

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

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 2017

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 2017 together with the comparative figures for the corresponding period in 2016 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2017

	<i>Notes</i>	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Revenue	<i>3</i>	402,305	1,252,144
Cost of sales/services rendered		(204,352)	(543,310)
Other income	<i>3</i>	27,335	30,222
Other gains/(losses), net	<i>3</i>	544	(9,360)
Gain on disposal of subsidiaries	<i>18</i>	165,290	–
Selling and distribution expenses		(47,106)	(68,549)
Impairment loss on goodwill		(301,283)	(103,923)
Impairment loss on available-for-sale financial asset	<i>19</i>	(67,617)	–
Allowance for impairment of trade and other receivables		(132,654)	(238,467)
Administrative expenses		(281,595)	(415,000)

		2017	2016
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Operating loss		(439,133)	(96,243)
Finance costs		(74,968)	(132,257)
Share of losses of joint ventures		(6,254)	(187,591)
Loss before taxation	<i>5</i>	(520,355)	(416,091)
Taxation	<i>6</i>	(210,448)	(29,898)
Loss for the year		<u>(730,803)</u>	<u>(445,989)</u>
Attributable to:			
Equity shareholders of the Company		(704,265)	(393,007)
Non-controlling interests		(26,538)	(52,982)
		<u>(730,803)</u>	<u>(445,989)</u>
			(Adjusted)
Loss per share for loss attributable to equity shareholders of the Company	<i>7</i>		
– Basic and diluted		<u>(6.93) cents</u>	<u>(3.88) cents</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	2017	2016
	HK\$'000	HK\$'000
Loss for the year	<u>(730,803)</u>	<u>(445,989)</u>
Other comprehensive income/(expense)		
Items that may be reclassified subsequently to profit or loss:		
Exchange difference arising from translation of financial statements of foreign operations	115,156	(133,720)
Foreign currency translation reserve reclassified to profit or loss upon disposal of subsidiaries	41,105	–
Share of other comprehensive expense of joint ventures	<u>9,208</u>	<u>(9,207)</u>
Total other comprehensive income/(expense)	<u>165,469</u>	<u>(142,927)</u>
Total comprehensive expense for the year	<u><u>(565,334)</u></u>	<u><u>(588,916)</u></u>
Attributable to:		
Equity shareholders of the Company	(543,192)	(529,513)
Non-controlling interests	<u>(22,142)</u>	<u>(59,403)</u>
	<u><u>(565,334)</u></u>	<u><u>(588,916)</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	<i>Notes</i>	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
ASSETS			
Non-current assets			
Property, plant and equipment		41,136	46,633
Prepaid lease payments on land use rights		710	723
Goodwill		–	301,283
Intangible assets		–	331
Interests in joint ventures		172,220	169,266
Amount due from a joint venture		2,393	–
Available-for-sale financial assets	19	239,432	288,806
Deferred tax assets		83	77
Total non-current assets		<u>455,974</u>	<u>807,119</u>
Current assets			
Inventories		17,125	7,956
Trade receivables	8	388,791	490,836
Utility and other deposits		1,451,872	1,533,259
Prepayments and other receivables	9	1,962,837	1,839,938
Financial assets at fair value through profit or loss		–	132
Profit tax refundable		43	–
Cash and bank balances	10	1,841,219	2,136,962
		<u>5,661,887</u>	<u>6,009,083</u>
Assets of the disposal group classified as held for sale	17	<u>219,564</u>	<u>2,295,597</u>
Total current assets		<u>5,881,451</u>	<u>8,304,680</u>
Total assets		<u>6,337,425</u>	<u>9,111,799</u>
EQUITY			
Capital and reserves attributable to equity shareholders of the Company			
Share capital	11	100,285	100,285
Reserves		4,812,857	5,356,049
		<u>4,913,142</u>	<u>5,456,334</u>
Non-controlling interests		<u>28,942</u>	<u>54,843</u>
Total equity		<u>4,942,084</u>	<u>5,511,177</u>

	<i>Notes</i>	2017 HK\$'000	2016 HK\$'000
LIABILITIES			
Non-current liabilities			
Amount due to a joint venture		66,552	46,195
Deferred tax liabilities		45,352	163,245
Convertible bonds	<i>14</i>	<u>–</u>	<u>201,740</u>
Total non-current liabilities		<u>111,904</u>	<u>411,180</u>
Current liabilities			
Trade payables	<i>12</i>	8,238	1,801
Other payables and accruals		70,321	77,271
Bank borrowing	<i>13</i>	5,362	4,901
Current portion of convertible bonds	<i>14</i>	652,309	1,431,040
Obligations under finance leases		–	8,268
Amounts due to related parties		426,252	1,259,967
Current tax liabilities		<u>197</u>	<u>2,211</u>
		1,162,679	2,785,459
Liabilities directly associated with the assets of the disposal group classified as held for sale	<i>17</i>	<u>120,758</u>	<u>403,983</u>
Total current liabilities		<u>1,283,437</u>	<u>3,189,442</u>
Total liabilities		<u>1,395,341</u>	<u>3,600,622</u>
Total equity and liabilities		<u>6,337,425</u>	<u>9,111,799</u>
Net current assets		<u>4,598,014</u>	<u>5,115,238</u>
Total assets less current liabilities		<u>5,053,988</u>	<u>5,922,357</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 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 HKFRSs (hereinafter collectively referred to as the “new and revised HKFRSs”) issued by HKICPA.

Amendments to HKFRSs	Annual improvements to HKFRSs 2014-2016 cycle
Amendments to HKAS 7	Statement of cash flows: Disclosure initiative
Amendments to HKAS 12	Income taxes Recognition of deferred tax assets for unrealized losses
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: Applying the consolidation exception

The application of the above new and revised HKFRSs 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 early 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, NET

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, net for the year is as follows:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Revenue		
Income from provision of lottery machines and related services	<u>402,305</u>	<u>1,252,144</u>
Other income		
Interest income on bank deposits	3,347	10,368
Other interest income	6,129	4,086
Sundry income	13,674	11,923
Rental income from sub-letting of rented premises	<u>4,185</u>	<u>3,845</u>
	<u>27,335</u>	<u>30,222</u>
Other gains/(losses), net		
Net losses on disposal of financial assets		
at fair value through profit or loss	–	(2,060)
Fair value losses on financial assets		
at fair value through profit or loss	(132)	(1,149)
Exchange gain	676	–
Loss on redemption of convertible bonds	<u>–</u>	<u>(6,151)</u>
	<u>544</u>	<u>(9,360)</u>
	<u>430,184</u>	<u>1,273,006</u>
Total interest income on financial assets not		
at fair value through profit or loss	<u>9,476</u>	<u>14,454</u>

4. SEGMENT INFORMATION

The Group manages its business by divisions, which are organized 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 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 2017 and 2016 are set out below.

Business Segment

- (a) The segment results for the year ended 31 December 2017 and segment assets and liabilities at 31 December 2017 are as follows:

	As at and for the year ended 31 December 2017 Lottery business HK\$'000
Revenue	<u>402,305</u>
Segment results	(520,906)
Gain on disposal of subsidiaries (<i>Note 18</i>)	165,290
Net unallocated expenses	<u>(164,739)</u>
Loss before taxation	(520,355)
Taxation	<u>(210,448)</u>
Loss for the year	<u>(730,803)</u>
Assets	
Segment assets	5,948,762
Assets of the disposal group classified as held for sale (<i>Note 17</i>)	219,564
Unallocated assets	<u>169,099</u>
Total assets	<u>6,337,425</u>
Liabilities	
Segment liabilities	172,199
Liabilities directly associated with the assets of the disposal group classified as held for sale (<i>Note 17</i>)	120,758
Unallocated liabilities	<u>1,102,384</u>
Total liabilities	<u>1,395,341</u>

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 <i>HK\$'000</i>
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 17</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 17</i>)	403,983
Unallocated liabilities	<u>2,918,882</u>
Total liabilities	<u><u>3,600,622</u></u>

(b) *Other segment information*

	For the year ended 31 December 2017
	Lottery business
	<i>HK\$'000</i>
Other information	
Depreciation and amortisation	13,683
Impairment loss on goodwill	301,283
Impairment loss on available-for-sale financial asset	67,617
Allowance for impairment of trade and other receivables	132,654
Capital expenditure	1,308
	For the year ended 31 December 2016
	Lottery business
	<i>HK\$'000</i>
Other information	
Depreciation and amortisation	61,990
Impairment loss on goodwill	103,923
Allowance for impairment of trade and other receivables	238,467
Capital expenditure	2,919

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:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
PRC	421,439	773,515
Hong Kong	<u>34,452</u>	<u>33,527</u>
	455,891	807,042
Deferred tax assets	<u>83</u>	<u>77</u>
Total non-current assets per consolidated statement of financial position	<u><u>455,974</u></u>	<u><u>807,119</u></u>

Information about Major Customers

During the year, the Group had transactions with four (2016: nil) customers from lottery business who each contributed over 10% of the Group's total revenue for the year. A summary of revenue earned from each of these major customers is set out below:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Customer 1	71,098	N/A [#]
Customer 2	67,500	N/A [#]
Customer 3	45,000	N/A [#]
Customer 4	44,000	N/A [#]

[#] The corresponding revenue of the related customers did not contribute over 10% of the Group's total revenue.

