PARADISE ENTERTAINMENT LIMITED

滙彩控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code : 1180)

ANNUAL REPORT 2018

* *For identification purposes only*

Contents

Corporate Information

PLACE OF INCORPORATION

Bermuda

BOARD OF DIRECTORS

Executive Directors

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

Independent Non-Executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

AUTHORISED REPRESENTATIVES

Mr. Jay CHUN
Mr. CHAN Kin Man

COMPANY SECRETARY

Mr. CHAN Kin Man

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

BERMUDA PRINCIPAL REGISTRAR

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

HONG KONG BRANCH SHARE REGISTRAR

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

HONG KONG LEGAL ADVISORS

H. M. Chan & Co in association with Taylor Wessing

INDEPENDENT AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

PRINCIPAL BANKERS

Bank of China Limited, Macau Branch
Industrial and Commercial Bank of China (Macau) Limited
Banco Well Link, S.A.
Luso International Banking Limited
Tai Fung Bank Limited
Hang Seng Bank Limited
Bank of China (Hong Kong) Limited
Wing Lung Bank Limited

LISTING INFORMATION

Place of Listing

Main Board of the Stock Exchange

Stock Code

1180

Board Lot Size

4,000 Shares

INVESTOR RELATIONS

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

WEBSITE

www.hk1180.com

KEY DATES

Annual results announcement:	26 March 2019
Book close dates for 2019 AGM:	16 to 21 May 2019 (both days inclusive)
2019 AGM:	21 May 2019
Book close dates for proposed dividend:	28 to 30 May 2019 (both days inclusive)
Payment of proposed dividend:	On or before 28 June 2019

CORPORATE COMMUNICATIONS

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

Corporate Profile

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

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

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

The Group is one of the worldwide leading gaming equipment and systems suppliers. The Group specialises in developing table game automation and innovative technologies that improve game efficiency and optimise operations. The Group's first flagship product is the patented LMG system which has seen tremendous demand from Macau and overseas casino operators. The Group is the investor, patent owner and sole provider of LMG terminals and dominates the ETG market in Macau.

On 25 April 2016, the Group entered into a strategic agreement with IGT, pursuant to which the Group assigned and licensed certain patents and associated technology to IGT in return for a non-refundable upfront payment and a 15-year earn-out payment for every ETG machine deployed in the global market (other than Macau).

In addition to the LMG system, the Group has also been investing in developing other high-tech ETG products and slot machines which are now in the pipeline of being launched to the gaming markets in Macau and overseas. The Group is committed to create innovative products that simplify game process, minimise labour costs, optimise game productivity and enhance player experience.

The Group embraces synergies of its two principal business segments, namely provision of casino management services and development, sale and leasing of electronic gaming equipment and systems which provide the Group a unique and privileged position in the market.

Chairman's Statement

Jay Chun
Chairman and Managing Director

I am pleased to report a solid set of financial figures of the Group for the year ended 31 December 2018. The year 2018 was an exciting year and the Group performed admirably against the challenging environment in the pursuance of our goal to become a worldwide leading gaming technology company. During the year under review, the Group successfully developed new slot machines and ETG products, and provided timely solutions and support to casinos in Macau for the compliance of the requirements under the Technical Standards. Despite uncertainty in the global economic environment and intensified competition in the Macau gaming industry, we managed to turn last years' bottom-line losses into a profit in 2018. Our two casinos under management continued to be the synergistic bond between our two principal business segments — the casino management services segment and the gaming equipment and systems segment. In 2018, GGR derived from the casinos under our casino management services segment increased by 9.8% year-on-year whereas the total revenue for our gaming equipment and systems segment increased by 156.7% year-on-year.

With improving infrastructure and newly opened world-class entertainment facilities in Macau, the city has undergone structural transformation into a mass-centric destination. Macau's visitation grew by 9.8% year-on-year to a record high of 35.8 million in 2018. Same day visitors grew nearly 12.7% on a yearly basis, outpacing the growth of overnight visitors which increased by 7.2%. In addition, Macau's total VIP GGR as a percentage of Macau's total GGR decreased from 56.7% in 2017 to 54.8% in 2018. The paradigm shift of the Macau gaming industry from VIP to mass has been observed citywide, including the two mass-focused casinos under our management. In particular, Casino Kam Pek Paradise has gained increasing popularity among mass gaming patrons. The abundance of LMG machines in the casino offers a more affordable way of gaming for mass market visitors who might not have otherwise been able to experience in other casinos' traditional tables. Casino Kam Pek Paradise has positioned itself as a unique gaming business model to support our belief that investment in gaming technology could help optimise table yields. We will continue to focus on optimising table productivity in the casinos under our management by applying cutting-edge gaming technology that has enabled our GGR per table per day in the mass to rival the tables in other casinos in Macau.

The Group saw a solid replacement demand for LMG machines in 2018 primarily due to the promulgation of the Technical Standards by the DICJ. Sales of other complementary LMG products such as the X-Stadium Live were also boosted. Moreover, the Group has recently developed new ETG machines and slot machines. Some of these machines have already undergone the final testing stage and will soon debut in the market. The successful launch of a wider range of products fuelled the Group to become a diversified, internationally-recognised gaming equipment and systems provider.

I am also grateful to the Macau government for their leadership and vision to continually support local enterprises in the Policy Address 2019. As a home-grown Macanese brand, the Group is always committed to support the Macau government to further enhance the appeal of Macau to the local and global markets. This year, I am also delighted to witness the opening of the Hong Kong-Zhuhai-Macao Bridge, the world's longest bridge, such that visitors who have not previously considered Macau as a short-term destination are now pouring into Macau. This bridge integrates the Greater Bay Area including Macau and Hong Kong into one single connected trip and has driven visitation to Macau to new heights. We will continue to support the Macau government's vision on developing Macau as the "World Centre of Tourism and Leisure" as part of the Greater Bay Area development plan. I have every confidence that Macau is and will continue to be the world's major gaming jurisdiction. With improving infrastructure, more mass gaming patrons are prepared to visit Macau for leisure, which would in turn benefit our mass-centric casinos as well as the deployment of our gaming equipment and systems.

Finally, on behalf of the Board, I would like to extend my sincere gratitude towards our Shareholders, banks, customers and business partners for their continuous support of the Company. Furthermore, I would also like to thank our executives and staff for their dedication and professionalism so that the Company continues to thrive.

Jay Chun
Chairman and Managing Director

Hong Kong, 26 March 2019

Management Discussion and Analysis

BUSINESS AND FINANCIAL REVIEW

Overview of Results

Total reported revenue of the Group for the year ended 31 December 2018 was HK$1,164.2 million, representing an increase of 15.1% over that of HK$1,011.8 million for the year ended 31 December 2017. The increase was mainly due to an increase in revenue from provision of casino management services as a result of an increase in total GGR from the casinos under the Group's management and an increase in revenue from sale of electronic gaming equipment and systems. An analysis of the reported revenue by properties/nature is as follows:

	2018 HK$ million	2017 HK$ million
Casinos under the Group's management:		
Casino Kam Pek Paradise	**780.2**	681.8
Casino Waldo	**286.7**	292.1
	1,066.9	973.9
Electronic gaming equipment and systems:		
Sale of electronic gaming equipment and systems	**88.7**	22.8
Leasing of electronic gaming equipment and systems*	**5.9**	12.2
Royalty income from IGT	**2.7**	2.9
	97.3	37.9
Total reported revenue	**1,164.2**	1,011.8

*: Leasing revenue for the year ended 31 December 2018 did not include the intercompany revenue derived from the LMG terminals deployed at casinos under the Group's management amounting to HK$154.8 million (2017: HK$134.4 million) which was included in the revenue of respective casinos under the Group's management in the above table

Management Discussion and Analysis (Continued)

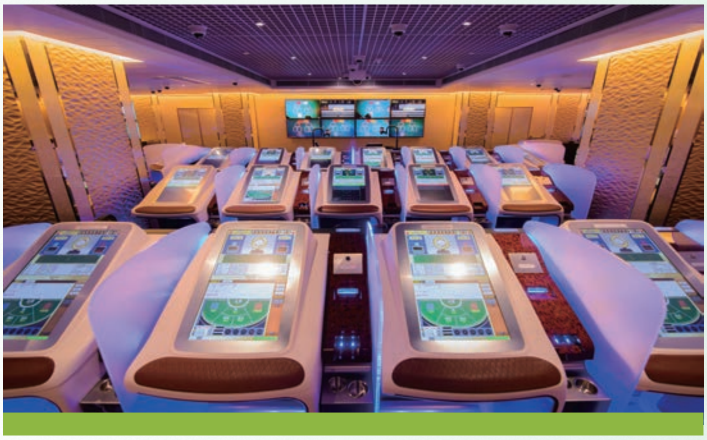
Adjusted EBITDA for the year ended 31 December 2018 was HK$120.7 million, representing an increase of 429.4% over that of HK$22.8 million for the year ended 31 December 2017. The following table reconciles profit (loss) for the year to Adjusted EBITDA:

	2018 HK$ million	2017 HK$ million
Profit (loss) for the year	**53.2**	(47.5)
Adjustments for:		
Interest income	**(4.4)**	(5.3)
Finance costs	**0.7**	6.0
Income tax expense	**0.4**	0.7
Depreciation of property, plant and equipment	**58.1**	57.2
Loss (gain) on disposal of property, plant and equipment	**0.6**	(4.8)
Amortisation for intangible assets	**12.1**	12.1
Costs incurred or associated with corporate exercise and potential projects	**—**	4.4
Adjusted EBITDA	**120.7**	22.8

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

	2018 HK$ million	2017 HK$ million
Casinos under the Group's management:		
Casino Kam Pek Paradise	**221.8**	154.1
Casino Waldo	**(24.2)**	(22.0)
	197.6	132.1
Electronic gaming equipment and systems:		
Sale of electronic gaming equipment and systems	**10.5**	(35.2)
Leasing of electronic gaming equipment and systems	**2.8**	8.5
Research and development and other costs	**(66.6)**	(46.9)
ETG distribution from IGT	**2.6**	(3.3)
	(50.7)	(76.9)
Other expenses	**(26.2)**	(32.4)
Adjusted EBITDA	**120.7**	22.8

The Adjusted EBITDA from casinos under the Group's management was HK$197.6 million, representing an increase of 49.6% over that of HK$132.1 million for the year ended 31 December 2017. The increase was mainly due to the increase in total GGR generated by the casinos under the Group's management for the year ended 31 December 2018 when compared to that for the year ended 31 December 2017.



