HK\$34,000,000) represents the Group’s cost of investment in a private enterprise fund established in the mainland China. At 31 December 2016, the Group owns 18.3% (2015: 18.3%) of the paid-in capital of the investee. The Directors of the Company consider the principal activity of the investee is investment holding.

The unlisted investments are measured at cost less impairment losses, if any, at the end of the reporting period because the range of reasonable fair value estimates is so significant that the Directors of the Company are of the opinion that their fair value cannot be measured reliably. The Group does not intend to dispose of them in the near future.

18. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Details of the Group's significant transactions and balances with the following related parties during the year are as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Shareholder:		
Balance due from the Group	280,000	118,000
Interest on a shareholder's loan	1,020	–
Redemption of convertible bonds	64,353	15,000
Convertible bonds interest paid	11,864	13,443
Consent fee paid for delaying redemption of convertible bonds	3,417	3,000
Companies connected with Director:		
Balance due from the Group	357,867	–
Deposits received on sales of Disposal Group	<u>622,100</u>	<u>–</u>

In the opinion of the Directors, including the independent non-executive Directors, the above transactions were entered into in the Group's ordinary course of business or at terms agreed by both parties. During the year, the balances due to a shareholder and companies connected with a director is unsecured, interest free and repayable within one year. For the year ended 31 December 2015, except for the balance of HK\$15,000,000 due to a shareholder bearing interest at 4.5% per annum, the remaining balance of HK\$103,000,000 is interest free.

19. NON-ADJUSTING EVENTS AFTER THE END OF THE REPORTING PERIOD

- (i) As disclosed in Note 16 in relation to the Disposal completed in February 2017. Upon completion of the Disposal, the Company ceased to hold any equity interest in the Disposal Group and the results of the Disposal Group would no longer be consolidated into the consolidated financial statements of the Company. Further details were disclosed in the announcement of the Company dated 14 February 2017.
- (ii) As disclosed in Note 13, the Company was required to redeem the Bonds which was subject to redemption notices and in the aggregate principal amount of approximately HK\$1,427,365,000 on 27 February 2017, the 2016 bonds in the aggregate principal amount of approximately HK\$3,677,000 with the maturity date on 28 February 2017. The Company has not been able to fulfil its redemption and payment obligations on the respective due dates, which constituted an event of default of the respective Bonds. The Company, starting from 27 February 2017, has been in default under the Bonds. The trustee or the Bondholders through the trustee may take legal actions against the Company in respect of the Bonds. In that case, the business of the Group and the interests of the Company and the shareholders may be materially and adversely affected. However, the Company expects the possible courses of actions to be taken by the trustee would not have substantial impact on the Company provided that the redemption of the Bonds takes place by 28 April 2017.
- (iii) The Company had made a partial repayment on 29 March 2017 to satisfy part of the principal amount of the outstanding Bonds and the accrued but unpaid interest thereon. Following such partial repayment, the aggregate principal amount of the 2016 Bonds of approximately HK\$100,907,000 remain outstanding and the aggregate principal amount of the 2019 Bonds of approximately HK\$551,402,000 remain outstanding. The Company is seeking the Bondholders' consent to delay the redemption date from 27 February 2017 and 28 February 2017 respectively to 28 April 2017 and extend the original 3rd anniversary put option redemption date of the 2019 Bonds to 31 May 2017. The proposal for the extension will only take effect if the conditions set out in the Company's announcement dated 29 March 2017 are satisfied: (i) passing the extraordinary resolutions in the Bondholder's meeting; and (ii) obtaining the approval required by the Listing Rules. The quorum at the Bondholders' meeting for passing the extraordinary resolutions will be a single voter representing or holding not less than 66 2/3% of the aggregate principal amount of the outstanding Bonds and not less than 75% of votes cast for the proposals during the Bondholders' meeting. The total maximum amount of consent fees up to approximately HK\$978,000 will be payable to the eligible Bondholders who vote in favour of the extraordinary resolutions in the prescribed manner (subject to the satisfaction of the relevant conditions). Further details are disclosed in the announcement of the Company dated 29 March 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

The Board hereby presents the annual results of the Group for the financial year ended 31 December 2016.

BUSINESS REVIEW AND PROSPECTS

During the year under review, the Group was principally engaged in lottery system and games development business and distribution and marketing of lottery products in China.

The Chinese lottery market comprises two lotteries, namely, the China Welfare Lottery and the China Sports Lottery. The Group provides services to both lotteries.

Lottery Business

The Group's lottery business can be broadly divided into System and Games Development Business ("SGDB") and Distribution and Marketing Business ("DMB"). Revenue of the lottery business accounted for 100% of the Group's total revenue.

For the year ended 31 December 2016, revenue of the Group amounted to approximately HK\$1,252,144,000, representing a decrease of 19.4% over the same period last year (2015: approximately HK\$1,554,394,000). The Group recorded a loss before taxation of approximately HK\$416,091,000 (profit before taxation in 2015: approximately HK\$205,358,000).