5. LOSS BEFORE TAXATION

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
The Group's loss before taxation is stated after charging the following:		
Auditors' remuneration		
– audit services	3,262	3,429
– non-audit services	400	350
– under provision of non-audit service	50	–
Cost of inventories sold	185,533	477,393
Depreciation and amortization on		
– property, plant and equipment		
– owned assets	12,425	40,217
– leased assets	–	6,084
– prepaid lease payments on land use rights	91	990
– intangible assets	1,488	14,699
Exchange losses	–	53,091
Intangible assets written off	–	1,011
Loss on disposal of property, plant and equipment, net	215	499
Operating lease rentals in respect of		
– office premises and warehouses	13,795	23,096
– machinery	8,671	8,721
Research and development costs	37,048	1,449
Write-down of inventories	–	31,085
	<u>–</u>	<u>31,085</u>

6. TAXATION

No provision for Hong Kong profits tax is made in the consolidated financial statements as the Group has no assessable profits derived from Hong Kong during the year (2016: 16.5%).

One (2016: Two) of the subsidiaries, 廣州市樂得瑞科技有限公司 (Guangzhou Latech Technology Co. Ltd.*) (2016: 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 is entitled to a preferential income tax rate of 15% as it is recognized as high technology enterprises for the year ended 31 December 2017 (2016: 15%).

In the current year, certain subsidiaries of the Group in the PRC are entitled to a preferential income tax rate of 10% (2016: 10%). The applicable income tax rate for other subsidiaries of the Group in the PRC is 25% (2016: 25%).

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

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Current tax:		
Hong Kong profits tax	–	765
PRC income tax on disposal of subsidiaries	4	–
PRC income tax	215,200	32,804
Under/over-provision in respect of previous years, net	<u>(5,234)</u>	<u>(1,707)</u>
	<u>209,970</u>	<u>31,862</u>
Deferred tax:		
Deferred taxation relating to the origination and reversal of temporary differences	<u>478</u>	<u>(1,964)</u>
	<u>478</u>	<u>(1,964)</u>
Taxation charge	<u><u>210,448</u></u>	<u><u>29,898</u></u>

7. LOSS PER SHARE

(a) Basic loss per share

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

	2017	2016
Loss attributable to equity shareholders of the Company (<i>in thousand HK\$</i>)	<u><u>(704,265)</u></u>	<u><u>(393,007)</u></u>
		(Adjusted)
Weighted average number of ordinary shares in issue (<i>in thousand</i>):		
Issued ordinary shares at 1 January	10,156,247	10,110,674
Effect of share options exercised	<u> –</u>	<u> 9,657</u>
Weighted average number of ordinary shares at 31 December (<i>in thousand</i>)	<u><u>10,156,247</u></u>	<u><u>10,120,331</u></u>
Basic loss per share	<u><u>(6.93) cents</u></u>	<u><u>(3.88) cents</u></u>

The basic and diluted loss per share for current and prior reporting periods have been adjusted as a result of rights issue completed on 20 March 2018 as set out in Note 21 to this announcement.

(b) Diluted loss per share

The diluted loss per share is the same as the basic loss per share as the computation of diluted loss per share does not assume the exercise of the convertible bonds and the Company's share options, since their conversion and exercise would result in an antidilutive effect on loss per share during the years ended 31 December 2017 and 2016.

8. TRADE RECEIVABLES

	The Group	
	2017	2016
	HK\$'000	HK\$'000
Trade receivables – Lottery business	<u>388,791</u>	<u>490,836</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 (2016: 90 to 270 days) to its trade customers.

The ageing analysis based on invoice date is as follows:

	2017	2016
	HK\$'000	HK\$'000
Three months or less	99,310	224,922
One year or less but over three months	132,336	189,745
Over one year	<u>157,145</u>	<u>76,169</u>
	<u>388,791</u>	<u>490,836</u>

9. PREPAYMENTS AND OTHER RECEIVABLES

	2017	2016
	HK\$'000	HK\$'000
Prepayments and other debtors	1,612,837	1,839,938
Amount due from a related company	<u>350,000</u>	<u>–</u>
	<u>1,962,837</u>	<u>1,839,938</u>

At the end of the reporting period, the prepayments and other debtors represent prepayments made to suppliers, lottery project related prepayments, staff advances and other debtors.

The amount due from a related company, HK\$350,000,000 represents withholding amount by Sunjet Investments Limited for PRC tax to be paid by the Group to relevant PRC authorities for the disposal of Sinodata Group. Details of the withheld amount was set out in the Company’s circular dated 30 September 2016.

10. CASH AND BANK BALANCES

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Fixed bank deposits	<u>493,839</u>	<u>–</u>
Cash at banks	1,346,836	2,136,292
Cash in hand	<u>544</u>	<u>670</u>
	<u>1,841,219</u>	<u>2,136,962</u>

11. SHARE CAPITAL

	Number of shares '000	Amount <i>HK\$'000</i>
Ordinary shares of HK\$0.01 each <i>Authorized:</i>		
At 1 January 2016, 31 December 2016 and 31 December 2017	<u>20,000,000</u>	<u>200,000</u>
<i>Issued and fully paid:</i>		
At 1 January 2016	9,983,496	99,835
Exercise of share options (<i>Note</i>)	<u>45,000</u>	<u>450</u>
At 31 December 2016 and 31 December 2017	<u>10,028,496</u>	<u>100,285</u>

Note: 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.

12. TRADE PAYABLES

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Other client payables	5	314
Trade payables – Lottery business	<u>8,233</u>	<u>1,487</u>
	<u><u>8,238</u></u>	<u><u>1,801</u></u>

Other client payables were repayable on demand and bore interest at prevailing market rates.

No ageing analysis was disclosed for other client payables as, in the opinion of the Directors, the ageing analysis did 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 approximates to their fair values.

The ageing analysis of the Group's trade payable by age based on the invoice date – Lottery business is as follows:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Three months or less	5,883	–
Over three months	<u>2,350</u>	<u>1,487</u>
	<u><u>8,233</u></u>	<u><u>1,487</u></u>

13. BANK BORROWING

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Bank loan		
– secured and due within one year	<u>5,362</u>	<u>4,901</u>

The bank loan is repayable within one year or when the facility is withdrawn. This borrowing is used to finance the lottery business of the Group.

The bank loan of approximately HK\$5,362,000 (2016: approximately HK\$4,901,000) is secured by the trade receivables of a subsidiary of approximately HK\$19,351,000 (2016: approximately HK\$15,052,000) and guaranteed by a subsidiary of the Group.