The Adjusted EBITDA from the electronic gaming equipment and systems segment was a loss of HK$50.7 million, representing a decrease of 34.1% over that of the loss of HK$76.9 million for the year ended 31 December 2017. For the year ended 31 December 2018, sale of electronic gaming equipment and systems contributed Adjusted EBITDA of HK$10.5 million (2017: a loss of HK$35.2 million) to the Group. On the other hand, the Group increased its investment in research and development and other costs on new/upgraded ETG machines, slot machines, casino management systems, etc. from HK$46.9 million for the year ended 31 December 2017 to HK$66.6 million for the year ended 31 December 2018. The research and development and other costs incurred for the year ended 31 December 2018 represented 5.7% (2017: 4.6%) of the reported revenue of the Group for the year. For the year ended 31 December 2018, ETG distribution from IGT contributed Adjusted EBITDA of HK$2.6 million (2017: a loss of HK$3.3 million) to the Group. The loss of HK$3.3 million from ETG distribution from IGT for the year ended 31 December 2017 included the earn-out royalty payments entitled by the Group from IGT under the patent and technology assignment and license agreement dated 25 April 2016 with IGT for a sum of HK$2.9 million accrued up to 31 December 2017 which was offset by the agreed settlement sum of US$800,000 (equivalent to HK$6.2 million) payable by the Group to IGT.

The Group's recorded a profit of HK$53.2 million for the year ended 31 December 2018, as compared to a loss of HK$47.5 million for the year ended 31 December 2017. The turnaround from loss for the year ended 31 December 2017 to profit for the year ended 31 December 2018 was mainly due to the increases in revenue from provision of casino management services and revenue from sale of electronic gaming equipment and systems as described above.

Provision of Casino Management Services

The following table sets forth operational data on the provision of casino management services by the Group for the years ended 31 December 2018 and 31 December 2017:

	2018			2017		
(Average no. of units)	Casino Kam Pek Paradise	Casino Waldo	Total	Casino Kam Pek Paradise	Casino Waldo	Total
Traditional gaming tables	39	25	64	38	25	63
LMG tables	10	5	15	10	5	15
LMG terminals	1,000	423	1,423	971	320	1,291
Slot machines	194	176	370	178	164	342

As at 31 December 2018, the Group had a total of 79 (31 December 2017: 79) gaming tables under management.

The following table sets out certain key operational data of mass gaming tables, LMG terminals and slot machines deployed at the two casinos under the Group's management for the years ended 31 December 2018 and 31 December 2017:

		Casino Kam Pek Paradise		Casino Waldo	
		2018	2017	2018	2017
Traditional gaming tables					
GGR	(HK$ million)	792.5	703.7	365.6	391.3
Gaming tables	(Average no. of tables)	39	38	25	25
Net win/table/day	(HK$ thousand)	55.7	50.7	40.1	42.9
LMG tables					
GGR	(HK$ million)	573.1	498.0	130.3	113.0
Terminals	(Average no. of terminals/tables)	1,000/10	971/10	423/5	320/5
Net win/terminal/day	(HK$)	1,570	1,405	844	967
Net win/LMG table/day	(HK$ thousand)	157.0	136.4	71.4	61.9
Total gaming tables					
GGR	(HK$ million)	1,365.6	1,201.7	495.9	504.3
Gaming tables	(Average no. of tables)	49	48	30	30
Net win/table/day	(HK$ thousand)	76.4	68.6	45.3	46.1
Slot machines					
GGR	(HK$ million)	65.7	48.0	8.1	8.8
Slot machines	(Average no. of units)	194	178	176	164
Net win/unit/day	(HK$)	928	739	126	147
Total GGR	(HK$ million)	1,431.3	1,249.7	504.0	513.1

For the year ended 31 December 2018, total GGR generated by Casino Kam Pek Paradise amounted to HK$1,431.3 million, representing an increase of 14.5% over that of HK$1,249.7 million for the year ended 31 December 2017. Total GGR generated by Casino Waldo for the year ended 31 December 2018 amounted to HK$504.0 million, representing a decrease of 1.8% over that of HK$513.1 million for the year ended 31 December 2017.

Breakdown of the revenue attributable to the Group for casinos under the Group's management for the years ended 31 December 2018 and 31 December 2017 is as follows:

	2018 **HK$ million**	2017 HK$ million
Casino Kam Pek Paradise:		
Traditional gaming tables	**435.9**	387.0
LMG tables	**315.2**	273.9
Slot machines	**29.1**	20.9
	780.2	681.8
Casino Waldo:		
Traditional gaming tables	**208.0**	222.8
LMG tables	**74.1**	64.3
Slot machines	**4.6**	5.0
	286.7	292.1
	1,066.9	973.9

Total revenue attributable to the Group generated by the casinos under the Group's management for the year ended 31 December 2018 was HK$1,066.9 million, representing an increase of 9.5% over that of HK$973.9 million for the year ended 31 December 2017. The total net increase in revenue was due to the increase of 14.4% in revenue from Casino Kam Pek Paradise which was partially offset by the decrease of 1.8% in revenue from Casino Waldo for the year ended 31 December 2018 when compared to those for the year ended 31 December 2017.

Development, Sale and Leasing of Electronic Gaming Equipment and Systems

Sale of Electronic Gaming Equipment and Systems

For the year ended 31 December 2018, revenue from sale of electronic gaming equipment and systems amounted to HK$88.7 million, representing an increase of 289.0% over that of HK$22.8 million for the year ended 31 December 2017. The sale for the year ended 31 December 2018 represented mainly the deployment of a total of 383 LMG terminals and other equipment at MGM Cotai and Venetian Macau, and the sale of other gaming equipment including the X-Stadium Live to City of Dream (2017: 78 LMG terminals at Wynn Macau and Macau Fisherman's Wharf).

Leasing of Electronic Gaming Equipment and Systems

For the year ended 31 December 2018, revenue from leasing of electronic gaming equipment and systems amounted to HK$5.9 million, representing a decrease of 51.6% over that of HK$12.2 million for the year ended 31 December 2017.

The following table sets out certain key operational data of LMG terminals (excluding those LMG terminals deployed at the casinos under the Group's management) and the related revenue shared by the Group for the years ended 31 December 2018 and 31 December 2017:

		2018	2017
GGR from LMG terminals	(HK$ million)	**21.2**	51.6
No. of LMG terminals	(Average no. of terminals)	**207**	333
Net win/terminal/day	(HK$)	**281**	425
Revenue sharing	(HK$ million)	**5.3**	12.2

ETG Distribution from IGT

In April 2016, the Group entered into a strategic agreement with IGT and assigned and licensed certain patents and associated technology to IGT in return for a non-refundable upfront payment of US$12.95 million (approximately HK$101.0 million) and a 15-year earn-out payment for every ETG machine deployed in the global market (other than Macau).

Based on the royalty statements provided by IGT to the Group, the Group recognised royalty income of HK$2.7 million (2017: HK$2.9 million) for the year ended 31 December 2018. Up to 31 December 2018, the Group has accumulatively recognised a total revenue of HK$5.6 million from ETG distribution from IGT.

PROSPECTS

The Group is cautiously optimistic in the Macau gaming industry. Macau's total GGR increased by 14.0% year-on-year in 2018. The stabilising Chinese economy, the rising middle class and improving infrastructures such as the newly opened Hong Kong-Zhuhai-Macao Bridge and the soon-to-be completed Light Rapid Transit in Macau will undoubtedly bring more visitors to the city. Having more inbound tourists to Macau means that there are more mass gaming patrons, which should benefit the mass gaming segment that the two casinos under the Group's management focus on.

Replacement and upgrade demand for LMG machines has been on the rise since 2018, particularly following the introduction of the Technical Standards by the DICJ in late 2017 that has set out technical requirements for gaming products relating to DETG in Macau. This demand should continue into 2019 as the DETG that are not upgraded to meet the new requirements for the compliance of the Technical Standards by 31 December 2019 should no longer be used in Macau casinos. On the other hand, complementary LMG products such as the X-Stadium Live received new orders as customers praised its customisability and its captivating animation in the centre of the mass gaming floors. Casino operators' universal quest for more seats, fewer tables, lower minimum bets and higher yields translates into a future need for solutions that could help them achieve higher efficiency and to optimise their table yields.

Going forward, the Group will offer a pipeline of other LMG companion products for table optimisation to the market. Aside from LMG machines, several of our new slot games are now fully tested and are soon ready to debut in the market. The Group strengthened our sales and marketing teams targeting casino operators in Macau, South East Asia and North America, etc. Our partnership arrangements with international partners also empower us to leverage on their global distribution networks for our products.

While we continue to improve the operating efficiency in the two casinos under our management, these two casinos also serve as an opportunity for the deployment of our innovative products in the gaming equipment and systems segment. The two segments act together as a synergistic bond between each other such that we know how customers feel about our machines directly. We are committed to continuously invest in the research and development on gaming technology in areas such as ETG products, slot machines, and other gaming equipment and systems. The pipeline of these new gaming equipment and systems is part of our long-term commitment for growth in the future.

Looking ahead, the Group remains cautiously optimistic while we continue to seek expansion opportunities. In view of the Group's cash position with a low gearing ratio, we are actively exploring opportunities in the gaming technology space. We will continue to identify new business opportunities in and outside of Macau with an aim to maximise returns to the Shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

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

The Group has adopted a prudent financial management approach towards its financial and treasury policies. During the year under review, we were on track with this approach to maintain a healthy liquidity position. The Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time. The Group may utilise the balance of cash for appropriate investment in accordance with the Group's strategic direction and development.