The decline in revenue mainly reflected the slowdown of the industry development which created immense pressure on the Group's lottery business. Due to the challenging operating environment for the lottery industry in China, particularly in the scratch card and paperless electronic lottery distribution markets, impairment loss on goodwill, intangible assets and other provisions were made in relation to the Group's interest in joint ventures and the Group's operating units. Keen market competition substantially increased the cost of sales/services and selling and distribution expenses including salary, marketing cost and other operating costs in China. The slowdown of economy growth in China and the tightening of capital controls have posed another set of challenges to the Group's operations. In response to these macro-environmental factors, the Group strictly adhered to a prudent approach to financial management during the year under review.

Lottery sales of the Chinese lottery market will take time to fully recover from the unfavorable impact of internet distribution channel suspension since early 2015, though a slow recovery has been seen during the year given the gradual change in purchasing habit among lottery players returning to traditional physical distribution channel. In the meantime, positive momentum brought by the shift in their preference to sports betting lottery and high-frequency games was partially offset by the moderate contraction among traditional instant lottery and pool-based drawing games. The Chinese lottery market is anticipated to experience a slow growth in sales until an official resumption of the internet lottery distribution channel. The resumption is expected to generate a positive impact on the market. Nevertheless, the Group continued to show strong resilience and delivered solid performance on the back of the broad base of its business portfolio in the entire value chain of the lottery industry.

In order to align the Group's lottery business to the latest development in the lottery market, the Group embarked on a transformation to restructure its Welfare Computer Ticket Games ("CTG") business. In January 2016, the Company announced a plan to realise one of its long-term investments in the traditional Welfare CTG market which covered business operations of the manufacturing and provision of Welfare CTG machines and supporting systems for the traditional lottery market. During the year, the Group made concerted efforts to expedite the restructuring and closing the transaction. General expenses of the Group was increased due to various corporate expenses in relation to the delay in the closing of the transaction. Despite that, this strategic move unlocked substantial value of the assets and allowed the Group to focus on its operating priorities in order to drive future growth and deliver long-term value for our shareholders. After the restructuring, the Group will remain solidly positioned in the Welfare CTG market by supporting the development of non-traditional CTG and peripheral lottery system.

As disclosed in the announcement of the Company dated 14 February 2017, the Disposal was completed. As a result of the completion of the Disposal, members of the Disposal Group have ceased to be subsidiaries of the Company and the net proceeds of the Disposal would be applied by the Company for redemption of the convertible bonds of the Company.

Reference is made to the announcement of the Company dated 29 March 2017, the Company has launched a proposal, after partial repayment of the outstanding bonds, to seek the bondholders' consent for, among other things, further extension of the relevant event redemption date of the put bonds and the maturity date of the bonds due 2016 and to waive the events of default for the respective bonds.

Although 2016 has turned out to be a challenging year for the Group in view of the difficult operating environment, it is expected that after the repayment of the remaining outstanding bonds, the Group will once again resume a sound financial position underpinned by improved overall cashflow, gearing and liquidity position which allow us to pursue our strategy and refocus the Group on growing our business.

Chinese Lottery Market

Chinese lottery market registered total lottery sales of RMB394.6 billion in 2016, increased by 7% compared with 2015.

Total sales of Welfare Lottery was RMB206.5 billion, increased by 2% compared with 2015. Welfare CTG accounted for about 71% of total Welfare Lottery sales; Welfare Scratch Cards was about 7% and Video Lottery Terminals (“VLT”) took about 22%.

Welfare CTG sales in 2016 was RMB146.8 billion, increased by 3%. Welfare Scratch Cards sales was RMB14.9 billion, down 8%. VLT sales increased 5% to RMB44.5 billion. Sales of Keno was RMB0.27 billion, decreased 39%.

Total sales of Sports Lottery was RMB188.1 billion. Sports CTG accounted for about 93% of total Sports Lottery sales and Sports Scratch Cards was about 7%.

Sales of Sports CTG, including Single Match Games (“SMG”), increased by 15% to RMB174.6 billion. Sports Scratch Cards sales was RMB13.6 billion, down by 3%. Total sales of Sports VLT was about RMB7.9 million.

System and Games Development Business

The Group’s SGDB is an active participant in the provision of lottery system and specialised equipments for both CTG and scratch card products in China. During the year under review, the Group’s SGDB delivered satisfactory performance which reflected the steady execution of its strategy in a time of evolving market dynamics.

Welfare CTG Business

In 2016, performance of the Welfare CTG market was still impacted by the suspension of internet distribution where such impact slowly reduced as the year progressed. The full year sales of Welfare CTG in China turned around with a low single digit increase.

In the traditional segment of Welfare CTG market, growth of national draw based games was flat during the year. In parallel, regional and high frequency games showed a faster pace of development in the second half of the year and successfully outperformed the segment growth for the full year. As lottery players gradually shifted their purchasing habit, physical retail network played an important role in retaining and attracting new players during the year.