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

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

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

	2017	2016
	'000	'000
Renminbi	<u>4,482</u>	<u>4,412</u>

14. CONVERTIBLE BONDS

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

	2019 Bonds	2017 Bonds	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Carrying amount at 1 January 2016	1,752,312	323,090	2,075,402
Redemption during the year	(400,873)	(74,585)	(475,458)
Interest expense	100,748	25,560	126,308
Interest payable	<u>(75,138)</u>	<u>(18,334)</u>	<u>(93,472)</u>
Carrying amount at 31 December 2016	1,377,049	255,731	1,632,780
Redemption during the year	(846,027)	(154,824)	(1,000,851)
Interest expense	40,820	9,338	50,158
Acceleration of unwinding interest on the Bonds	19,176	–	19,176
Interest payable	<u>(39,616)</u>	<u>(9,338)</u>	<u>(48,954)</u>
Carrying amounts at 31 December 2017	<u>551,402</u>	<u>100,907</u>	<u>652,309</u>

On 22 June 2016, the Company redeemed the Bonds with an aggregate principal amount of HK\$145,000,007.08 at HK\$145,000,007.08 and a loss of approximately HK\$1,751,000 from the redemption was recognized in profit or loss. Immediately after the redemption, the Bonds with an aggregate principal amount of approximately HK\$1,990,315,000 remained outstanding.

On 30 September 2016, the Company redeemed the Bonds with an aggregate 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 recognized in profit or loss. Immediately after the redemption, the Bonds with an aggregate principal amount of approximately HK\$1,653,160,000 remained outstanding.

On 29 March 2017, the Company redeemed the Bonds with an aggregate principal amount of HK\$1,000,850,863.56 at HK\$1,000,850,863.56. Immediately after the redemption and at the end of reporting period, the Bonds with an aggregate principal amount of approximately HK\$652,309,000 remained outstanding.

The accelerated unwinding interest of approximately HK\$19,176,000 arose as a result of the difference between the carrying amount and the principal amount of a portion of the 2019 Bonds. The principal amount of this portion of the 2019 Bonds was HK\$222,117,862 and it became due during the year under review.

Further details of the Bonds are disclosed in the section headed “The 2017 and 2019 Convertible Bonds” in this announcement.

15. CONTINGENT LIABILITIES

(a) Contingent liability in respect of default under the Bonds

During the year ended 31 December 2017, the Company has not fulfilled its redemption obligation of 2017 Bonds in the principal amount of approximately HK\$100,907,000 and the redemption obligation of 2019 Bonds in the principal amount of approximately HK\$551,402,000 on 28 April 2017 and 31 May 2017 respectively. The amounts under the 2017 Bonds and 2019 Bonds have been outstanding since 28 April 2017 and are currently due to be repaid to the holders of the Bonds (the “Bondholders”). The trustee or the Bondholders through the trustee may take legal actions against the Company in respect of the Bonds. The trustee or the Bondholders through the trustee may take legal actions against the Company in respect of the outstanding Bonds. The Company does not expect the possible courses of action to materially impact the Group, as the Company has sufficient offshore financial resources to fulfill repayment obligations under the outstanding Bonds.

As disclosed in the Company's announcements dated 19 November 2017, 6 December 2017, 29 January 2018, 19 March 2018 and 21 March 2018 and the Company's prospectus dated 23 February 2018, in relation to, among things, the Rights Issue (as defined in the section headed "Rights Issue") and the CB Subscription (as defined in the section headed "CB Subscription Agreement in relation to New CB") of the proposed fund raising plans, upon completion of the proposed fund raising plans, the Company expects it will fully repay the 2017 Bonds and 2019 Bonds on or before 31 May 2018. Accordingly, the directors of the Company do not consider it probable that a claim will be made against the Company.

(b) Financial guarantees issued

As at 31 December 2017 and 2016, a subsidiary of the Group has issued a corporate guarantee in respect of the secured bank borrowing granted to a subsidiary of the Group which will expire when the bank borrowing is repaid.

As at 31 December 2016, certain subsidiaries of the Group had issued corporate guarantees in respect of the finance lease obligation under a sales and leaseback arrangement granted to a subsidiary which had expired when the lease terminated during the year 31 December 2017.

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

As at 31 December 2017 and 2016, the Directors do not consider it probable that a claim will be made against these subsidiaries under any of the guarantees.

16. COMMITMENTS

- (a) Capital commitments outstanding at 31 December 2017 not provided for in the consolidated financial statements are as follows:

	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracted for		
– increase in registered capital of subsidiaries	<u>84,597</u>	<u>84,000</u>

- (b) At 31 December 2017, the Group's future aggregate minimum lease payments under non-cancellable operating leases are payable as follows:

	As at 31 December 2017		
	Land and buildings <i>HK\$'000</i>	Factory equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Within one year	12,447	9,017	21,464
In the second to fifth year inclusive	18,278	35,916	54,194
More than five years	—	35,515	35,515
	<u>30,725</u>	<u>80,448</u>	<u>111,173</u>

	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	—	41,319	41,319
	<u>12,602</u>	<u>83,102</u>	<u>95,704</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 9 years (2016: 1 to 10 years). The leases do not include any contingent rentals.

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

- (1) 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 (who is also a substantial shareholder of the Company) has beneficial interest, for the disposal of entire issued share capital 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 Sinodata 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 深圳市思樂數據技術有限公司 (Shenzhen Sinodata Technology Co. Ltd.*), and its wholly-owned/non-wholly-owned subsidiaries (hereinafter collectively referred to as the “Sinodata Group”). The principal activities of the Sinodata 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. As a result of the completion of the Disposal, the Sinodata Group has ceased to be subsidiaries of the Company. 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 and 14 February 2017 and circulars dated 29 February 2016 and 30 September 2016.
- (2) On 28 December 2017, a wholly-owned subsidiary of the Company, Huge Top Enterprises Inc. entered into a memorandum of understanding with an independent third party, for the disposal of entire interests in Pentium Win Limited, Jertford Development Limited, Global Essence Technology Limited, Josen Limited, Luxjoy Overseas Limited, Hilson Gold Limited, 深圳市天脈信息諮詢有限公司, 深圳卓訊隆科技有限公司 and 深圳市金帆軟件技術有限公司 (Shenzhen Kingsail Software Tech Co. Ltd.*) (hereinafter collectively referred to as the “Kingsail Group”) for the sale of the Kingsail Group for a cash consideration to be further negotiated with the buyer.

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

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

	2017	2017		2016
	Sinodata	Kingsail	2017	Sinodata
	Group	Group	Total	Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit/(loss) for the year from the Sinodata Group and Kingsail Group:				
Revenue	35,830	-	35,830	486,643
Cost of sales/services rendered	(21,061)	-	(21,061)	(214,004)
Other income and other gains and losses	1	3,316	3,317	11,315
Selling and distribution expenses	(1,297)	-	(1,297)	(21,009)
Administrative expenses	(15,892)	(7,222)	(22,316)	(126,772)
	<u>(2,419)</u>	<u>(3,906)</u>	<u>(6,325)</u>	136,173
Operating (loss)/profit				
Finance costs	(647)	-	(647)	(3,859)
	<u>(3,066)</u>	<u>(3,906)</u>	<u>(6,972)</u>	132,314
(Loss)/profit before taxation				
Taxation	3,296	(326)	2,969	(22,300)
	<u>230</u>	<u>(4,232)</u>	<u>(4,003)</u>	<u>110,014</u>
(Loss)/profit for the year				

The major class of assets and liabilities of the Sinodata Group and Kingsail Group classified as held for sale are as follows:

	2017	2016
	Kingsail	Sinodata
	Group	Group
	HK\$'000	HK\$'000
Assets		
Property, plant and equipment	–	117,459
Prepaid lease payments on land use rights	–	41,853
Goodwill	–	1,026,795
Intangible assets	–	22,054
Deposit for acquisition of leasehold building	–	169,511
Deferred tax assets	–	5,963
Inventories	–	98,474
Trade receivables	–	84,692
Amount due from related parties	1,147	–
Utility and other deposits	–	103,393
Prepayments and other receivables	218,217	525,317
Cash and bank balances	200	100,086
	<u>219,564</u>	<u>2,295,597</u>
Assets of the disposal group classified as held for sale	219,564	2,295,597
Liabilities		
Trade payables	–	(44,397)
Other payables and accruals	(1,758)	(202,759)
Bank borrowings	–	(137,456)
Current tax liabilities	–	(18,731)
Deferred tax liabilities	(119,000)	(640)
	<u>(120,758)</u>	<u>(403,983)</u>
Liabilities directly associated with the assets of the disposal group classified as held for sale	(120,758)	(403,983)
Net assets of the disposal group classified as held for sale	98,806	1,891,614

At 31 December 2016, bank loans of approximately HK\$55,556,000 in Sinodata Group were secured on leasehold holding buildings and land use rights in the PRC for the carrying values of approximately HK\$16,689,000 and HK\$26,678,000 respectively.