As at 31 December 2018, the consolidated net assets of the Group amounted to HK$628.7 million, representing an increase of HK$50.9 million or 8.8% from HK$577.8 million as at 31 December 2017. The increase in consolidated net assets of the Group during the year ended 31 December 2018 was mainly due to the Group's profit of HK$53.2 million for the year ended 31 December 2018.

Pledged Bank Deposit, Bank Balances and Cash, and Chips on Hand

As at 31 December 2018, the Group held pledged bank deposit of HK$28.8 million, bank balances and cash of HK$264.8 million and chips on hand of HK$29.4 million. Included in the bank balances and cash as at 31 December 2018 were fixed deposits of HK$132.9 million placed at banks in Macau with maturities ranging from 3 to 12 months. The fixed deposits were denominated in HK$ (the Group's functional currency) and US$. Given HK$ are linked to US$, the Group considers the exposure to exchange rate risk is normal for its fixed deposits denominated in US$.

Borrowing and Gearing Ratio

As at 31 December 2018, the Group had outstanding (i) secured and unguaranteed bank borrowing of approximately HK$89.0 million (2017: nil); and (ii) unsecured and unguaranteed amounts due to Directors of HK$2.2 million (2017: HK$3.0 million).

The Group's bank borrowing carried interest at prevailing market rates and was on floating rate basis. The bank borrowing was denominated in MOP. Given MOP is pegged to HK$, the Group considers the exposure to exchange rate risk is normal for its bank borrowing denominated in MOP. The maturity profile of the bank borrowing of HK$89.0 million as at 31 December 2018 spread over a period of more than five years, with HK$5.0 million repayable within one year, HK$5.2 million in the second year, HK$16.3 million in the third to fifth years and HK$62.5 million over five years. The amounts due to Directors were interest-free and repayable on demand.

The Group's gearing ratio (expressed as a percentage of total borrowings over net assets) as at 31 December 2018 was 14.5% (2017: 0.5%). The increase in the Group's gearing ratio was mainly due to the inception of bank mortgage borrowing to finance the acquisition of properties during the year ended 31 December 2018.

During the year ended 31 December 2018, the Group did not employ any financial instruments for hedging purposes.

CAPITAL COMMITMENTS

Particulars of the Company's significant capital commitments as at 31 December 2018 are set out in note 31 to the consolidated financial statements.

FOREIGN EXCHANGE EXPOSURE

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

CHARGES ON GROUP ASSETS

As at 31 December 2018, leasehold land and buildings of the Group with the carrying amount of HK$132.9 million were pledged to secure a bank borrowing granted by a bank to the Group.

In addition, as at 31 December 2018, a fixed deposit of HK$28.8 million placed at a bank was pledged to secure for a guarantee in the amount of HK$28.8 million issued by the bank for the period from 30 April 2018 to 31 March 2020 in favour of SJM for the Group's fulfilment of all its obligations, in particular for reimbursement by the Group to SJM of the employees' salaries and benefits for those gaming operation employees employed by SJM who work for the casino under the Group's management, as stipulated under the service agreement (and all related supplemental agreements) entered into between SJM and the Group for provision of casino management services by the Group to SJM.

CONTINGENT LIABILITIES

As at 31 December 2018, the Group did not have any contingent liabilities.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2018, the Group had approximately 1,150 employees, including approximately 720 gaming operation employees who were employed by SJM or Galaxy to work for the casinos under the Group's management. These gaming operation employees were paid by SJM or Galaxy and the Group reimbursed SJM or Galaxy in full for their salaries and other benefits.

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

Profile of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Jay Chun, aged 54, is the Chairman and Managing Director of the Company. He is the chairman of the Nomination Committee and a member of the Remuneration Committee. He is also a director of various subsidiaries of the Company. Mr. Chun is a talented entrepreneur and manager. He possesses solid background in information technology and marketing, and has over 28 years of management and investment experience. He holds a master's degree in business administration from the W.P. Carey School of Business at the Arizona State University and a bachelor's degree in computer science from the Shanghai University of Science and Technology. Mr. Chun joined the Group and was appointed as the Managing Director of the Company in January 1999 and was subsequently appointed as the Chairman of the Board in July 2002. Mr. Chun is also the alternate Director to Mr. Shan Shiyong, alias, Sin Sai Yung.

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

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

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

Mr. Shan Shiyong, alias, Sin Sai Yung, aged 55, is an executive Director. He is also a director of various subsidiaries of the Company. Mr. Shan is an entrepreneur with strong business vision. After completing his studies in economics at the University of Agriculture, Shandong, he started his own business in manufacturing and exporting. Mr. Shan subsequently diversified his business interests to trading, property development and venture capital investment in China. He has over 31 years of dedicated business, investment and management experience at the owner level. Mr. Shan joined the Group and was appointed as an executive Director in October 1998. He was the Chairman of the Board from May 1999 to July 2002.

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

Mr. Hu Liming, aged 54, was appointed as an executive Director on 30 November 2010. Mr. Hu is currently the managing director of Standind (Shanghai) Co. Ltd. and has over 28 years of experience in corporate management, business development as well as sales and marketing. Mr. Hu obtained his bachelor's degree in engineering from the Shanghai University of Science and Technology.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Li John Zongyang, aged 63, was appointed as an independent non-executive Director on 10 September 2007. He is the chairman of both the Audit Committee and the Remuneration Committee and a member of the Nomination Committee. Mr. Li has a rich and versatile background in the finance, business and corporate environment in the Asia-Pacific region. Mr. Li had worked for 10 years with Framlington Investment Management Company Limited, a leading investment management company in London, where he served as a senior fund manager and the head of the Asia Pacific region. Mr. Li had served as the chief executive officer for several reputable companies in Asia. Mr. Li holds a bachelor's degree in economics from the Peking University and a master's degree in business administration from the Middlesex University Business School in London.

Mr. Kai-Shing Tao, aged 42, was appointed as an independent non-executive Director on 13 April 2014. He is a member the Audit Committee. Mr. Tao graduated from the Stern School of Business at the New York University. He has served as a member of the board of directors of Remark Holdings, Inc. (formerly known as Remark Media, Inc.) since Remark Holdings, Inc.'s public listing in 2007 (Nasdaq: MARK). After being elected as chairman and co-chief executive officer in October 2012, Mr. Tao assumed the position of chief executive officer of Remark Holdings, Inc. in December 2012. Mr. Tao also serves as chairman and chief investment officer of Pacific Star Capital Management, L.P., a private investment group and a director of Genesis Today, Inc., a leading health and wellness company. Prior to founding Pacific Star Capital Management, L.P., Mr. Tao was a partner at FALA Capital Group, a single-family investment office where he served in various capacities, including overseeing global liquid investments.

Ms. Tang Kiu Sam Alice, aged 37, was appointed as an independent non-executive Director on 25 April 2014. She is a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee. Ms. Tang graduated with a bachelor of science degree in e-commerce from the Brunel University in London. Ms. Tang has more than 14 years of business development experience in the gaming industry and has comprehensive knowledge in gaming operations and products, strategic planning, sales and marketing and is experienced in product development with successful launches of a series of gaming products including video slot machines, electronic table games and slot management system. Ms. Tang is currently the managing director of Winning Asia Technology Limited.

SENIOR MANAGEMENT

Ms. Feng Yi, Jenny, aged 54, is the Group's Casino General Manager. Ms. Feng holds a bachelor's degree in computer science from the Shanghai University of Science and Technology. She has extensive experience in managing gaming business. Ms. Feng is the spouse of Mr. Jay Chun, an executive Director. Ms. Feng joined the Group in 2006.

Ms. Zhao Yi, aged 41, is the Group's Chief Operating Officer of the electronic gaming business. Ms. Zhao holds a bachelor's degree in marketing from the Shanghai University of Finance and Economics. She has more than 10 years of experience in the gaming industry. Ms. Zhao joined the Group in 2007.

Mr. Chan Kin Man, aged 43, is the Group's Chief Financial Officer and Company Secretary. Mr. Chan holds a bachelor's degree in business administration in accounting and finance from The University of Hong Kong. He has over 20 years of experience in accounting, auditing, financial advisory, corporate finance and corporate governance, particularly in the gaming and hospitality sectors. He is a fellow of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants. Mr. Chan joined the Group in February 2017.

Directors' Report

The Board presents this annual report and the audited consolidated financial statements of the Company for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The Company is an investment holding company of a diverse group of companies that are principally engaged in the provision of casino management services, and the development, sale and leasing of electronic gaming equipment and systems. Principal activities of each of its principal subsidiaries are set out in note 38 to the consolidated financial statements.

BUSINESS REVIEW

A review of the business of the Group for the year ended 31 December 2018 which includes an analysis of the Group's performance using financial key performance indicators and a discussion on the Group's likely future business development, a description of the principal risks and uncertainties that the Group may be facing and a discussion on the Group's environmental policy and performance and the relationships with its key stakeholders are provided in the sections headed "Chairman's Statement", "Management Discussion and Analysis", "Corporate Governance Report" and "Environmental, Social and Governance Report" of this annual report. The review forms part of the Directors' Report.

RESULTS AND FINANCIAL POSITION

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss and consolidated statement of profit or loss and other comprehensive income on pages 63 and 64, respectively.

The financial position of the Group as at 31 December 2018 is set out in the consolidated statement of financial position on pages 65 and 66.

SEGMENT INFORMATION

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

DIVIDEND

The Board recommends the payment of a final dividend of HK2.5 cents per Share for the year ended 31 December 2018 (2017: nil) which is subject to Shareholders' approval at the 2019 AGM. The final dividend payable in this connection will be HK$26,305,000, calculated on the basis of 1,052,185,315 Shares in issue at the date of this annual report. The proposed dividend payable is not recognised at 31 December 2018 in the consolidated financial statements for the year ended 31 December 2018.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year ended 31 December 2018 are set out in note 14 to the consolidated financial statements.

SHARE CAPITAL

There were no changes in the Company's share capital during the year ended 31 December 2018. Details of the Company's share capital are set out in note 27 to the consolidated financial statements.