During the year under review, the Group continued to forge ahead with the profound transformation to focus on the non-traditional market segment for the Group's Welfare CTG segment. The Group will remain solidly positioned in the upstream lottery market after completion of the restructuring and repositioning over lottery games development and peripheral lottery system innovation. This business segment is expected to achieve a satisfactory level of profitability as markets improve.

Welfare Scratch Cards Business

The Group's Welfare Scratch Cards Business involved in both validation and printing of Welfare Scratch Cards in China.

During the year under review, the Group's Welfare Scratch Cards Business suffered from the reduction of total sales volume in the market. Competition from other instant type of lottery products was obviously a significant factor behind the drop in scratch cards sales. Although the magnitude of sales decline was reduced by the efforts made by lottery authorities, underperformance of the scratch card market continued to dampen the performance of the Group's Welfare Scratch Cards business.

The Group has jointly controlled interests in the validation system and specialised equipment provider which provides validation services for the Welfare Scratch Cards market. In light of the continuing slowdown in scratch card market, a provision was recognised for the impairment loss on goodwill and intangible assets included in the interests in joint ventures in relation to the aforesaid operations.

The Group also participated in Welfare Scratch Cards printing business through a cooperative venture with Shijiazhuang Offset Printing House, one of the three entities authorised to print for the Welfare Scratch Cards programs. The Group's printing operations rolled out various new scratch cards designs during the year to meet the demand from lottery authorities. Leveraging on its design and printing capability, the Group is ideally positioned to play an important role when this market regains its momentum.

Sports CTG Business

The Group's Sports CTG business was engaged in the manufacturing and sales of CTG terminals to provincial Sports Lottery Centres across China serving the needs of traditional CTG segment and supporting the development of SMG.

Replacement demand for new Sports CTG/SMG terminals were driven by the needs to modernise sales equipment in the physical lottery distribution network. During the year under review, the Group actively participated in the procurement bidding and delivered its Sports CTG terminals in different provinces.

Distribution and Marketing Business

The Group's DMB is a major participant in lottery distribution in China. It has successfully established a comprehensive distribution platform which consists of a widely diversified and recognised physical retail network and a portfolio of innovative and advanced electronic lottery platforms.

The Group's downstream lottery operations pledge to provide reliable, efficient and innovative lottery services to address the needs of end consumers in lottery market and assist lottery authorities to promote and develop the Chinese Lottery market in sustainable manner. Over the years, the Group has fostered long-term relationships with lottery authorities and acted as innovator for technologies which help to improve the way lottery products are marketed, distributed and experienced.

The Group's DMB was working against some major headwinds in 2016. Performance of the scratch card distribution business was hampered by the shrinking sales volume in the market. Meanwhile, the operating environment for paperless electronic lottery business, including mobile lottery business, remained difficult given considerable uncertainty persisted in relation to relevant regulatory development during the year. During the year under review, the Group recognised an impairment loss on goodwill and other provisions in relation to the operating units in the paperless electronic lottery business. Nevertheless, the Group's DMB maintains a solid foundation in the paperless electronic lottery platforms and ready to expand when market evolves.

Scratch Cards Distribution Business

The Group's scratch cards distribution business focuses on the distribution and sales of scratch cards through a physical lottery distribution network. This network comprised of a widely diversified and recognised sales distribution channels located in selected prime locations. The Group's DMB is one of the largest distributors for scratch cards in terms of sales value and number of point-of-sales established.

Despite the efforts made by lottery authorities to stimulate sales, downward pressure of scratch card sales exacerbated during the second half of the year. Overall performance of scratch cards sales in the market continued to be impacted by the fierce competition from other lottery products, particularly from other instant type of lottery products. Meanwhile, competition in the scratch card distribution market intensified with entry of new market participants and created pressure for business performance. The Group continued its efforts to restructure its sales network to stay competitive in the current tough market situation.

Single Match Games Business

Total sales of SMG in China exceeded market expectation against the back drop of internet distribution channel suspension by achieving a strong growth to reach RMB67.2 billion in 2016.

This encouraging result reflected the strength of major sports event in expanding the player base for this lottery product. Also, it demonstrated the underlying significance of the physical retail network since internet distribution had been suspended in early 2015. During the year under review, the Group operated its SMG business through physical distribution network and was able to benefit from the market growth.

SMG, which was launched in 2009 in China, has successfully evolved to be the single largest lottery product in the Chinese market and displayed its huge potential. It is also believed that internet distribution platform will play an important role in releasing the enormous potential of SMG. The Group remains positive on the long-term prospect of internet lottery distribution channel and maintains its investment in this area through its interest in the Okooo platform. Okooo has been transforming itself into an interactive portal for SMG consumers to publish, share and explore relevant content online. Okooo aims to retain its user base by providing innovative services with quality information and content for SMG consumers. The ongoing regulatory development will eventually open up long-term growth opportunities for SMG market.