At 31 December 2016, a Company's director, Mr. Chan How Chung, Victor ("Mr. Chan") has given personal guarantee in respect of bank borrowings of approximately HK\$81,900,000 for Sinodata Group.

18. DISPOSAL OF SUBSIDIARIES

On 4 January 2016, a wholly-owned subsidiary of the Company entered into 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 issued share capital in Multi Glory and the loan due from Multi Glory to the Group for a cash consideration of HK\$2,150,000,000. The Disposal was completed in February 2017. The net assets disposed of at the date of completion of the Disposal were as follows:

	<i>HK\$'000</i>
Property, plant and equipment	129,501
Prepaid lease payments on land use rights	42,214
Goodwill	1,026,794
Intangible asset	21,158
Deposits for acquisition of leasehold building	171,416
Inventories	94,976
Trade receivables	153,754
Utility and other deposits	103,131
Prepayments and other receivables	521,870
Profits tax refundable	172
Cash and bank balances	48,039
Loan due to the Group	(1,664,588)
Trade payables	(108,383)
Other payables and accruals	(124,094)
Bank borrowings	(137,573)
Current tax liabilities	(9,876)
Deferred tax assets	4,911
	<hr/>
Net assets disposed of	273,422
	<hr/>
(Loss)/gain on disposals of subsidiaries:	
Consideration received and receivables	2,150,000
Net assets disposed of	(273,422)
Assignment of the loan due to the Group	(1,664,588)
Non-controlling interests	3,759
Expenses in connection with the disposal	(9,354)
Cumulative exchange difference in respect of the net assets reclassified from equity to profit or loss on disposal	(41,105)
	<hr/>
Gain on disposal of subsidiaries before taxation	165,290
PRC income tax paid for disposal	(215,200)
	<hr/>
Loss on disposal of subsidiaries after taxation	(49,910)
	<hr/> <hr/>
Satisfied by:	
Cash consideration received	1,800,000
Cash consideration receivable	350,000
	<hr/>
	2,150,000
	<hr/> <hr/>

The subsidiaries disposed of during the year ended 31 December 2017 contributed approximately HK\$35,830,000 to the Group's revenue and profit of approximately HK\$230,000 to the Group's loss for the year ended 31 December 2017.

19. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2017	2016
	HK\$'000	HK\$'000
Unlisted investments, at cost		
Balance at 1 January	288,806	307,810
Exchange realignment	17,318	(18,255)
Addition (<i>Note (a)</i>)	925	556
	307,049	290,111
<i>Less:</i> Investment refund	–	(1,305)
	307,049	288,806
Impairment loss recognized for the year (<i>Note (b)</i>)	(67,617)	–
Balance at 31 December	239,432	288,806

Notes:

- (a) During the year ended 31 December 2017, the Group invested the sum of approximately HK\$925,000 (2016: approximately HK\$556,000) in unlisted investment funds with a bank during the year.
- (b) The Group invested RMB230,000,000 (equivalent to approximately HK\$255,556,000) in an indirect non wholly-owned company in China (the “PRC Company”) and recognized as an available-for-sale financial asset. At 31 December 2017, a non wholly-owned subsidiary held 66.6% interest in the PRC company, as result the Group owns effectively 42% of equity interest in the PRC Company. The PRC Company was classified as available-for-sale as in the opinion of the Directors, the Group was not able to exercise significant influence over its financial and operating policy decisions.

During the year ended 31 December 2017, the Group had recognized impairment charge of approximately RMB58,489,000 (equivalent to approximately HK\$67,617,000) for its investment in the PRC Company. The impairment charge measurement had taken into account the recent economical condition and comparable market consideration. Any changes in the market could materially affect the result of the impairment assessment and additional impairment provision might be required, or an additional impairment charge should have been reported.

- (c) The other unlisted investment of approximately HK\$32,695,000 (2016: approximately HK\$32,695,000) represents the Group’s cost of investment in a private enterprise fund established in the PRC. At 31 December 2017, the Group owns 18.3% (2016: 18.3%) of the paid-in capital of the investee. The Directors consider the principal activity of the investee is investment holding but due to the operating licence expired on August 2017, the investee is in liquidation.

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 and the recoverable amount would exceed their carrying amount. The Group does not intend to dispose of them in the near future, other than those stated in (c) above.

20. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

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

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Shareholder:		
Balance due from the Group	412,777	280,000
Interest on a shareholder's loan	4,562	1,020
Redemption of convertible bonds	133,583	64,353
Convertible bonds interest paid	4,664	11,864
Consent fee paid for delaying redemption of convertible bonds	131	4,359
Companies connected with Director:		
Balance due from the Group	13,475	357,867
Balance due to the Group	350,000	–
Deposits received on disposal of Sinodata Group	–	622,100
Consideration on disposal of Sinodata Group	2,150,000	–
Processing fees	960	–
Sales	18	–
	<u>18</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. Except the shareholder's loan in amount of approximately HK\$133,583,000 is unsecured, bearing an interest equal to the coupon rate of the 2019 Bonds at 4.5% per annum and repayable before 29 March 2018, all remaining balances are unsecured, interest free and repayable within one year.

- (b) As at 31 December 2016, Mr. Chan has given personal guarantee in respect of bank borrowings of the Sinodata Group of HK\$81,900,000.

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

(a) Rights Issue

On 19 November 2017, the Company announced that proposed to raise not less than approximately HK\$255,726,631 but not more than approximately HK\$276,741,792 before expense by way of a rights issue, on the basis of 1 rights share (the “Rights Share”) for every 2 existing shares held on the record date at the subscription price of HK\$0.051 per Rights Share payable in full on acceptance by the qualifying shareholders of the Company (the “Rights Issue”). As a result of the completion of Rights Issue on 20 March 2018, the number of issued shares of the Company increased from 10,028,495,338 shares to 15,042,743,007 shares. Details of Rights Issue are set out in the Company’s announcements dated 19 November 2017, 6 December 2017, 29 January 2018 and 19 March 2018 and the Company’s prospectus dated 23 February 2018.

(b) CB Subscription

The Company and Keen Start Limited (“Keen Start”), a substantial shareholder (as defined in the Listing Rules) of the Company, entered into a conditional subscription agreement dated 17 November 2017 (as supplemented on 14 February 2018 and 21 March 2018) (the “CB Subscription Agreement”), pursuant to which, the Company has conditionally agreed to allot and issue to Keen Start, and Keen Start has conditionally agreed to subscribe for an aggregate principal amount HK\$167,500,000 3.0% convertible bonds due 2023 (the “New CB”) at the initial conversion price of HK\$0.067 per share (the “CB Subscription”). The New CB will, at the option of the holder, be convertible (unless previously redeemed, converted or purchased and cancelled) from the 40th calendar day after the issue date of the New CB up to the close of business on the 10th calendar day prior to the date of maturity on 2023 into fully paid ordinary shares of the Company with a par value of HK\$0.01 each at the initial conversion price of HK\$0.067 per share, subject to adjustments in accordance with the terms and conditions of the CB Subscription Agreement as a result of dilutive events.

As at 31 December 2017 and the date of this announcement, the CB Subscription has not yet been completed. Details of the CB Subscription are set out in the Company’s announcements dated 19 November 2017, 29 January 2018 and 21 March 2018 and the Company’s prospectus dated 23 February 2018.

(c) Increase in Authorized Share Capital

In order to allow sufficient authorized share capital after completion of the proposed fund raising plans which included the Rights Issue and the CB Subscription as stated above, the Board has proposed and will seek approval from the shareholders to increase the authorized share capital of the Company from HK\$200,000,000 divided into 20,000,000,000 shares to HK\$500,000,000 divided into 50,000,000,000 shares, by the creation of an additional 30,000,000,000 shares of HK\$0.01 each which shall rank pari passu with the existing shares in all respects upon allotment and issue.

As at 31 December 2017 and the date of this announcement, the increase in authorized share capital has not yet been completed. Details of the increase in authorized share capital are set out in the Company's announcements dated 19 November 2017 and 21 March 2018 and the Company's prospectus dated 23 February 2018.