RESERVES

Movements in the reserves of the Group and the Company during the year ended 31 December 2018 are set out in the consolidated statement of changes in equity on page 67 and in note 37 to the consolidated financial statements, respectively.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2018, the Company's reserves available for distribution to Shareholders amounted to approximately HK$572,212,000 comprising contributed surplus of approximately HK$1,068,388,000, which is offset by the debit balance of accumulated losses of approximately HK$496,176,000.

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

DIRECTORS AND SERVICE CONTRACTS

The members of the Board during the year ended 31 December 2018 and up to the date of this annual report were as follows:

Executive Directors:

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

Independent Non-executive Directors:

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

In accordance with the Bye-laws of the Company, Mr. Li John Zongyang and Mr. Kai-Shing Tao will retire and, being eligible, offer themselves for re-election at the 2019 AGM.

Each of Mr. Li John Zongyang and Mr. Kai-Shing Tao does not have a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

MANAGEMENT CONTRACTS

No contract for the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year ended 31 December 2018.

PERMITTED INDEMNITY PROVISION

During the year ended 31 December 2018 and up to the date of this annual report, the Company has in force the permitted indemnity provisions which are provided for in the Bye-laws of the Company and in the directors and officers liability insurance maintained for the Group in respect of potential liability and costs associated with legal proceedings that may be brought against the Directors and the directors of any subsidiaries or associates of the Company.

TAX RELIEF

The Company is not aware of any relief on taxation available to the Shareholders by reason of their holdings of the Shares. If the Shareholders are unsure about the taxation implications of purchasing, holding, disposing of, dealing in, or exercising of any rights in relation to the Shares, they are advised to consult their professional advisers.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 31 December 2018, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

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

Notes:

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

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

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

(4) The percentage represents the number of Shares interested divided by the number of issued Shares as at 31 December 2018.

Save as disclosed, none of the Directors and the chief executive of the Company was interested or had any short position in any Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as at 31 December 2018.

SHARE OPTIONS

At the annual general meeting of the Company held on 25 May 2017, the Company adopted a new share option scheme of the Company (the "Share Option Scheme") for the purpose of providing incentives or rewards to the eligible participants for the contribution to the success of the Group's operations. Eligible participants of the Share Option Scheme include, among others, the Directors, including independent non-executive Directors, full-time or part-time employees, executives or officers of the Group, advisors, consultants, suppliers, customers and agents. The Share Option Scheme will be valid and effective for a period of 10 years from the date of adoption of the scheme.

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

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

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

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

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

No options were granted by the Company under the Share Option Scheme and no equity settled employees benefit (including Directors' emoluments) was recognised during the year ended 31 December 2018. There was no share option outstanding under the Share Option Scheme during the year ended 31 December 2018.

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the share option scheme disclosed under the section headed "Share Options" and the contracts disclosed under the section headed "Directors' Interests in Transactions, Arrangements and Contracts of Significance" in this Directors' Report, at no time during the year ended 31 December 2018 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of Shares in, or debentures of, the Company or any other body corporate. In addition, none of the Directors, or their spouse or children under the age of 18, had any right to subscribe for the securities of the Company or had exercised any such right during the year ended 31 December 2018.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 31 December 2018, according to the register of interests kept by the Company under section 336 of the SFO, and so far as was known to the Directors or chief executive of the Company, the following persons or corporations, other than Directors or chief executive of the Company, had an interest in the Shares of the Company, which would require to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at a general meeting of the Company:

Name of company	Number of Shares[1]	Approximate percentage of interests[4]
August Profit Investments Limited[2]	630,836,720	59.95%
FIL Limited[3]	77,504,000	7.37%
Pandanus Partners L.P.[3]	77,504,000	7.37%
Pandanus Associates Inc.[3]	77,504,000	7.37%

Notes:

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

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

(3) To the best of the Directors' knowledge, FIL Limited is controlled (as defined under the SFO) by Pandanus Partners L.P., which in turn is controlled (as defined under the SFO) by Pandanus Associates Inc. Those 77,504,000 Shares represent the same interests and are therefore duplicated among them.

(4) The percentage represents the number of Shares interested divided by the number of issued Shares as at 31 December 2018.

Save as disclosed above, as at 31 December 2018, the Company had not been notified of any person or corporation who was interested in or had a short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company under section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2018.

PRE-EMPTIVE RIGHTS

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

CONVERTIBLE SECURITIES, WARRANTS, OR SIMILAR RIGHTS

As at 31 December 2018, no convertible securities, options, warrants or similar rights issued or granted by the Company or any of its subsidiaries remained outstanding.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2018, the aggregate amount of revenue attributable to the Group's five largest customers accounted for approximately 99.2% of the Group's total revenue and the revenue attributable to the Group's largest customer represented approximately 67.1% of the Group's total revenue.

For the year ended 31 December 2018, the aggregate amount of cost of sales and services attributable to the Group's five largest suppliers accounted for approximately 70.3% of the Group's total cost of sales and services and the cost of sales and services attributable to the Group's largest supplier represented approximately 28.1% of the Group's total cost of sales and services.

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

COMPLIANCE WITH LAWS AND REGULATIONS

The Group recognises the importance of compliance with legal and regulatory requirements. Internal compliance and risk management policies and procedures are in place to ensure the Group's adherence and compliance with all significant legal and regulatory requirements in the territories in which the Group has business operations. For details, please refer to the Corporate Governance Report of this annual report. For the year ended 31 December 2018 and up to the date of this annual report, to the best knowledge of the Directors, the Group has complied in all material respects with the applicable laws and regulations of the aforesaid jurisdictions, which have a significant impact on the business and operations of the Group. The Group has also obtained all licenses, approvals and permits from the relevant regulatory authorities that are material for its business operations in the territories in which the Group has business operations.

ACQUISITION, DISPOSAL AND SIGNIFICANT INVESTMENTS

Acquisition of Properties

The Group, as the purchaser, entered into a provisional sale and purchase agreement and related sale and purchase agreement with an independent third party, as the vendor, on 15 June 2018 and 21 June 2018, respectively, pursuant to which the Group agreed to purchase and the vendor agreed to sell certain properties at a total consideration of HK$128,500,000. The sale and purchase transaction was completed on 21 September 2018.

The acquisition of properties constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules. Further details regarding the acquisition of properties are set out in the Company's announcements dated 19 June 2018 and 21 September 2018.

Updates to a Major Disposal

On 25 April 2016, the Group entered into a strategic agreement (the "Agreement") with IGT, pursuant to which the Group assigned and licensed certain patents and associated technology to IGT in return for a non-refundable upfront payment and a 15-year earn-out payment for every ETG machine deployed in the global market (other than Macau). The transaction constituted a major transaction of the Company.

To the best knowledge of the Directors, IGT has commenced the making and placement of the licensed products. According to the statements provided by IGT to the Group, earn-out payments entitled by the Group as a result of such placement of the licensed products amounted to approximately US$713,000 (equivalent to approximately HK$5,561,000) up to 31 December 2018. Such earn-out payments were calculated in accordance with the terms of the Agreement, which state that such payments shall be calculated based on (i) the number of licensed products placed times a flat fee per unit for the licensed products placed by IGT through sale; and (ii) the number of licensed products placed times a flat fee per unit per day for the licensed products placed by IGT through leasing.

Subsequent to the signing of the Agreement, a dispute arose between the Group and IGT as to whether the Group has to provide certain technology (not being possessed by the Group) to IGT that may be required for IGT to make and place the licensed products under the Agreement (the "Dispute"). On 17 October 2017, upon commercial negotiation of the parties with the view to resolving the Dispute, the Group agreed in writing with IGT that they shall pay to IGT a sum of US$800,000 (equivalent to approximately HK$6,240,000) (the "Settlement Amount") for complete resolution of the Dispute, which was determined based on the sharing by the Group of the estimated costs for the required technology. The parties further agreed that the Settlement Amount shall first set-off against any earn-out payments owed by IGT to the Group under the Agreement.

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

Save as disclosed herein, the Group did not have any significant investments, material acquisitions or disposals of assets, subsidiaries, associates or joint ventures during the year ended 31 December 2018.

CONNECTED TRANSACTIONS

Connected Transactions for Year Ended 31 December 2018

Distributorship Framework Agreement

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

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

Further details of the transactions are set out in the Company's announcement dated 29 February 2016. The Distribution Framework Agreement was expired or terminated on 31 December 2018.

The annual cap under the Distributorship Framework Agreement for each of the years ended 31 December 2016, 31 December 2017 and 31 December 2018 was HK$50.0 million. The amount received/receivable by the Group from companies controlled by Mr. Feng under the Distributorship Framework Agreement for the year ended 31 December 2018 was HK$1.1 million.

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

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive Directors have reviewed the continuing connected transactions for the year ended 31 December 2018 as disclosed above and have confirmed that the transactions have been entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or better; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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

The Agency Agreement

LT Game has, in its ordinary and usual course of business, engaged an independent gaming supplier (the "Independent Supplier"), which is independent of the Company and its connected person(s) within the meaning of the Listing Rules, to (i) research and develop certain gaming equipment; and (ii) upon satisfactory development of such gaming equipment, produce in bulk for LT Game's onwards sales (collectively, the "Procurement Transaction"). The Procurement Transaction is expected to be completed in 2020, or on 31 December 2020, whichever is earlier and the maximum cash consideration for this transaction is RMB27,500,000 (equivalent to approximately HK$34,098,000), which is determined through mutual negotiation between LT Game and the Independent Supplier with reference to prevailing market prices of similar gaming equipment.

In order to facilitate the Procurement Transaction, on 12 February 2018, LT Game entered into an agency agreement (the "Agency Agreement") with Shanghai Libiao Industrial Co., Ltd.# (上海力標實業有限公司) ("Shanghai Libiao") to engage Shanghai Libiao as its agent for the purpose of the Procurement Transaction and mainly on behalf of LT Game and upon LT Game's specific instructions to: (i) procurement and arrangement of payment of the research and development of the gaming equipment; and (ii) placement of production orders, arrangement of payment, receipt in the PRC, inspection and performance of quality check of gaming equipment to be produced by the Independent Supplier in bulk. The duration of the Agency Agreement is a period from 12 February 2018, being the date of the Agency Agreement, upto the completion of the Procurement Transaction as aforesaid.