Mobile Lottery Business and Mobile Electronic Lottery Platform

The Group conducts its mobile lottery business through its self developed Mobile Electronic Lottery Platform (“Mobile ELP”), which offers a multi-functional back-end system with convenience interface to facilitate lottery distribution over mobile devices. Mobile ELP improves the convenience of lottery purchase by connecting players directly to the centralised system of provincial lottery centre, enabling a safe and reliable lottery purchase experience. The adoption of Mobile ELP provides provincial lottery centres with technological breakthrough to better connect with players located in their respective provinces and attract purchases from the locals. The Group has established a solid foundation which allows us to seize market opportunities driven by the reopening of mobile lottery distribution method after regulatory approvals. During the year under review, the operating environment for mobile lottery business was very challenging. The development of mobile technology for lottery distribution slowed down in response to the ambiguous regulation associated with mobile lottery platform.

Sports Video Lottery

Sports VLT was first introduced in Hainan Province to support the local tourism development. The Group was honored to be chosen as one of the first companies to play an active role in supporting the launch of this new lottery product for Sports Lottery. The Sports VLT in Hainan Province, featuring four distinctive lottery games, is still at its infancy and growing in a faster pace during the year. Total sales of Sports VLT in the market grew by 38% year-on-year. The Group's franchised outlet, located at the unique prime location to serve both domestic and in-bound tourists, was able to benefit from the favorable development of this relative new lottery product. The Group will continue to deliver players with fantastic lottery experience through its franchised lottery outlet. The Group is confident on the long-term growth of this lottery product and its potential contribution to the lottery market.

Outlook

The performance of Chinese lottery market in 2016 showed a glimmer of recovery from the latest regulatory and industry development in 2015. As one of the major players in the market, the Group possesses strong fundamentals to deliver appropriate financial performance in the challenging operating environment today. With its comprehensive lottery solutions and products, the Group is going to capitalise on the opportunities across the market to emerge from this downturn in a much stronger competitive position.

More than a decade ago, the Group entered the Chinese lottery market through the acquisition of a lottery system supplier in the upstream lottery market which later became the foundation of the Group's lottery business. Over the years, the Group worked hard to grow the business and expand its operations to the downstream market of lottery distribution. The Group's growth strategy centers on developing its business for sustainable growth prospect with reasonable shareholders' return over the long term. The disposal and value realisation of our long-term investment in traditional Welfare CTG market was a clear testimony to the agile execution of this strategy.

Looking ahead, uncertainties of regulatory development in the Chinese lottery market will likely hamper the short-term development of the industry. Whilst it is uncertain when the legal framework regulating the paperless electronic distribution channels will be formalised, it is believed that paperless electronic lottery distribution will eventually become an important driver for growth in the Chinese lottery market and it will bring ample opportunities for the industry players. The Group's DMB has already taken significant steps to prepare for that. However, the prolonged suspension of the internet distribution channel is introducing increased uncertainty and operating pressure to lottery market and industry participants. Although the impact of the suspension is fading, it has restrained the growth momentum in the Chinese lottery market and caused profound impact to the operating environment and strategic planning of the Group.

Once the financial challenge posed by the redemption obligation under the convertible bonds has been successfully addressed, the Group is poised to focus on growing its business. China has had a strong start in 2016 for the 13th Five-Year Plan Period and the Chinese government is promoting domestic investments to achieve the ambitious objectives laid out in its development blueprint. The past success of the Group tied to its strategy to set the foundation for long-term growth by taking a prudent approach towards investment opportunities. As the key aspects of the 13th Five-Year Plan open up immense opportunities, the Group intends to introduce and establish strategic partnership to enhance the Group's human and finance capability and identify potential projects which offers immense growth potentials and can provide a solid foundation for sustainable future growth. Diversification will put us on the front foot to move our business forward when the Group's core business is facing an increasing uncertainty amid the latest market development. Going forward, the Group will continue to forge ahead with transformation to pursue profitable growth and make contributions for sustainable development of the industry which supports the good causes that benefit the general public in China.

FINANCIAL REVIEW

Result

For the year ended 31 December 2016, the Group recorded a revenue of HK\$1,252,144,000 (2015: HK\$1,554,394,000), representing a decrease of 19.4% over that of the last year. The decrease was mainly attributable to the Group's lottery business in China.

Loss attributable to equity shareholders for the year was HK\$393,007,000 (profit attributable to equity shareholders for 2015: HK\$150,879,000). The loss per share was 3.93 HK cents (earnings per share for 2015: 1.51 HK cents). Diluted loss per share for the year ended 31 December 2016 is the same as the basic loss per share as both the share options and the convertible bonds outstanding during the year had an anti-dilutive effect on the basic loss per share.

The Board does not recommend the payment of dividend in respect of the year ended 31 December 2016 (2015: HK\$Nil).