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 2017, revenue of the Group amounted to approximately HK\$402,305,000, representing a decrease of 67.87% over the same period last year (2016: approximately HK\$1,252,144,000). The Group recorded a loss before taxation of approximately HK\$520,355,000 (2016: approximately HK\$416,091,000).

The decrease in revenue in the year reflected a macro driven sales decline in parts of the Chinese lottery market, multifaceted challenges faced by the Group in the industry and an one-off impact related to the restructuring of the Group's SGDB. The Group's core operations continued to experience strong pressure from the unfavorable operating environment, especially in scratch cards market where the effect of marketing efforts did not live up to expectations. With no meaningful progress made in the development of paperless lottery during the year under review, uncertainties in the regulatory environment continued to hinder the Group from benefiting its solid infrastructure in paperless lottery operations. In particular, the operations of mobile lottery business was adversely affected.

There were a number of one time events that impacted the Group's revenue and earnings in 2017. In February 2017, the Group completed the restructuring of SGDB and the disposal of its subsidiaries operating in the traditional Welfare Computer Ticket Games ("CTG") market. As a result, there was a substantial decrease in the Group's revenue as the revenue of the Sinodata Group was not consolidated into the Group's consolidated account after completion of the Disposal. In addition, loss on disposal of subsidiaries after taxation of approximately HK\$49,910,000 was recorded in relation to the Disposal. Furthermore, as required by applicable accounting standards, impairments on goodwill of a total of approximately HK\$301,283,000 and an impairment of an investment of approximately HK\$67,617,000 were recorded for the year under review. The impairments on goodwill were made in relation to the Group's business units engaged in the provision of Sports CTG equipment, Welfare Scratch Cards printing and Sports VLT to reflect the lower value in the assets of these business units, which was due to the continued decline in revenue attributable to a slowdown in Sports CTG equipment replacement cycle, keen competition among industry players and the unfavourable operating environment in Scratch Cards and Sports VLT markets. The impairment of approximately HK\$67,617,000 was made in relation to the Group's investment engaged in paperless lottery operations.

Despite challenges in the lottery market, the Group made progress towards its long-term strategy to improve and transform the Group's business portfolio. In light of the uncertainties in regulatory development and increased competition in the lottery market, the Group commenced evaluation of various investment opportunities to alleviate these challenges and seize new opportunities to deliver shareholder value.

During the year under review, the Company announced proposed fund raising plans (i.e. a Rights Issue which was completed in March 2018 and a proposed CB Subscription), which would provide an overall solution to the financing of the Group. Through the proposed fund raising plans, the Company shall be able to raise sufficient offshore funds to settle the Group's current offshore liabilities, including the Bonds and shareholder's loans. Following the successful completion of the Rights Issue, the CB Subscription is expected to be completed in mid-May 2018, subject to obtaining shareholders' approval at the special general meeting of the Company. The Company believes that after the completion of the proposed fund raising plans and repayment of the existing offshore liabilities, the Company will be able to strengthen its capital structure and resume its sound financial position, and will be poised to focus on growing its business.

Chinese Lottery Market

Chinese lottery market registered total lottery sales of approximately RMB426.7 billion in 2017, increased by 8% compared with 2016.

Total sales of Welfare Lottery was approximately RMB217.0 billion, increased by 5% compared with 2016. Welfare CTG accounted for about 73% of total Welfare Lottery sales; Welfare Scratch Cards was about 6% and Video Lottery Terminals (“VLT”) took about 21%.

Welfare CTG sales in 2017 was approximately RMB158.0 billion, increased by 8%. Welfare Scratch Cards sales was approximately RMB12.6 billion, down 15%. VLT sales increased 4% to approximately RMB46.2 billion. Sales of Keno was approximately RMB18 million, decreased 31%.

Total sales of Sports Lottery was approximately RMB209.7 billion. Sports CTG accounted for about 94% of total Sports Lottery sales and Sports Scratch Cards was about 6%.

Sales of Sports CTG, including Single Match Games (“SMG”), increased by 13% to approximately RMB197.7 billion. Sports Scratch Cards sales was approximately RMB12.0 billion, down by 12%. Total sales of Sports VLT was approximately RMB7.9 million.

System and Games Development Business

The Group’s SGDB is an active participant in the provision of lottery system and specialized equipments for both CTG and scratch card products in China. During the year under review, the Group’s SGDB continued to actively participate in the upstream and mid-stream lottery market by providing various lottery system and specialized equipment for both Welfare and Sports lottery markets.

Welfare CTG Business

2017 was a transformational year for the Group's SGDB. During the year under review, the Group completed the restructuring of its Welfare CTG business and disposed part of this operations which covered the manufacturing and provision of Welfare CTG machines and supporting system for traditional lottery market. After completion of the Disposal in February 2017, operating results of the Sinodata Group were no longer consolidated under the Group's Welfare CTG business unit. As a result, performance of this unit was adversely affected. After the completion of the Disposal, the Group focused its business on the non-traditional market segment for Welfare CTG. Despite the one-time impact on operating results resulting from the restructuring, the Group is confident in the growth potential of the non-traditional market given consumer preferences for relevant lottery products in this particular market segment remains strong.

In 2017, market performance of the traditional Welfare CTG market (national draw based games) remained stable while the non-traditional market (regional and high frequency games) continued to maintain a fast comparable growth. It is expected that market players will put more focus and resources on the regional and high frequency games market. In particular, the Group's Welfare CTG business is foreseen to experience strong competition from these players in the market. Given the above development, maintaining or improving the earnings performance of the Group's Welfare CTG business is expected to become more challenging. The Group adopted a number of important actions in the second half of 2017 to improve the execution of the streamlined Welfare CTG business unit in preparation for the competition ahead.

Welfare Scratch Cards Business

The Group is involved in the validation and printing business of Welfare Scratch Cards in China. Total sales of Welfare Scratch Cards in 2017 declined by 15% when compared with 2016. Performance of the Group's validation and printing operations were adversely affected by the lackluster sales performance of Welfare Scratch Cards market.

The Group has jointly controlled interests in a validation system and specialized equipment provider which provide validation services for the Welfare Scratch Cards market. During the year under review, the Group rolled out relevant systems and equipment of validation services to support the revitalisation initiatives taken by lottery authorities. Meanwhile, the Group's printing operations focused on delivering various seasonal and thematic games to the market through its cooperative venture with Shijiazhuang Offset Printing House.

Sports CTG Business

The Group's Sports CTG business is engaged in the manufacturing and sales of CTG/SMG 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 has been driven by the needs to modernize sales equipment in the physical lottery distribution network. Despite the new tenders secured by the Group, continued declines in revenue were recorded due to a slowdown in equipment replacement cycle and keen market competition over the years. Consequently, with a view to reduce the ongoing operation cost of this business unit by streamlining its operating structure, the Group has entered into a memorandum of understanding to dispose a group of subsidiaries, the Kingsail Group. While agreement has not been reached, the Group will continue the negotiation with the third party under the memorandum of understanding on this matter.

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 recognized 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.

During the year under review, the unsatisfactory sales performance of the scratch card market in China continued to hamper the performance of the Group's DMB. While the uncertainties in the regulatory environment remain, the Company considers that paperless lottery will present long term growth opportunities when it resumes. The Group has reserved adequate financial resources so that it may respond swiftly to the development opportunities in paperless lottery once relevant regulations are formalized.

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 comprises selective prime locations that have diversified and recognized sales distribution channels.

In 2017, the aggregate sales of Welfare Scratch Cards and Sports Scratch Cards in China was approximately RMB24.6 billion, decreased by 14% as compared to 2016. Despite actions taken by the lottery industry to reinvigorate the scratch cards market, the anticipated improvements in overall scratch card market did not materialize during the year. The performance of the Group's operations has been adversely affected under this challenging environment. Additionally, the Group experienced increased competition in this market segment with the appearance of new market players. The increased competition intensified market pressure against the backdrop of macro headwinds in the scratch cards market. Although it is expected that the operating environment in the 2018 may not experience any notable improvements, the Group has been making progress to improve its operation management in order to mitigate the negative impacts created by the above impediments in the market.