\# *For identification purposes only*

Pursuant to the Agency Agreement, Shanghai Libiao is responsible for any losses or damages of the Group resulting from the breach or delay in the performance of Shanghai Libiao's obligations under the Agency Agreement caused by the fault, negligence or misconduct of Shanghai Libiao, its representatives and/or employees. In return for the performance of the services under the Agency Agreement, LT Game will pay a one-off agency fee of RMB100,000 (equivalent to approximately HK$124,000) in cash to Shanghai Libiao upon completion of the Procurement Transaction.

Shanghai Libiao is a company incorporated in the PRC which is wholly-owned by Mr. Hu Liming, an executive Director. Therefore, Shanghai Libiao is an associate of Mr. Hu Liming and a connected person of the Company. As such, the transaction under the Agency Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. Given that the applicable percentage ratios in respect of such transaction are more than 0.1% but less than 5%, such transaction is subject to the reporting and announcement requirements but exempt from the independent Shareholders' approval requirement under the Listing Rules.

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

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

Connected Transactions for Year Ending 31 December 2019

Supply Framework Agreement

On 14 December 2018, the Company entered into a supply framework agreement (the "Supply Framework Agreement") with Mr. Feng for the sale of certain electronic gaming machines and equipment, and their components, accessories and parts, etc. to Mr. Feng and the companies controlled by him for a term of one year commencing from 1 January 2019 and ending on 31 December 2019. Pursuant to the Supply Framework Agreement, the total transaction amount for the year ending 31 December 2019 shall not be more than HK$40 million.

Mr. Feng is the brother-in-law of Mr. Jay Chun, the controlling Shareholder, the Chairman and the Managing Director of the Company, and thus a deemed connected person of the Company within the meaning of the Listing Rules and therefore, the transactions contemplated under the Supply Framework Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules for the year ending 31 December 2019.

As each of the applicable percentage ratios (as defined under the Listing Rules) in respect of the annual transaction amount under the Supply Framework Agreement exceeds 0.1% but is less than 5%, the Supply Framework Agreement is subject to the reporting, announcement and annual review requirements but exempt from the independent Shareholders' approval requirement under the Listing Rules.

Further details of the Supply Framework Agreement are set out in the Company's announcement dated 14 December 2018.

The Directors, including the independent non-executive Directors, have reviewed the terms of Supply Framework Agreement and have confirmed that (i) the Supply Framework Agreement was entered into on normal commercial terms and in the ordinary and usual course of business of the Group; (ii) the terms and conditions of the Supply Framework Agreement, including the annual cap, are fair and reasonable, and that the entering into the Supply Framework Agreement is in the interests of the Company and the Shareholders as a whole.

During the year ended 31 December 2018, no transaction was carried out under the Supply Framework Agreement.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

Save as disclosed under the section headed "Connected Transactions" in this Directors' Report and in notes 22 and 36 to the consolidated financial statements, no transactions, arrangement and contracts of significance to which the Company or any of its subsidiaries was a party and in which any Director (or any entity connected with a Director) had a material interest, whether directly and indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2018.

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

Save as disclosed under the section headed "Connected Transactions" in this Directors' Report and in notes 22 and 36 to the consolidated financial statements, no contracts of significance between Company (or any of its subsidiaries) and any controlling Shareholder of the Company (or any of its subsidiaries) subsisted at the end of the year or at any time during the year ended 31 December 2018.

EQUITY-LINKED AGREEMENTS

The Company has not entered into any equity-linked agreements in respect of the Shares during the year ended 31 December 2018.

EMOLUMENT POLICY

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

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

CORPORATE GOVERNANCE

In the opinion of the Board, the Company has complied with the code provisions as set out in the CG Code throughout the year ended 31 December 2018 except for certain deviations. For further information on the Company's corporate governance practices and details of the deviations, please refer to the Corporate Governance Report on pages 32 to 46.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE POLICIES

The Group is aware of the importance of environmental-friendly and sustainable development. The Group strives to minimise wastes and consumption of resources such as electricity and water. The Group recognises this to be a continuous process of monitoring and improvement, and the Group seeks to look for environmental-friendly practice in the Group's operations whenever possible. For further details, please refer to the Environmental, Social and Governance Report on pages 47 to 57.

DONATIONS

Donations made by the Group during the year ended 31 December 2018 amounted to HK49,000.

UPDATE ON DIRECTORS' INFORMATION

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

The remuneration payable to Mr. Jay Chun, an executive Director, comprises basic salary, discretionary bonus and accommodation benefits. The remuneration of Mr. Jay Chun per annum has increased from HK$13,348,000 for the year ended 31 December 2017 to HK$13,474,000 for the year ended 31 December 2018. For more details, please refer to note 10 to the consolidated financial statements.

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

EVENTS AFTER THE REPORTING PERIOD

There is no event after the reporting period which is required to be disclosed.

SUFFICIENCY OF PUBLIC FLOAT

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

FINANCIAL SUMMARY

A summary of the audited consolidated results and assets and liabilities of the Group for the last five financial years is set out on page 130 of this annual report.

INDEPENDENT AUDITOR

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

The consolidated financial statements of the Company for the year ended 31 December 2018 were audited by Deloitte Touche Tohmatsu. A resolution will be proposed at the 2019 AGM to re-appoint Deloitte Touche Tohmatsu as the independent auditor of the Company.

On behalf of the Board

Jay Chun
Chairman and Managing Director

Hong Kong, 26 March 2019

Corporate Governance Report

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

In the opinion of the Board, the Company has complied with the code provisions of the CG Code set out in Appendix 14 to the Listing Rules throughout the year ended 31 December 2018 except for certain deviations disclosed herein.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code as the code of conduct regarding Directors' securities transactions. Having made specific enquiry of all Directors, all Directors have confirmed that they had complied with the requirements set out in the Model Code during the year ended 31 December 2018.

BOARD OF DIRECTORS

(a) Board Composition

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

(b) Appointment and Re-election of Directors

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

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

(c) Directors' Attendance Records

During the year ended 31 December 2018, eleven Board meetings and an annual general meeting were held. The attendance of each member of the Board at these meetings are as follows:

	Number of attendance/meetings	
Directors	**Board meetings**	**Annual general meeting held on 21 May 2018**
Executive Directors:		
Mr. Jay Chun *(Chairman and Managing Director)*	11/11	1/1
Mr. Shan Shiyong, alias, Sin Sai Yung	0/11	0/1
Mr. Hu Liming	0/11	0/1
Independent Non-executive Directors:		
Mr. Li John Zongyang	8/11	0/1
Mr. Kai-Shing Tao	0/11	0/1
Ms. Tang Kiu Sam Alice	7/11	0/1

(d) Responsibilities and Delegations

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

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

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

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

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

(e) Corporate Governance Functions

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

During the year ended 31 December 2018, the Board had reviewed and monitored the Company's corporate governance practices, training and continuous professional development of Directors and the senior management of the Company, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance with the Model Code, the CG Code and disclosure in this Corporate Governance Report (including the nomination policy, dividend policy, board diversity policy and effectiveness of the risk management and internal control systems) from time to time.

(f) Environmental, Social and Governance Functions

The Board has overall responsibility for the Group's strategy and reporting in connection with ESG. An ESG team, reporting to the Board, is formed for the purpose of ESG evaluation and reporting with members who own ESG knowledge to conduct internal and external materiality assessments and skill in preparation of ESG reports. The ESG team members will, if they think fit, meet the employees from different departments to drive implementation, review their operations in order to identify relevant ESG issues and assess their materiality based on their impact to our businesses as well as the stakeholders.

DIVIDEND POLICY

In December 2018, the Board adopted a dividend policy of the Company (the "Dividend Policy"). Details of which are as follows:

The Board will meet semi-annually to consider and declare interim/final dividends, if any. The Board may also declare special dividends from time to time in addition to the interim/final dividends.

On consideration of any dividend, the Board will take into account the Company's distributable reserves, the Group's performance, liquidity position, expected working capital requirements, future prospects and other factors that the Board deems relevant, provided that payment of proposed dividend will not affect operations of the Group. The declaration and payment of dividend is subject to any applicable restrictions under the laws of Bermuda, the Bye-laws of the Company, the Listing Rules and any applicable laws, rules and regulations.

The Board will review the dividend policy from time to time and may exercise at its sole and absolute discretion to update, amend and/or modify the policy at any time as it deems fit and necessary.

There is no assurance that any particular amount of dividend will be paid for any given period.

NOMINATION POLICY

In December 2018, the Board adopted a nomination policy of the Company (the "Nomination Policy") which sets out the objectives, selection criteria and nomination procedures in appointment and re-appointment of Directors. The Nomination Policy specifies that the Company will nominate suitable candidates to the Board for it to consider and make recommendations to the Shareholders for election as Directors at general meetings, appointment as Directors to fill casual vacancies, Board succession planning considerations and periodical reviews of the plan.

CHAIRMAN AND MANAGING DIRECTOR

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

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

DIRECTORS' TRAINING AND PROFESSIONAL DEVELOPMENT

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

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

During the year ended 31 December 2018, the Directors complied with code provision A.6.5 of the CG Code and all Directors received regular briefings, updates and reading materials on the Group's business/operations/regulatory/corporate governance matters which are relevant to their duties and responsibilities. Directors are also encouraged to participate in professional development courses and seminars to develop and refresh their knowledge and skills.