Liquidity, Financial Resources and Funding

At 31 December 2016, the Group's total equity amounted to HK\$5,511,177,000 as compared to HK\$6,085,403,000 at the end of the previous year.

At 31 December 2016, the Group (including the Disposal Group) had cash and bank balances of approximately HK\$2,237,048,000 (2015: approximately HK\$1,242,791,000). This balance includes HK\$Nil (2015: approximately HK\$330,000) of clients' funds that were kept in designated segregated bank accounts.

In 2011 and 2012, the Company issued 6.00% convertible bonds originally due 2016 and extended to 2017 (the "2016 Bonds") in principal amount of HK\$964,700,000 and HK\$429,000,000 respectively. Each 2016 Bond is convertible into fully paid ordinary shares of HK\$0.01 each of the Company (the "Shares") at the applicable conversion price of HK\$0.5600 per Share. The 2016 Bonds bear interest at the rate of 6.00% per annum payable semi-annually in arrears. During the year ended 31 December 2016, there was no conversion of the 2016 Bonds into Shares by the bondholders of the Company (the "Bondholders"). On 22 June 2016, the Company made a partial payment of approximately 6.79% of the principal in respect of all the 2016 Bonds for the amount of HK\$22,430,266.08. On 30 September 2016, the Company made further partial payment of the 2016 Bonds for the amount of HK\$52,155,000. As at 31 December 2016, the principal amount of the 2016 Bonds outstanding was HK\$255,729,733.92 (2015: HK\$330,315,000).

In 2014, the Company issued 4.50% convertible bonds due 2019 (the “2019 Bonds”) in principal amount of HK\$1,900,000,000. Each 2019 Bond is convertible into fully paid Shares at the applicable conversion price of HK\$1.3700 per Share. The 2019 Bonds bear interest at the rate of 4.50% per annum payable semi-annually in arrears. During the year ended 31 December 2016, there was no conversion of the 2019 Bonds into Shares by the Bondholders. On 22 June 2016, the Company made a partial payment of approximately 6.79% of the principal in respect of all the 2019 Bonds for the amount of HK\$122,569,741. On 30 September 2016, the Company made further partial payment of the 2019 Bonds for the amount of HK\$285,000,000. As at 31 December 2016, the principal amount of the 2019 Bonds outstanding was HK\$1,397,430,259 (2015: HK\$1,805,000,000).

The gearing ratio as at 31 December 2016 was 32.36% (2015: 35.70%). The gearing ratio was derived by dividing the total borrowings including the convertible bonds, obligations under finance leases and bank borrowings includes those classified as part of liabilities associated with assets classified as held for sale of approximately HK\$1,783,405,000 (2015: approximately HK\$2,172,736,000) by the amount of total equity. The liquidity ratio of the Group, represented by a ratio between current assets over current liabilities, was 260% (2015: 347%), reflecting adequacy of financial resources. The decrease of liquidity ratio mainly due to the increase in amount due to related parties for the year ended 31 December 2016.

The Group had outstanding bank borrowings at 31 December 2016 of HK\$142,357,000 (2015: HK\$71,429,000). The bank borrowings of HK\$137,456,000 (2015: HK\$71,429,000) was loaned to the Disposal Group in 2016. The bank borrowings were denominated in Renminbi and interest bearing at prevailing commercial lending rates. The Group’s land and building and trade receivables were pledged to secure the bank borrowings. All these borrowings were expected to be repaid by internal funds generated by the Group, including the Disposal Group.

Taking into account the financial resources available to the Group including internally generated funds and available banking facilities, the Group has sufficient working capital to meet its present operational requirements.

Impairment Loss on Goodwill and Intangible Assets

For the year ended 31 December 2016, the Group made a provision of HK\$226,319,000 (2015: HK\$99,321,000) and HK\$58,823,000 (2015: HK\$Nil) for impairment losses on goodwill and intangible assets respectively. The impairment loss on goodwill HK\$103,923,000 (2015: HK\$99,321,000) was made to the Group's cash-generating unit and the remaining impairment losses on goodwill and intangible assets of HK\$122,396,000 and HK\$58,823,000 respectively were included in the interest in joint ventures.

The impairment loss on goodwill HK\$103,923,000 was recognised for the Group's cash-generating unit which is principally engaged in lottery distribution and marketing business was fully impaired due to challenging operating environment for the lottery industry in China which aggravated its business performance. Accordingly, full impairment loss on goodwill of HK\$103,923,000 was recognised.

Full impairment losses of goodwill and intangible assets with carrying value amounting to HK\$122,396,000 and HK\$58,823,000 respectively included in the interests in joint ventures were recognised in profit or loss for the year due to the continuing slowing down of the scratch card market in China. The carrying amounts of the interests in joint ventures exceeded their recoverable amounts of HK\$170,889,000. Pre-tax discount rate of 18.3% and terminal value growth rate of 3% had been used in the calculation of the value in use of the interests in joint ventures.