Single Match Games Business

SMG achieved record-breaking sales in 2017 and reached another new height of RMB80 billion, increased by 19% year over year. The extraordinary performance of SMG was achieved despite the absence of sizeable international soccer tournament comparable with the UEFA European Championship in 2016. This clearly demonstrates that the ongoing developments, such as increased options of game play and enhanced prize payout, have successfully turned SMG into a predominant lottery product in China enjoying wide support from lottery players.

The Group operates the SMG business through its physical retail network since paperless electronic lottery distribution has been suspended since early 2015. During the year under review, the Group's distribution network engaged customers with enhanced marketing efforts to take advantage of the opportunities arising from the rapid market growth.

While it is undeniable that the SMG has achieved a great success through the physical distribution network, performance of SMG could have been taken to the next level with the assistance of paperless distribution channel. During the year under review, the Group noticed that People.cn divested its investment in the Company under the Okooo platform. Despite that, the Group remains positive on the long-term prospect of paperless distribution platform as when the market is reopened, and will continue to reserve and invest resources in paperless lottery platform to capture the future growth opportunities.

Mobile Lottery Business and Mobile Electronic Lottery Platform

The Group self developed a Mobile Electronic Lottery Platform ("Mobile ELP") for its mobile lottery business. The Mobile ELP offers a multi-functional back-end system with convenience interface to facilitate lottery distribution over mobile devices. Mobile ELP was designed to improve the convenience of lottery purchase by connecting players directly to the centralized system of provincial lottery centre, enabling a safe and reliable lottery purchase experience.

During the year under review, the regulatory environment for operating Mobile ELP remained uncertain, as signified by the suspension of a trial mobile operation in the market. Although the Group's mobile lottery business has been brought to a halt by the regulatory uncertainty, the Group remains cautiously optimistic about its future and will continue to monitor market development closely and review its business strategy during a challenging transition period.

Sports Video Lottery

The Group has participated in Sports VLT operations in support of Hainan Province's local tourism development since 2015. Currently, it offers four distinctive lottery games for local lottery consumers and tourist in Hainan. Overall, sales of Sports VLT in the market was unsatisfactory during the year under review, but the Group will continue to play its part in fostering the development of this lottery product and contributing the local lottery market.

Outlook

During the year under review, the Group has been redoubling its efforts to drive improvement in various areas of operations at a time of strong headwinds in the lottery market. All the painstaking work laid the foundation for the Group to overcome challenges in the evolving lottery industry. Looking ahead to 2018, it is anticipated that the Group's lottery business will continue to face a difficult operating environment due to uncertainties in the regulatory framework, particularly in the paperless lottery segment.

However, the Group still believes that paperless lottery will operate under a transparent and well regulated model when it is relaunched in the future. Whilst the PRC authorities have yet to announce the schedule for formalising paperless lottery regulations, the Group expects paperless lottery to present long term growth opportunities for the lottery industry and the Group. Our ability to stay competitive in the industry and respond swiftly to relevant development holds the key to future success. Therefore, retaining adequate resources in order to swiftly respond to the development opportunities appear in the lottery market once paperless lottery is formalized in the PRC will be among the Group's top priorities.

It is a critical part of our core business strategy to support the lottery authorities in modernizing the customer experience and staying relevant to lottery consumers via different means. Being a leading player in the lottery market, the Group has always been a desirable partner of the lottery authorities since our growth priorities are aligned with evolving consumer needs in the lottery market. Going forward, the Group will continue to focus on growing and investing in sectors where we believe we can drive long-term sustainable growth.

The Group's financial position is expected to improve substantially after proposed fund raising plans have been completed and the financial challenge posed by the Bonds redemption obligation has been addressed. With that, the Group is confident of making further progress underpinned by the exciting growth opportunities ahead.

With strengthened capital structure and sound financial position, the Group not only will continue to strive to remain competitive in the lottery market and seek to capture its future growth opportunities, but also it will proactively looking for opportunities to diversify its business portfolio in order to tapping into other potential opportunities that can provide attractive returns on capital.

The Group has tentative plans to diversify its business into the computer gaming business and is actively searching for investment opportunities in the entertainment business. Dedicated taskforce has been commissioned to undertake an in-depth evaluation and strategic review over these important strategic moves. In addition, in order to further enhance the Group's profile and finance capability, it intends to introduce and establish strategic partnership with renowned financial institutions, active discussion and negotiation are underway.

With the right vision in place, it is envisaged that the execution of our ongoing strategies will allow the Group to weather through the challenging environments and to resume healthy profitable growth beyond.

FINANCIAL REVIEW

Financial Results

For the year ended 31 December 2017, the Group recorded a revenue of approximately HK\$402,305,000 (2016: approximately HK\$1,252,144,000), representing a decrease of 67.87% over that of the last year. The decrease was resulted from the disposal of subsidiaries in February 2017 and the continuing unfavorable operating environment of the PRC lottery market since the second half of 2016, especially in the scratch cards market and paperless electronic lottery distribution market.

Loss attributable to equity shareholders of the Company was approximately HK\$704,265,000 (2016: approximately HK\$393,007,000). The loss per share was 6.93 HK cents (Adjusted 2016: 3.88 HK cent). Diluted loss per share for the years ended 31 December 2017 and 31 December 2016 are the same as the basic loss per share as both the share options and the Bonds outstanding during the years had an anti-dilutive effect on the basic loss per share. The basic and diluted loss per share for current and prior reporting periods have been adjusted as a result of rights issue completed on 20 March 2018 as set out in Note 21 to this announcement. Cost of sales reduced as in line with revenue. However, administrative expenses and selling expenses remained at similar level as last year excluding Sinodata Group mainly due to general cost increase in China and reposition of the Group's business in light of the challenging competitive landscape in the Chinese lottery market.

A loss on disposal of subsidiaries after taxation of approximately HK\$49,910,000 was recorded. It was mainly due to the increase in the net asset value of the Sinodata Group and the exchange difference created by the release of exchange reserve as at completion of the Disposal. As disclosed in the Company's circular dated 30 September 2016, with reference to the terms of the Sales and Purchase Agreement, the Group would not be entitled to the profit/loss of the Sinodata Group after 1 January 2016. As a result, the net asset value of the Sinodata Group increased as at completion of the Disposal.

Liquidity, Financial Resources and Funding

At 31 December 2017, the Group's total equity amounted to approximately HK\$4,942,084,000 as compared to approximately HK\$5,511,177,000 at the end of the previous year.

At 31 December 2017, the Group (including the assets of the disposal group classified as held for sale) had cash and bank balances of approximately HK\$1,841,419,000 (2016: approximately HK\$2,237,048,000).

The decrease in cash and bank balance was mainly due to the net cash outflow for operating activities and partial repayment of the Bonds.

In 2011 and 2012, the Company issued the 2017 Bonds in principal amount of HK\$964,700,000 and HK\$429,000,000 respectively. Each 2017 Bond is convertible into fully paid ordinary share of HK\$0.01 each of the Company (the "Share") at the applicable conversion price of HK\$0.5600 per Share as at 31 December 2017. The 2017 Bonds bear interest at the rate of 6% per annum payable semi-annually in arrears. During the year under review, there was no conversion of the 2017 Bonds into Shares by the Bondholders. On 29 March 2017, the Company made a partial payment of all the 2017 Bonds for the principal amount of HK\$154,823,091.06. As at 31 December 2017, the principal amount of the 2017 Bonds remaining outstanding was HK\$100,906,642.86 (2016: HK\$255,729,733.92).

In 2014, the Company issued 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 as at 31 December 2017. The 2019 Bonds bear interest at the rate of 4.5% per annum payable semi-annually in arrears. During the year under review, there was no conversion of the 2019 Bonds into Shares by the Bondholders. On 29 March 2017, the Company made a partial payment of all the 2019 Bonds for the principal amount of HK\$846,027,772.50. As at 31 December 2017, the principal amount of the 2019 Bonds outstanding was HK\$551,402,486.50 (2016: HK\$1,397,430,259).