COMMITTEES

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

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

Audit Committee

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

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

During the year ended 31 December 2018, the Audit Committee held two meetings. Members of the Audit Committee and the attendance of each member are as follows:

Directors	**Number of attendance/ meetings**
Independent Non-executive Directors:	
Mr. Li John Zongyang *(Chairman)*	2/2
Mr. Kai-Shing Tao	0/2
Ms. Tang Kiu Sam Alice	2/2

During the year ended 31 December 2018, the Audit Committee had performed the following duties:

— reviewed with the management and the independent auditor of the Company the audited consolidated financial statements, the results announcement and the annual report for the year ended 31 December 2017, the related accounting principles and practices adopted by the Group with recommendations to the Board for approval, and the relevant audit findings;

— reviewed the continuing connected transactions carried out during the year ended 31 December 2017;

— recommended the re-appointment of Deloitte Touche Tohmatsu as the independent auditor of the Company in the annual general meeting held on 21 May 2018;

— reviewed with the management of the Company the unaudited consolidated financial statements, the interim results announcement and the interim report for the six months ended 30 June 2018 and the related accounting principles and practices adopted by the Group with recommendations to the Board for approval;

— reviewed the nature and scope of the audit for the year ended 31 December 2018, the reporting obligations and the work plan of the independent auditor of the Company;

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

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

During the year ended 31 December 2018, the Audit Committee met two times with the independent auditor of the Company. The Company has met the requirement of code provision C.3.3(e)(i) of the CG Code, stating that the Audit Committee must meet, at least twice a year, with the independent auditor of the Company.

Remuneration Committee

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

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

During the year ended 31 December 2018, the Remuneration Committee held one meeting. Members of the Remuneration Committee and the attendance of each member are as follows:

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

During the year ended 31 December 2018, the Remuneration Committee had performed the following duties:

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

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

Pursuant to code provision B.1.5 of the CG Code, the annual remuneration of the senior management of the Company by band for the year ended 31 December 2018 were as follows:

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

Details of the remuneration of each of the Directors for the year ended 31 December 2018 are set out in note 10 to the consolidated financial statements.

Nomination Committee

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

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

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

The Nomination Committee also conducts an annual review of the independence of independent non-executive Directors with consideration of those factors set forth in Rule 3.13 of the Listing Rules before confirming their independence status to the Board. The relevant independent non-executive Directors will abstain from participating in the assessments of their own independence. Particular consideration will be given in assessing the independence of those independent non-executive Directors who have been serving on the Board for more than 9 years and seeking re-election in an annual general meeting. Reasons will be given in the circular for the annual general meeting to explain why the Board believes those independent non-executive Directors are still independent and should be re-elected.

During the year ended 31 December 2018, the Nomination Committee held one meeting. Members of the Nomination Committee and the attendance of each member are as follows:

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

During the year ended 31 December 2018, the Nomination Committee had performed the following duties:

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

— recommended the re-election of the retiring Directors at the annual general meeting of the Company held on 21 May 2018; and

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

The nomination procedures and the process and criteria adopted by the Nomination Committee to select and recommend for re-appointment of Directors during the year ended 31 December 2018 were as follows:

(1) The Nomination Committee considered each retiring Director, having due regard to the Nomination Policy, the Board Diversity Policy and the Listing Rules, and assessed the independence of each retiring independent non-executive Director;

(2) The Nomination Committee made recommendations to the Board;

(3) The Board considered each retiring Director recommended by the Nomination Committee, having due regard to the Nomination Policy, the Board Diversity Policy and the Listing Rules;

(4) The Board recommended the retiring Directors to stand for re-election at the annual general meeting in accordance with the Company's Bye-laws; and

(5) The Shareholders approved the re-appointment of Directors at the annual general meeting held on 21 May 2018.

REVIEW OF AUDITED CONSOLIDATED FINANCIAL STATEMENTS BY THE AUDIT COMMITTEE

The Audit Committee has reviewed with the management and the independent auditor of the Company the audited consolidated financial statements for the year ended 31 December 2018 and the related accounting principles and practices adopted by the Group.

INDEPENDENT AUDITOR AND ITS REMUNERATION

The statement of the independent auditor of the Company about their reporting responsibilities for the Company's consolidated financial statements for the year ended 31 December 2018 is set out in the section headed "Independent Auditor's Report" of this annual report.

The remuneration paid/payable to the independent auditor of the Company for the year ended 31 December 2018 is as follows:

Services rendered for the Company	HK$'000
Audit services	2,380
Non-audit services:	
— Interim review for the six months ended 30 June 2018	480
	2,860

ACCOUNTABILITY AND AUDIT

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

In preparation of the consolidated financial statements for the six months ended 30 June 2018 and for the year ended 31 December 2018, the Directors have adopted suitable accounting policies and applied them consistently. The consolidated financial statements for the year ended 31 December 2018 have been prepared on a going concern basis. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

COMPANY SECRETARY

During the year ended 31 December 2018, the company secretary of the Company has taken no less than 15 hours of relevant professional trainings.

SHAREHOLDERS' RIGHTS

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

Right to Convene Extraordinary General Meeting

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

Right to Put Enquiries to the Board

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

Right to Put Forward Proposals at General Meetings

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

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

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

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

Address:	Unit C, 19/F, Entertainment Building, 30 Queen's Road Central, Hong Kong
Fax No.:	(852) 2620 6000
Email:	paradise.ir@hk1180.com

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

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

MEMORANDUM OF ASSOCIATION AND BYE-LAWS OF THE COMPANY

During the year ended 31 December 2018, no amendment was made to the Memorandum of Association and the Bye-laws of the Company.

RISK MANAGEMENT AND INTERNAL CONTROL

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

The control structure of the Group is as follows:

The Board	• ensures the maintenance of appropriate and effective Systems in order to safeguard the Shareholders' investment and assets of the Group; • defines management structure with clear lines of responsibility and limit of authority; and • determines the nature and extent of significant risk that the Company is willing to take in achieving the strategic objectives and formulates the Group's risk management strategies.
The Audit Committee	• oversees the Systems of the Group; • reviews and discusses with the management of the Company at least annually to ensure that the management of the Company has performed its duty to have the effective Systems; and • considers major findings on internal control matters and makes recommendations to the Board.
The management of the Company (includes heads of business units, departments and divisions)	• designs, implements and monitors the Systems properly and ensure the Systems are executed effectively; • monitors risks and takes measures to mitigate risks in day-to-day operations; • gives prompt responses to, and follows up the findings on, internal control matters raised by internal auditor (if any) or the independent auditor; and • provides confirmation to the Board on the effectiveness of the Systems.

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

Risk Management

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

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

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

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

    The Group's control measures are as follows:

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

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

    The Group's control measures are as follows:

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

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

- To collaborate with IGT in distributing the electronic gaming equipment and systems of the Group.

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

The Group's control measures are as follows:

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

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

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

The Group's control measures are as follows:

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

- To collaborate with IGT to speed up the distribution of the electronic gaming equipment and systems of the Group around the world;

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

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

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

The Group's control measure is as follows:

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

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

The Group's control measures are as follows:

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

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

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

The Group's control measure is as follows:

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

(h) Capital risk and financial risks as set out in notes 33 and 34 to the consolidated financial statements, respectively.

The Group's control measure is as follows:

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

Internal Controls

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

(a) Financial reporting management:

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

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

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

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

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

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

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

The Board and the Audit Committee review the Group's Systems on an annual basis.

During the year ended 31 December 2018, the Board and the Audit Committee reviewed the Group's Systems and are not aware of any material risks, deficiencies and issues that would have an adverse impact on the effectiveness and adequacy of the Systems and the operations of the Group.

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

Environmental, Social and Governance Report

In accordance with the requirements set forth in Appendix 27—Environmental, Social and Governance Reporting Guide (the "ESG Reporting Guide") to the Listing Rules, the Group hereby presents the ESG report for the year ended 31 December 2018.

ESG GOVERNANCE

The Group is of the belief that good and effective ESG measures are important to the sustainable development of our business and of our community. The Board is responsible for the Group's ESG strategy and reporting, including evaluating and determining ESG-related risks and ensuring that appropriate and effective ESG risk management and internal control systems are in place. In this connection, an ESG team whose members have equipped requisite knowledge on ESG issues, reporting to the Board, is formed to discharge the tasks in identifying and understanding the main concerns and material interests of the Company's stakeholders for the ESG report. The Group aspires to create long-term value for our stakeholders that is in line with the sustainable and responsible growth of our business, and we believe that transparency and accountability are important foundations for building trust with our stakeholders. The ESG team members strive to maintain an open and transparent dialogue with various stakeholders including employees, customers, suppliers, Shareholders, investors, media and local communities for the purpose of conducting ESG evaluation and materiality assessments, both internal and external. The ESG team members will, if they think fit, engage our key stakeholders on a regular basis across various platforms, such as meetings, interviews, surveys and workshops to gauge their expectations and feedback on how we could address ESG issues in the best manner. For instance, the ESG team members target to meet the employees from different departments to drive implementation, review their operations in order to identify relevant ESG issues and assess their materiality based on their impact to our businesses as well as the stakeholders. Based on the inputs of our key stakeholders, the ESG team prioritises aspects relating to environmental discharges, use of resources, employment and labour standards, operating practices and community outreach. Key initiatives and activities are summarised in the rest of this ESG report. ESG performance is measured, reviewed and reported to management regularly for continuous improvement. The Board oversees the directions of our ESG practices to ensure that they are in line with the business operations.

SCOPE OF REPORTING

This report outlines the policies, initiatives and performance of the Group's core business operations. In particular for Section A "Environmental" of this report, unless otherwise specifically stated, the main ESG issues considered to be material to the Group are those related to the gaming business operations in the two stand-alone satellite casino properties in Macau, namely, Casino Kam Pek Paradise and Casino Waldo (collectively the "Two Satellite Casinos"), of which the Group is currently the sole casino management service provider. Accordingly, the key performance indicators ("KPIs") shown in Section A of this report relate to the Two Satellite Casinos only, unless otherwise specifically stated.

STAKEHOLDER ENGAGEMENT

Through discussions with internal staff and external suppliers and external organisations, we have identified our employees, patrons and our suppliers as our key stakeholders. We consider our key stakeholders as valued partners and have set up strategic and collaborative business relationships to better understand their respective needs. Through our communication channels with the stakeholders, we map out and prioritise our ESG issues and enhance our understanding of the views and expectations of our stakeholders, enabling us to better assess and manage the impact of our activities.