Pledge of Assets

As at 31 December 2016, trade receivables of approximately HK\$15,052,000 (2015: HK\$Nil) were pledged to a bank to secure general banking facilities granted to the Group.

As at 31 December 2016, the Disposal Group's land and building with total market value of approximately HK\$118,667,000 (2015: approximately HK\$122,500,000) was pledged to banks to secure the bank borrowings granted to the Disposal Group.

Share Capital

45,000,000 new Shares were issued and allotted by the Company during the year upon exercise of share options granted by the Company.

As at 31 December 2016, the total number of issued Shares was 10,028,495,338.

Save as disclosed above, there was no change in the Company's capital structure during the year ended 31 December 2016.

Convertible Bonds

The 2016 Bonds

The Company issued the 2016 Bonds in 2011 and 2012 respectively in an aggregate principal amount of HK\$1,393,700,000 which was convertible into fully paid Shares at an initial conversion price of HK\$0.6175 per Share. The 2016 Bonds are listed on the Singapore Exchange Securities Trading Limited.

On 14 September 2016, the maturity date of the 2016 Bonds has been extended from 28 September 2016 to 28 February 2017. On 22 June 2016 and 30 September 2016, the Company made partial payments of the 2016 Bonds in the amount of HK\$22,430,266.08 and HK\$52,155,000 respectively. As at 31 December 2016, the principal amount of the 2016 Bonds outstanding was HK\$255,729,733.92 (2015: HK\$330,315,000). Each 2016 Bond is convertible into fully paid Shares at the applicable conversion price of HK\$0.5600 per Share. During the year ended 31 December 2016, there was no conversion of the 2016 Bonds.

Further updates of the 2016 Bonds are set out in the section headed "Latest Proposals in relation to the Bonds" below.

The 2019 Bonds

The Company issued the 2019 Bonds in 2014 in the principal amount of HK\$1,900,000,000. Each 2019 Bond was convertible into fully paid Shares at an initial conversion price of HK\$1.4070 per Share. The 2019 Bonds are listed on the Singapore Exchange Securities Trading Limited.

On 22 June 2016 and 30 September 2016, the Company made partial payments of the 2019 Bonds in the amount of HK\$122,569,741 and HK\$285,000,000 respectively. As at 31 December 2016, the principal amount of the 2019 Bonds outstanding was HK\$1,397,430,259 (2015: HK\$1,805,000,000). Each 2019 Bond is convertible into fully paid Shares at the applicable conversion price of HK\$1.3700 per Share. During the year ended 31 December 2016, there was no conversion of the 2019 Bonds.

Further updates of the 2019 Bonds are set out in the section headed “Latest Proposals in relation to the Bonds” below.

Relevant Event and Consent Solicitation Proposals in relation to the Bonds

As stated in the announcement of the Company dated 20 August 2015, pursuant to the terms and conditions of each of the 2016 Bonds and the 2019 Bonds (collectively, the “Bonds”), a “Relevant Event” occurs when, among other things, the Shares are suspended for trading for a period equal to or exceeding 30 consecutive trading days on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Notice has been given by the Company to the holders of the Bonds that a “Relevant Event” occurred. Each holder of the Bonds had the right at such holder’s option, to require the Company to redeem all or some only of such holder’s Bonds on 2 November 2015 (the “Relevant Event Redemption Date”) at their principal amount (the “Put Bonds”) together with interest accrued to such redemption date, in each case in accordance with the respective terms and conditions of the 2016 Bonds and the 2019 Bonds. Upon redemption of any of the Bonds, such redeemed Bonds will be cancelled.

Given the occurrence of the “Relevant Event”, the Company had formulated various consent solicitation proposals (the “Proposals”) to the Bondholders to, among other things, (i) delay the maturity date of the 2016 Bonds; and (ii) delay the original Relevant Event Redemption Date and extend the relevant put period end date. Subsequent to the passing of the extraordinary resolutions by the Bondholders, (i) the maturity date in relation to the 2016 Bonds was delayed to 28 February 2017; and (ii) the Relevant Event Redemption Date in relation to each series of the Bonds was delayed to a date (as notified by the Company to the Bondholders and the trustee of the Bonds no less than two Hong Kong business days prior to the date on which payment is to be made) from but excluding 28 January 2017 to an including 28 February 2017 in relation to the Relevant Delisting Event (as defined in the Company’s announcement dated 2 August 2016), and the relevant put period end date was extended to 28 January 2017.

Detailed information regarding the Proposals and the relevant meetings/resolutions (as the case may be) of the Bondholders are set out in the announcements of the Company dated 22 September 2015, 7 October 2015, 29 October 2015, 29 March 2016, 8 April 2016, 3 May 2016, 3 June 2016, 2 August 2016 and 9 September 2016, respectively.

Further updates in relation to the Bonds are set out in the section headed “Latest Proposals in relation to the Bonds”.