The gearing ratio as at 31 December 2017 was 13.31% (2016: 32.36%). The gearing ratio was derived by dividing the total borrowings including the Bonds, obligation under finance leases and bank borrowing of approximately HK\$657,671,000 (2016: approximately HK\$1,783,405,000 (includes those classified as part of liabilities associated with assets classified as held for sale)) by the amount of total equity. The liquidity ratio of the Group, represented by a ratio between current assets over current liabilities, was 458% (2016: 260%), reflecting adequacy of financial resources. The liquidity ratio increased mainly due to the partial payment of the Bonds during the year ended 31 December 2017.

The Group had outstanding bank borrowings of approximately HK\$5,362,000 as at 31 December 2017 (2016: approximately HK\$142,357,000), of which bank borrowings of HK\$Nil (2016: approximately HK\$137,456,000) was loaned to the Sinodata Group. As at 31 December 2017, the bank borrowings were denominated in Renminbi and interest bearing at prevailing commercial lending rates. The Group's trade receivables were pledged to secure the bank borrowings.

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

For the year ended 31 December 2017, the Group made a provision of approximately HK\$301,283,000 (2016: approximately HK\$226,319,000) and HK\$Nil (2016: approximately HK\$58,823,000) for impairment losses on goodwill and intangible assets respectively.

As at 31 December 2017, one of the Group's cash-generating units which is principally engaged in the provision and related services for sports video lottery terminals was fully impaired. Due to the continuing unfavorable operating environment of the PRC lottery market since last year, there was a decline in revenue for the financial year ended 31 December 2017 due to the slowdown of industry development. Accordingly, full impairment loss on goodwill of approximately HK\$6,952,000 was recognized.

As at 31 December 2017, one of the Group's cash-generating units which is principally engaged in lottery machine production was fully impaired. During the year, a slowdown in equipment replacement cycle and keen market competition continued to hamper the performance of this cash-generating unit. Accordingly, full impairment loss on goodwill of approximately HK\$185,505,000 was recognized.

As at 31 December 2017, there was a decrease in recoverable amount of the cash-generating unit engaged in lottery scratch card printing which was therefore fully impaired. During the year, the national scratch card lottery sales are declining. The unsatisfactory sales performance of the scratch card market in China continues to hamper the performance of this cash-generating unit. Accordingly, full impairment loss on goodwill of approximately HK\$108,826,000 was recognized.

Pledge of Assets

As at 31 December 2017, trade receivables of approximately HK\$19,351,000 (2016: approximately HK\$15,052,000) was pledged to a bank to secure general banking facilities granted to the Group.

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

Share Capital

There was no change in the Company's share capital structure during the year. As at 31 December 2017, the total number of issued Shares was 10,028,495,338.

Upon completion of the Rights Issue, 5,014,247,669 Rights Shares were issued on 20 March 2018. The total number of issued Shares as at the date hereof is 15,042,743,007.

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. The exchange rate of RMB fluctuated significantly in recent years, the Directors are aware that the fluctuations 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 the interest rates currently remain at low levels

Capital Commitments

For the year ended 31 December 2017, the Company had capital commitments contracted for but not provided for in the consolidated financial statements of HK\$Nil (2016: HK\$Nil) for purchase of property, plant and equipment and approximately HK\$84,597,000 (2016: approximately HK\$84,000,000) for increase in registered capital of subsidiaries respectively.

Contingent Liabilities

(a) Contingent liability in respect of default under the Bonds

During the year ended 31 December 2017, the Company has not fulfilled its redemption obligation of 2017 Bonds in the principal amount of approximately HK\$100,907,000 and the redemption obligation of 2019 Bonds in the principal amount of approximately HK\$551,402,000 on 28 April 2017 and 31 May 2017 respectively. The amounts under the 2017 Bonds and 2019 Bonds have been outstanding since 28 April 2017 and are currently due to be repaid to the Bondholders. The trustee or the Bondholders through the trustee may take legal actions against the Company in respect of the Bonds. The trustee or the Bondholders through the trustee may take legal actions against the Company in respect of the outstanding Bonds. The Company does not expect the possible courses of action to materially impact the Group, as the Company has sufficient offshore financial resources to fulfill repayment obligations under the outstanding Bonds.

As disclosed in the Company's announcements dated 19 November 2017, 6 December 2017, 29 January 2018, 19 March 2018 and 21 March 2018 and the Company's prospectus dated on 23 February 2018, in relation to, among other things, the Rights Issue and the CB Subscription of the proposed fund raising plans, upon completion of the proposed fund raising plans, the Company expects it will fully repay the 2017 Bonds and 2019 Bonds on or before 31 May 2018. Accordingly, the directors of the Company do not consider it probable that a claim will be made against the Company.

(b) *Financial guarantees issued*

As at 31 December 2017 and 31 December 2016, a subsidiary of the Group has issued a corporate guarantee in respect of the secured bank borrowing granted to a subsidiary of the Group which will expire when the bank borrowing is repaid.

As at 31 December 2016, 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 had expired when the lease is terminated during the year ended 31 December 2017.

The Group has not recognized 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 2017 and 2016, the Directors do not consider it probable that a claim will be made against these subsidiaries under any of the guarantees.

HUMAN RESOURCES

At 31 December 2017, the Group had 559 employees.

The Group remunerated its employees 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 the individual's performance.

The Group will continue to place emphasis on staff training and total quality management to better prepare its staff members for the upcoming changes and challenges in the market and industry.

FINAL DIVIDENDS

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

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

In February 2017, the Group completed the disposal of the entire issued share capital of Multi Glory Limited and 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”). The net proceeds from the Disposal was approximately HK\$1,925,000,000. As at 31 December 2017 and up to the date of this announcement, approximately HK\$975,000,000 has been used for partial redemption of the outstanding Bonds and interest. The purchaser has withheld HK\$350,000,000 pursuant to Sale and Purchase Agreement in order to apply this amount to tax payments if the PRC tax authority makes additional demands. Approximately HK\$600,000,000 of the net proceed from the Disposal remains unutilized. The Company intends to apply the unutilized amount of the net proceeds from the Disposal to redeem the outstanding Bonds in around end of May 2018.

Save as disclosed above, the Group had no material acquisition and disposal of subsidiaries during the year ended 31 December 2017.

THE PROPOSED FUND RAISING PLANS

Rights Issue

On 19 November 2017, the Company announced that it proposed to raise not less than approximately HK\$255,726,631 but not more than approximately HK\$276,741,792 before expense by way of a rights issue, on the basis of 1 new rights share (the “Rights Share”) for every 2 existing shares held on the record date at the subscription price of HK\$0.051 per Rights Shares payable in full on acceptance by qualifying shareholders of the Company (the “Rights Issue”).

The Rights Issue has been completed and 5,014,247,669 Rights Shares were issued and allotted on 20 March 2018. The gross proceeds and net proceeds from the Rights Issue were approximately HK\$255,727,000 and HK\$249,747,000 respectively. The net proceeds will form part of the Group’s offshore financial resources for the repayment of the Group’s existing offshore liabilities. Details of the Rights Issue are set out in the Company’s announcements dated 19 November 2017, 6 December 2017, 29 January 2018 and 19 March 2018 and the Company’s prospectus dated 23 February 2018.

CB Subscription Agreement in relation to New CB

On 17 November 2017, the Company and Keen Start Limited (“Keen Start”), a substantial shareholder (as defined in the Listing Rules) of the Company, entered into a conditional subscription agreement (as supplemented on 14 February 2018 and 21 March 2018) (the “CB Subscription Agreement”), pursuant to which, the Company has conditionally agreed to allot and issue to Keen Start, and Keen Start has conditionally agreed to subscribe for the convertible bonds in an aggregate principal amount of HK\$167,500,000 (the “New CB”) at the initial conversion price of HK\$0.067 per Share (the “CB Subscription”). The aggregate principal amount of the New CB is HK\$167,500,000. The CB Subscription constitutes a connected transaction of the Company under the Listing Rules and is subject to the Company’s independent shareholders’ approval. In order to allow sufficient authorized share capital after completion of the CB Subscription, the Board has proposed and will seek approval from the shareholders to increase the authorized share capital of the Company from HK\$200,000,000 divided into 20,000,000,000 Shares to HK\$500,000,000 divided into 50,000,000,000 Shares, by the creation of an additional 30,000,000,000 Shares which shall rank pari passu with the existing Shares in all respects upon allotment and issue.