MATERIALITY ASSESSMENT

After discussion with the key stakeholders, the ESG team has prepared a materiality matrix for the purpose of materiality assessment. The result of the materiality assessment advises the Group that material ESG issues of the Two Satellite Casinos are as follows:

- Employment
- Labour standards
- Development and training
- Health and safety
- Anti-corruption
- Responsible gaming
- Data privacy
- Emissions

These material ESG issues will be discussed in this report.

A. ENVIRONMENTAL

The Group has established environmental policies aiming to lessen its impact on the environmental and natural resources by using its resources more efficiently, and by monitoring and minimizing its energy consumption and thereby reducing emissions as practicable as possible. The Group's environmental policies cover material environmental issues including emissions, use of resources and other environmental impacts, and are more described in the sections below in respect of the Two Satellite Casinos. The Group complies with relevant environmental laws and regulations in Macau and did not note any cases of material non-compliance during the year ended 31 December 2018.

A1 Emissions

A1.1 Air Emissions

Emissions Data from Gaseous Fuel Consumption

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

A. ENVIRONMENTAL (Continued)

A1 Emissions (Continued)

A1.1 Air Emissions (Continued)

Emissions Data from Vehicles

Emissions from operations of the Two Satellite Casinos are mainly generated from vehicles. In order to improve air quality, the Group aims to reduce air emissions generated from its operations. Considering that the Two Satellite Casinos locate in the city of the Macau Peninsula supported by good network of public transport facilities with close proximity, the Two Satellite Casinos currently do not provide shuttle bus services connecting passengers for instance between border gates and Casino Kam Pek Paradise and/or Casino Waldo. The lack of such shuttle bus operation reduces traffic and emissions on Macau roads. For the purpose of compliance with the disclosure requirements under the ESG Reporting Guide, details of air emissions data for the year ended 31 December 2018 in respect of the Two Satellite Casinos are as follows:

Type of emissions	Unit	2018	2017
Nitrogen oxides (NO_X)	Kg	**20**	20
Sulphur oxides (SO_X)	Kg	**1**	1
Particulate matter (PM)	Kg	**1**	1
Total emissions	Kg	**22**	22
Emissions per sq. ft.	Kg/sq. ft.	**0.0001 Kg**	0.0001 Kg

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

For the year ended 31 December 2018, the Group maintained same level of the use of vehicles, therefore the amount of emissions and intensity for 2018 were kept at a similar low level as those for 2017. The Two Satellite Casinos target to at least maintain or even reduce air emissions by the year ending 31 December 2019.

A1.2 Greenhouse Gas Emissions

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

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

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

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

A. ENVIRONMENTAL (Continued)

A1 Emissions (Continued)

A1.2 Greenhouse Gas Emissions (Continued)

The main sources of GHG emissions arising from our business activities in respect of the Two Satellite Casinos for the year ended 31 December 2018 are the consumption of gasoline, diesel and electricity purchased from power companies. As the Group is principally engaged in the provision of casino management services as well as the development, sale and leasing of electronic gaming equipment and systems, other indirect emissions under Scope 3 that occur outside the Group are insignificant and accordingly, such emission data is not provided in this report.

GHG emissions data, measured in terms of carbon dioxide equivalent ("CO_2e"), of the Two Satellite Casinos for the year ended 31 December 2018 are as follows:

		Unit	2018	2017
Scope 1	Gasoline and diesel consumed by vehicles	Ton	**97**	96
Scope 2	Electricity purchased	Ton	**5,534**	5,653
	Total emissions	Ton	**5,631**	5,749
	Emissions per sq. ft.	Kg/sq. ft.	**27**	29

Scope 1 and Scope 2 emissions in 2018 were maintained at similar levels to those for 2017 despite increase in deployment of LMG terminals (and hence increase in floor area occupied) in Casino Waldo in 2018. This reflects the Group's effort to minimise the use of electricity, gasoline and diesel. The Two Satellite Casinos target to at least maintain or even reduce greenhouse gas emissions by the year ending 31 December 2019.

A1.3 Hazardous Waste

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

A1.4 Non-hazardous Waste

In view of the principal business operations of the Two Satellite Casinos and also the measures adopted by the Group to mitigate non-hazardous as more described in Section A1.6 below, non-hazardous wastes produced such as paper waste and water waste are insignificant. Accordingly, data of non-hazardous waste is not provided in this report.

A. ENVIRONMENTAL (Continued)

A1 Emissions (Continued)

A1.5 Measures to Mitigate Emissions

The main source of emissions of the Two Satellite Casinos is the use of energy. The Group is committed to reducing our emissions through our resource efficiency initiatives wherever possible. For instance, the Group notes that the carbon footprint produced by business trips shall increase GHG emissions although its impact is not significant as far as the business of the Group is concerned. As part of the Group's green policy, employees of the Group are encouraged to reduce and minimise business trips unless they are strictly necessary. Telephone conference facilities are installed in the offices and certain meetings by means of telephone conference have been conducted in lieu of physical conferences. In turn, physical business trips are insignificant, and so as GHG emissions in this respect. The Group has also adopted various energy-saving initiatives to reduce its emissions. Please refer to the Section A2 "Use of Resources" below for details.

A1.6 Measures to Mitigate Non-hazardous Waste

The Group, as well as the Two Satellite Casinos, has managed to keep their level of non-hazardous waste low as a result of the Group's policy in reducing wastes. In order to reduce paper waste, the Group advocates the policy "Reduce, Reuse and Recycle", and encourages its staff to reduce paper usage and recycle paper waste where possible. For example, the use of recycled papers and double-sided printing and photo-copying are adopted and the Group's Interim Report 2018 and Annual Report 2017 are made of papers certified by the Forest Stewardship Council. Moreover, waste toner cartridges are recycled. Paperless approval processes and paperless meetings are encouraged to reduce the use of hardcopy documents where applicable. On the other hand, in order to reduce waste plastic bottles (from bottled distilled water to casino players), there are water bars in the Two Satellite Casinos where hot water, distilled water dispenser and metallic cups are provided to casino players. Since the adoption of water bars, waste plastic bottles have been reduced drastically. The Two Satellite Casinos target to at least maintain or even reduce non-hazardous waste by the year ending 31 December 2019.

A2 Use of Resources

A2.1 Energy Consumption

Direct and/or indirect energy consumed by the Two Satellite Casinos for the year ended 31 December 2018 are as follows:

Type	Unit	2018	2017
Consumption:			
Gasoline	Litre	**33,344**	32,804
Diesel	Litre	**2,688**	2,856
Electricity purchased	Kwh	**15,239,304**	15,568,068
Intensity:			
Gasoline	Litre/sq. ft.	**0.16**	0.17
Diesel	Litre/sq. ft.	**0.01**	0.01
Electricity purchased	Kwh/sq. ft.	**72.16**	78.38

A. ENVIRONMENTAL (Continued)

A2 Use of Resources (Continued)

A2.1 Energy Consumption (Continued)

The consumption of gasoline and diesel and their intensity for 2018 were maintained at similar levels than those for 2017. The quantity of electricity purchased in 2018 decreased by 2.1% when compared to that in 2017 despite increase in deployment of LMG terminals (and hence increase in floor area occupied) in Casino Waldo in 2018. Therefore, intensity of electricity purchased in 2018 decreased by 7.9% when compared to that in 2017. This reflects the Group's effort to minimise the use of electricity, gasoline and diesel. The Two Satellite Casinos target to at least maintain or even reduce consumption of gasoline, diesel and electricity by the year ending 31 December 2019.

A2.2 Water Consumption

Water consumed by the Two Satellite Casinos for the year ended 31 December 2018 is as follows:

	Unit	2018	2017
Water consumed	M^3	**22,378**	23,009
Intensity of water consumed	M^3/sq. ft.	**0.11**	0.12

Compared with 2017, the consumption of water in 2018 decreased by 2.7% which reflects the Group's effort to minimise the consumption of water. The Two Satellite Casinos target to at least maintain or even reduce water consumption by the year ending 31 December 2019.

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

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

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

In order to reduce consumption of paper, collection boxes have been put in place to collect single-side used papers for reuse as draft papers and other scrap papers for recycling. Staff are reminded the necessity in email communications before printing out in hard copies to reduce unnecessary paper usage. Moreover, paperless approval processes are adopted.

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

A. ENVIRONMENTAL (Continued)

A2 Use of Resources (Continued)

A2.3 & A2.4 Energy and Water Efficiency Initiatives (Continued)

Since there are no rivers within the territory of Macau where the Two Satellite Casinos operate, the facilities of rainwater storage are very limited. The main source of water in Macau is supplied from Zhuhai, with Xijiang River as the source. The water source in Macau is generally considered to be in low risk of lack of potable water supply. The Two Satellite Casinos did not have any material concerns with respect to sourcing potable water we require for our operations during the year ended 31 December 2018.

The Two Satellite Casinos target to at least maintain or even reduce consumption of gasoline, diesel, electricity, water and emissions by the year ending 31 December 2019.

A2.5 Packaging Material

In view of the business nature of the Two Satellite Casinos being mainly the provision of casino management services, the packaging material used for finished products is not significant and accordingly, such packaging material data is not provided in this report.

A3 The Environment and Natural Resources

The Group recognises the responsibility in managing the Group's impact on the environment. For this reason, the Group has adopted series of initiatives as set out above in order to minimise emissions and consumption of energy and resources. The Group closely monitors the utilisation of resources and shall take appropriate actions to seek opportunities for increasing operating efficiency in order to reduce the consumption on non-renewable resources where possible. The Group shall assess the environmental risks of the Group's operations and ensure the Group's compliance with relevant laws and regulations in Macau from time to time. During the year ended 31 December 2018, the Group did not recognise any significant non-compliance with relevant laws and regulations in Macau in this aspect.

Indoor Air Quality

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

The Group did not note any cases of material non-compliance with Air Pollution Control Ordinance and Water Pollution Control Ordinance of Hong Kong or the applicable legislation in Macau regarding the Group's operations during the year ended 31 December 2018.

B. SOCIAL

B1 Employment

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

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

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

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

The Group did not note any cases of material non-compliance with the "Labour Relations Law" of the Labour Affairs Bureau of Macau and the "Labour Legislation" of Labour Department of Hong Kong during the year ended 31 December 2018.