Exposure to Fluctuation in Exchange Rate Risk and Interest Rate Risk

The Group’s assets, liabilities and transactions are mainly denominated either in Hong Kong dollar or Renminbi. Since August 2015, the exchange rate of RMB fluctuated significant, the Directors are aware that the fluctuation in exchange rate between Hong Kong dollar and Renminbi may give rise to potential foreign currency risk. The Group currently does not have a foreign currency hedging policy and will continue to monitor and evaluate the Group’s foreign currency exposure and take actions as appropriate.

In terms of the interest rate risk exposures, the Group does not have any significant interest rate risk as both the borrowings of the Group and the interest rates currently remain at low levels.

Capital Commitments

For the year ended 31 December 2016, the Company had capital commitments contracted for but not provided for in the consolidated financial statements of HK\$Nil (2015: approximately HK\$383,000) for purchase of property, plant and equipment and approximately HK\$84,000,000 (2015: approximately HK\$84,000,000) for increase in registered capital of a subsidiary respectively.

Contingent Liabilities

As at 31 December 2016 and 2015, certain subsidiaries of the Group have issued corporate guarantees in respect of the finance lease obligation under a sales and leaseback arrangement granted to a subsidiary of the Group which will expire when the lease is terminated.

As at 31 December 2016, one of the subsidiaries of the Group has issued a corporate guarantee to a bank for the bank loans granted to a subsidiaries of the Group (2015: HK\$Nil).

The Group has not recognised any deferred income and the related expenses in respect of such guarantees, as in the opinion of the Directors, their fair values cannot be reliably measured using observable market data and their transaction price was nil.

As at 31 December 2016 and 2015, the Directors do not consider it probable that a claim will be made against these subsidiaries under any of the guarantees.

Material Acquisitions and Disposals of Subsidiaries

On 4 January 2016, REXCAPITAL Financial Group Limited (the “Seller”), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement (as supplemented and amended on 23 February 2016 and 2 August 2016) (the “Sale and Purchase Agreement”) with Sunjet Investments Limited (the “Purchaser”), in relation to (i) the sale and purchase of the entire issued share capital of Multi Glory Limited, a wholly-owned subsidiary of the Company; and (ii) the assignment of the entire amount owing from Multi Glory Limited to the Group, at the cash consideration of HK\$2,150,000,000 (the “Disposal”). It was intended that the net proceeds from the Disposal would firstly be applied by the Company for redemption of the outstanding Put Bonds.

The Disposal constituted a major and connected transaction of the Company under the Listing Rules. The Sale and Purchase Agreement and the transactions contemplated thereunder has been approved by the independent shareholders of the Company.

In consideration of the Purchaser entering into the Sale and Purchase Agreement, on 2 August 2016, the Company executed a deed of guarantee pursuant to which the Company agreed to guarantee in favour of the Purchaser the due performance and observance by the Seller of all its obligations under or pursuant to the Sale and Purchase Agreement in accordance with the terms of the said deed of guarantee.

In addition, on 2 August 2016, Mega Market Assets Limited has agreed to grant an interest-free unsecured loan to the Company in an amount up to HK\$360,000,000 to finance the Company's partial redemption of the Put Bonds.

The Disposal has completed subsequent to the reporting period. Details of the Disposal are set out in the Company's circulars dated 29 February 2016 and 30 September 2016 and the announcements of the Company dated 18 March 2016, 29 March 2016, 29 April 2016, 19 May 2016, 27 July 2016, 31 October 2016, 9 January 2017, 27 January 2017 and 14 February 2017 respectively.

Save as disclosed above, the Group had no material acquisition and disposal of subsidiaries during the year ended 31 December 2016.

Human Resources

As at 31 December 2016, the Group had 1,125 employees.

The Group remunerated its employee mainly based on the individual's performance and experience. Apart from the basic remuneration, discretionary bonus and share options may be granted to eligible employees by reference to the Group's performance as well as individual performance.

Final Dividends

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

Events After the Reporting Period

Latest Proposals in relation to the Bonds

As disclosed in the Company's announcements dated 14 February 2017, 1 March 2017, 9 March 2017, 14 March 2017, 24 March 2017 and 29 March 2017, the redemption date for the Put Bonds was 27 February 2017 and the maturity date of the 2016 Bonds was 28 February 2017. The aggregate principal amount of Put Bonds was HK\$1,427,364,682.70 and the aggregate principal amount due on the maturity date of the 2016 Bonds was HK\$3,677,448.00. Accordingly, the aggregate outstanding principal amount of the Bonds immediately due and payable as of 28 February 2017 was HK\$1,431,042,130.70.

As additional time was required to complete the relevant procedures to effect such payments, the redemption of the Put Bonds and the 2016 Bonds have not taken place in accordance with the terms and conditions of the Bonds. On 29 March 2017, the Company has made a partial payment to satisfy part of the principal amount of the outstanding Bonds and the accrued but unpaid interest thereon. The Company also launched a proposal to seek the Bondholders' consent for, among other things, further extension of the Relevant Event Redemption Date of the Put Bonds and the maturity date of the 2016 Bonds, and to waive the events of default for the respective Bonds (the "Bondholders' Consent").