As at 31 December 2017 and the date of this announcement, the CB Subscription and the proposed increase in authorized share capital have not yet been completed.

SUBSCRIPTION AGREEMENT IN RELATION TO NEW SHARES AND NEW BONDS

On 7 April 2017, the Company and Keen Start entered into a conditional subscription agreement (the “Subscription Agreement”), pursuant to which, among other things, the Company has conditionally agreed to allot and issue to Keen Start, and Keen Start has conditionally agreed to subscribe for (i) 1,900,000,000 new Shares at the subscription price of HK\$0.134 per Share (the “Share Subscription”) and (ii) the convertible bonds in an aggregate principal amount of HK\$348,000,000 (the “New Bonds”) at the initial conversion price of HK\$0.145 per Share (the “New Bond Subscription”). The aggregate subscription price of the Share Subscription is HK\$254,600,000 and the aggregate principal amount of the New Bonds is HK\$348,000,000. The Shares Subscription and the New Bonds Subscription constitute connected transactions of the Company under the Listing Rules.

As disclosed in the announcement of the Company dated 19 November 2017, as the conditions to the completion of the transaction contemplated under the Subscription Agreement have not been fully satisfied, the Company and Keen Start have agreed to terminate the Subscription Agreement and the related undertaking has been released and discharged.

THE 2017 AND 2019 CONVERTIBLE BONDS

The 2017 Bonds

The Company issued the 2017 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. As at 31 December 2017, the conversion price of the 2017 Bonds was HK\$0.5600 per Share.

During the year ended 31 December 2017, there was no conversion of the 2017 Bonds. On 29 March 2017, the Company made a partial payment of the 2017 Bonds for the amount of HK\$154,823,091.06. On 28 April 2017, the maturity date of the 2017 Bonds has been extended from 28 February 2017 to 28 April 2017. As at 31 December 2017, the principal amount of the 2017 Bonds outstanding was HK\$100,906,642.86 (2016: HK\$255,729,733.92). Each 2017 Bond is convertible into fully paid Shares at the applicable conversion price of HK\$0.5600 per Share.

As a result of the Rights Issue, the conversion price of the 2017 Bonds has been adjusted from HK\$0.5600 per Share to HK\$0.5200 per Share, effective from 12 February 2018.

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. As at 31 December 2017, the conversion price of the 2019 Bonds was HK\$1.3700 per Share. The 2019 Bonds are listed on the Singapore Exchange Securities Trading Limited.

There was no conversion of any 2019 Bonds since their issuance and during the year ended 31 December 2017. On 29 March 2017, the Company made partial payments of the 2019 Bonds in the amount of HK\$846,027,772.50. As at 31 December 2017, the principal amount of the 2019 Bonds outstanding was HK\$551,402,486.50 (2016: HK\$1,397,430,259). 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 2017, there was no conversion of the 2019 Bonds.

As a result of the Rights Issue, the conversion price of the 2019 Bonds has been adjusted from HK\$1.3700 per Share to HK\$1.2900 per Share, effective from 12 February 2018.

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 2017 Bonds and the 2019 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. Notice has been given by the Company to the Bondholders that a “Relevant Event” occurred. Each Bondholders had the right at such Bondholder’s option, to require the Company to redeem all or some only of such Bondholder’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 2017 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, (a) delay the maturity date of the 2017 Bonds; (b) delay the original Relevant Event Redemption Date and extend the relevant put period end date; (c) extended the original 3rd Anniversary Put Option Redemption Date (as defined in the Company’s announcement dated 29 March 2017) of the 2019 Bonds; and (d) to waive the events of default for the respective Bonds. On 29 March 2017, the Company has made a partial repayment to satisfy part of the principal amount of the outstanding Bonds and the accrued but unpaid interest thereon and default interest. Subsequent to the passing of the extraordinary resolutions by the Bondholders and the execution of the supplemental trust deed, (i) the maturity date in relation to the 2017 Bonds was delayed to 28 February 2017 and further extended to 28 April 2017; (ii) the Relevant Event Redemption Date in relation to each series of the Bonds was delayed to 28 April 2017 in relation to the Relevant Delisting Event (as defined in the Company’s announcement dated 29 March 2017); (iii) the 3rd Anniversary Put Option Redemption

Date of the 2019 Bonds was extended to 31 May 2017; and (iv) any breach of the terms and conditions or the trust deed of each series of the Bonds in respect of any non-payment of any amount otherwise payable was waived on 28 April 2017. The Company has not made payment of the outstanding Bonds on 28 April 2017, and the Bonds have been in default since then. The Bonds were still outstanding as at 31 December 2017 and the date of this announcement. The trustee or the Bondholders through the trustee may take legal actions against the Company in respect of the outstanding Bonds. The Company does not expect the possible courses of action to materially impact the Group, as the Company has sufficient offshore financial resources to fulfill repayment obligations under the outstanding Bonds.

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, 9 September 2016, 15 September 2016, 14 February 2017, 14 March 2017, 24 March 2017, 29 March 2017, 21 April 2017, 27 April 2017 and 28 April 2017 respectively.

THE OFFER

As disclosed in the Company's announcement dated 11 May 2017, the Company understood from Keen Start that Keen Start would invite holders of any and all of its outstanding Bonds to tender such Bonds for purchase by Keen Start at an amount equal to the aggregate outstanding principal amount of such Bonds plus any accrued but unpaid interest and default interest of such Bonds up to but excluding the settlement date (the "Offer"). Keen Start would purchase all, part or none of the Bonds tendered by any Bondholder pursuant to the Offer subject to certain conditions, including the aggregate principal amount of the Bonds being tendered by the Bondholders for purchase by Keen Start in the Offer shall exceed 75% of the aggregate outstanding principal amount of each of the 2017 Bonds and the 2019 Bonds.

Amongst others, Keen Start has expressed to the Company that, subject to completion of the purchase of the Bonds in the Offer, it is Keen Start's intention to discuss with the Company in good faith as to when the Company would be in a position to repay the outstanding Bonds and to discuss alternative proposals, if necessary, and it is also its intention to waive the default of the Company under the outstanding Bonds, subject to the terms of any proposal that may be agreed between Keen Start and the Company.

As disclosed in the Company's announcement dated 26 July 2017, Keen Start has received from the participating Bondholders holding more than 75% of the aggregate outstanding principal amount of each of the 2017 Bonds and the 2019 Bonds, respectively, sufficient email confirmations together with evidentiary support details that their relevant Bonds have been un-put and are ready to be traded. As at 31 December 2017 and the date of this announcement, the Offer has not yet been completed.

As disclosed in the Company's announcements dated 19 November 2017 and 29 January 2018 respectively, Keen Start has revised the settlement date for the purchase of the Bonds to be on a date falling on the 5th business day after the day on which an announcement (or, if more than one announcement is made, the latest announcement) is made by the Company on the finalisation of the subscription of Shares by a strategic investor. Accordingly, and also taking into account the blackout period pursuant to Appendix 10 to the Listing Rules (which is applicable to Keen Start since it is wholly-owned by a Director of the Company) which has commenced due to the announcement of the Company's annual results in or around the end of March 2018, the Company has been informed and confirmed by Keen Start of its intention to proceed with the purchase of the Bonds after the applicable blackout period and the publication of all the inside information (if any) with respect to the Company. In light of the above, the Company understands from Keen Start that the settlement date would be fixed: (i) after the publication of the announcement on the finalisation of the subscription of Shares by a strategic investor, or (ii) around mid-April 2018 if eventually the Company is not able to conclude the shares subscription with the strategic investor in early April 2018.

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 will be set out in the Corporate Governance Report to be contained in the 2017 annual report which will be despatched to the shareholders of the Company in due course.

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 2017.

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 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards 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 14 and 21 to this results announcement, which indicate that the Company has not been able to fulfill its redemption of the Bonds and payment obligations on the specified extended due dates. To address these issues, the Company has proposed funds raising plans (the “Plans”). Upon completion of the Plans, the Company expects it can fully repay the Bonds. The ultimate outcome of these matters could not be assessed at the date of independent auditor’s report. These events or conditions, along with other matters as set forth in Notes 14 and 21 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.

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 2017 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 2017, 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 2017, 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 2017 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 2017 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, 29 March 2018

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.*