Detailed information regarding the Bondholders' Consent is set out in the announcement of the Company dated 29 March 2017.

CORPORATE GOVERNANCE

None of the Directors is aware of any information which would reasonably indicate that the Company is not, or was not, throughout the year, in compliance with the code provisions (the “Code Provision(s)”) under the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, except the following deviations:

Under the Code Provision A.2.1, the roles of the chairman and the chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing. The Company does not at present have a Chairman nor a Chief Executive. Nevertheless, the main duties and responsibilities of a Chairman and a Chief Executive are currently held by separate individuals with written guidelines for the division of responsibilities with a view to maintain an effective segregation of duties between the management of the Board and the day-to-day management of the Group’s business and operations. The Company will continue to review the effectiveness of the Group’s corporate governance structure and consider the appointment of a Chairman of the Board and a Chief Executive if candidates with suitable leadership, knowledge, skills and experience can be identified within or outside the Group.

Under the Code Provision A.4.1 non-executive directors should be appointed for a specific term, subject to re-election. Currently, the independent non-executive Directors are not appointed for a specific term, but are subject to retirement by rotation at the Company’s annual general meeting as specified in the Company’s bye-laws.

Further information is set out in the Corporate Governance Report contained in the 2016 annual report.

AUDIT COMMITTEE

The audit committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the review of the consolidated financial statements for the year ended 31 December 2016.

REFERENCE TO INDEPENDENT AUDITOR’S REPORT

“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 issued by the Hong Kong Institute of Certified Public Accountants and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.”

Material Uncertainty Related to Going Concern

The auditor draw attention to Notes 13 and 19 to this results announcement, which indicate that the Company has not been able to fulfil its redemption and payment obligations in relation to the Bonds on the specified due dates. To address these issues, the Company is proceeding to obtain consent from the holders of the 2016 Bonds and the 2019 Bonds to agree the proposals to extend the maturity date of the 2016 Bonds and the put bonds redemption date to 28 April 2017, and to extend the 3rd anniversary put option redemption date of the 2019 Bonds to 31 May 2017 so as to enable the Company to satisfy its repayment obligations in relation to the Bonds. The ultimate outcome of these matters could not be assessed at the date of our report. These events or conditions, along with other matters as set forth in Notes 13 and 19 indicate the existence of a material uncertainty which may cast significant doubt on the Group’s ability to continue as a going concern. The auditor’s opinion is not modified in respect of this matter.

AUDITOR

By a resolution passed at the annual general meeting of the Company held on 11 June 2015, Ting Ho Kwan & Chan CPA Limited (“THKC CPA Ltd.”) has been appointed as the auditor of the Company to fill the vacancy arising from the retirement of Messrs. Ting Ho Kwan & Chan as a result of their internal corporate structure reorganisation.

Details of the change of auditor are, among other things, set out in the Company’s circular dated 30 April 2015 and the Company’s announcements dated 31 March 2015 and 11 June 2015 respectively.

THKC CPA Ltd. will retire and being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company. A resolution for re-appointment of THKC CPA Ltd. as auditor of the Company is to be proposed at the forthcoming annual general meeting.

SCOPE OF WORK OF TING HO KWAN & CHAN CPA LIMITED

The figures in respect of the preliminary announcement of the Group’s annual results for the year ended 31 December 2016 have been agreed by the Group’s auditor, THKC CPA Ltd., to the amounts set out in the Group’s consolidated financial statements for the year. The work performed by THKC CPA Ltd. in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by THKC CPA Ltd. on the preliminary announcement.

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

During the year ended 31 December 2016, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

During the year ended 31 December 2016, the Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 of the Listing Rules as the code for dealing in securities of the Company by the Directors. Having made specific enquiry, all the Directors confirmed that they have complied with the required standard set out in the Model Code throughout the year.

PUBLICATION OF THE ANNUAL RESULT ANNOUNCEMENT AND ANNUAL REPORT

The annual result announcement of the Group for the year ended 31 December 2016 is published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.aplushk.com/clients/00555rexlot/index.html>) respectively. The 2016 annual report and notice of the annual general meeting of the Company will be despatched to the shareholders of the Company and made available on the above websites in due course.

By order of the Board
Chan How Chung, Victor
Executive Director

Hong Kong, 31 March 2017

As at the date of this announcement, the Board comprises two executive Directors namely Mr. Chan How Chung, Victor and Mr. Boo Chun Lon and three independent non-executive Directors namely Mr. Yuen Wai Ho, Mr. Chow Siu Ngor and Mr. Lee Ka Lun.

* *The English translation of Chinese names or words are for information purpose only, and should not be regarded as the official English translation of such Chinese names or words.*