B2 Health and Safety

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

The Group did not note any cases of material non-compliance with the Occupational Safety and Health Ordinance of Hong Kong or the applicable legislation in Macau during the year ended 31 December 2018.

B. SOCIAL (Continued)

B3 Development and Training

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

B4 Labour Standards

Anti-Child and Forced Labour

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

The Group did not note any cases of material non-compliance with the "Labour Relations Law" of the Labour Affairs Bureau of Macau and the "Labour Legislation" of Labour Department of Hong Kong during the year ended 31 December 2018.

B5 Supply Chain Management

The Group promotes green and environmental-friendly procurement in its operations. Suppliers using recycled materials and products made of recycled material are preferred, in order to mitigate the amount of waste produced. The suppliers are required to adhere to the Group's ESG policies including but not limited to:

– Provision of safe working environment;

– Prohibition of child and forced labour;

– Fair wages and fair working environment without discrimination; and

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

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

B. SOCIAL (Continued)

B6 Product Responsibility

Responsible Gaming

As a group engaged in the provision of casino management services, the Group is committed to promoting responsible gaming and supporting Macau government's relevant measures. The Group promotes responsible gaming in a variety of ways, including:

– Notice boards and posters are in place to improve the awareness of problem gambling among the Group's employees and the patrons;

– Staff of the Two Satellite Casinos are prohibited at all times from gambling at any gaming venue thereunder at which they are employed pursuant to Article 4, Clause 3 of Law No. 10/2012- Regulating the Conditions of Entering, Working and Gaming at Casinos in Macau;

– The Group shall also seek suitable opportunities to take part in the events with non-profitable or charitable organisations and academic institutions in Macau to alleviate the adverse social impact as a result of problem gaming;

– Providing our employees with training on responsible gaming as part of their orientation; and

– Assisting our customers in obtaining information about responsible gaming.

Data Privacy

The Group understands the importance of data privacy. The Group is committed to protecting the privacy of its customers in collection, processing and use of their personal data. The Group has adopted policies on consumer data protection in compliance with relevant laws and regulations. Training courses on data privacy and protection of data have been conducted. The Group did not note any cases of material non-compliance with the Personal Data (Privacy) Ordinance of Hong Kong and the Personal Data Protection Act of Macau in relation to data privacy during the year ended 31 December 2018.

B7 Anti-corruption

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

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

The Group did not note any cases of material non-compliance with the relevant Prevention of Bribery Ordinance and Anti-money laundering Ordinance of Hong Kong and Macau during the year ended 31 December 2018.

B. SOCIAL (Continued)

B8 Community Investment

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

For the benefit of the Macau community in advancing arts, culture and sports, the Group has been supporting and sponsoring a variety of activities to attain social harmony. Major initiatives during the year ended 31 December 2018 which attracted popularity and applause from the Macau community include sponsoring and supporting the following events:

– music events known as "Ooh! Macau MV Awards" and "MFM RULE OF THREE CONCERT 2018"; and

– "Walk for Millions" charitable event in Macau.

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

The Group is also dedicated to supporting the advancement of education for young people, helping them establish a strong and solid foundation of their chosen careers. During the year ended 31 December 2018, the Group offered scholarships to eligible students of the Macau Polytechnic Institute. The Group will continue to look for opportunities to support selected universities and institutions in Macau to develop local talents for the betterment of Macau in advancing its competitiveness in the long run.

SELECTED MAJOR AWARDS

The following table shows selected major awards received by the Group during the year ended 31 December 2018:

Award Name	Presenter
Annual Technological Development Contribution Award	China (Macau) Financial Awards Organising Committee
Best China Investor Relations Award • Best Director Award • Greatest Potential Award	Roadshow China
The 18th Golden Horse Award of China Hotel — Best Cantonese Restaurant	Evaluation Committee of China Hotel Golden Horse Award

Deloitte. 德勤

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

OPINION

We have audited the consolidated financial statements of Paradise Entertainment Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 63 to 129, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of the intangible asset and property, plant and equipment	
We have identified the impairment assessment of the intangible asset and property, plant and equipment allocated to the single cash-generating unit comprising the patent for the computerised gaming system for operating multi-gambling games in Macau (the "Macau Patent CGU") as a key audit matter due to the significant level of management judgment involved in determining the recoverable amount of the Macau Patent CGU for impairment assessment on the intangible asset and property, plant and equipment. As set out in notes 15(a) and 14 to the consolidated financial statements, as at 31 December 2018, intangible asset of approximately HK$80,919,000 represents patent pertaining to the computerised gaming system for operating multi-gambling games installed on the electronic gaming equipment which operate in certain casinos in Macau, and the property, plant and equipment of approximately HK$205,449,000, respectively, are allocated to the Macau Patent CGU. In the opinion of the directors of the Company, no impairment loss was identified on the intangible asset and the related property, plant and equipment as at 31 December 2018. The valuation of intangible asset and property, plant and equipment in relation to patent is assessed by comparing the recoverable amount of the Macau Patent CGU, to their carrying amounts at the end of each reporting period. The recoverable amount of the Macau Patent CGU is the value in use of the Macau Patent CGU determined by the directors of the Company based on the present value of estimated future cash flows to be generated over the remaining license period and with reference to the valuation report prepared by an independent professional valuer, which was approved by the directors of the Company. The key assumptions adopted by the management in the value in use calculation for the recoverable amount of the Macau Patent CGU are growth rates of revenue and costs and pre-tax discount rate.	Our procedures in relation to the impairment assessment of the intangible asset and property, plant and equipment included: • Obtaining an understanding of the impairment assessment process used by the management and involvement of the independent professional valuer engaged by the Company to estimate the recoverable amounts based on a value in use calculation; • Assessing the competence, capabilities and objectivity of the independent professional valuer; • Assessing the reasonableness of the key assumptions adopted by the management in determining the recoverable amount of the Macau Patent CGU, including growth rates of revenue and costs and discount rate, with the involvement of our valuation specialist; • Evaluating the historical accuracy and reasonableness of the value in use calculation by comparing the historical cash flow forecasts with the actual performance of the Macau Patent CGU; • Understanding the key assumptions applied to the valuation with reference to available market data; and • Evaluating whether the disclosures are appropriately made in accordance with the Hong Kong Accounting Standard ("HKAS") 16 "Property, Plant and Equipment", HKAS 36 "Impairment of Assets" and HKAS 38 "Intangible Assets".

Key audit matter	How our audit addressed the key audit matter
Estimation of write-down amount of trading goods	
We have identified the estimation of the write-down amount of trading goods as a key audit matter due to the estimation uncertainty inherent in the management's process in determining the write-down amount of slow-moving and obsolete trading goods. As at 31 December 2018, the carrying amount of trading goods, after the write-down amount of HK$4,961,000, was HK$54,082,000. As disclosed in note 4 to the consolidated financial statements, the management of the Group identifies slow-moving and obsolete trading goods with reference to an aged analysis and the management's assessment of technical specification and determines the write-down amount for trading goods by considering the saleability of trading goods.	Our procedures in relation to the estimation of the write-down amount of trading goods included: • Obtaining an understanding of the Group's write-down policy for trading goods and evaluating management's process in identifying slow-moving and obsolete trading goods and determining the write-down amount for those trading goods; • Checking the accuracy of the aged analysis for trading goods, on a sample basis, to purchase invoices and goods receipt notes; • Tracing the subsequent sales of the trading goods, on a sample basis, to the sales invoices and goods delivery notes and comparing the sales price to the recorded cost to ensure the inventory is valued at lower of cost and net realizable value; and • Evaluating the sufficiency of the write-down amount for slow-moving and obsolete trading goods with reference to sales history or subsequent sales, current market conditions and the management's assessment of technical specification.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
26 March 2019

Consolidated Statement of Profit or Loss

For the year ended 31 December 2018

	Notes	**2018 HK$'000**	2017 HK$'000
Revenue	5	**1,164,207**	1,011,844
Cost of sales and services		**(633,201)**	(605,978)
Gross profit		**531,006**	405,866
Other income, gains and losses	7	**15,670**	21,510
Marketing, selling and distribution costs		**(235,868)**	(214,490)
Operating and administrative expenses		**(244,398)**	(241,534)
Amortisation of intangible assets		**(12,138)**	(12,137)
Finance costs	8	**(712)**	(5,987)
Profit (loss) before taxation	9	**53,560**	(46,772)
Taxation	11	**(403)**	(680)
Profit (loss) for the year		**53,157**	(47,452)
Profit (loss) for the year attributable to:			
Owners of the Company		**58,224**	(30,698)
Non-controlling interests		**(5,067)**	(16,754)
		53,157	(47,452)
Earnings (loss) per share:	13		
— Basic		**HK5.5 cents**	HK(2.9) cents
— Diluted		**N/A**	HK(2.9) cents

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
Profit (loss) for the year	**53,157**	(47,452)
Other comprehensive (expense) income:		
Item that will not be reclassified subsequently to profit or loss:		
Fair value loss on investment in equity instruments designated at fair value through other comprehensive income	**(1,277)**	—
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of foreign operations	**(917)**	847
Fair value gain on available-for-sale investment in equity securities	**—**	1,591
Other comprehensive (expense) income for the year	**(2,194)**	2,438
Total comprehensive income (expense) for the year	**50,963**	(45,014)
Total comprehensive income (expense) for the year attributable to:		
Owners of the Company	**56,264**	(28,548)
Non-controlling interests	**(5,301)**	(16,466)
	50,963	(45,014)

Consolidated Statement of Financial Position

As at 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Non-current assets			
Property, plant and equipment	14	**246,938**	134,920
Intangible assets	15	**80,919**	93,057
Interests in an associate	16	**—**	—
Investment in equity instruments designated at fair value through other comprehensive income	17	**1,428**	—
Available-for-sale investment in equity securities	17	**—**	2,706
Other assets	18	**4,363**	15,650
		333,648	246,333
Current assets			
Inventories	19	**78,998**	62,675
Trade and other receivables	20	**176,199**	169,646
Finance lease receivables	21	**—**	11,393
Amount due from a related company	22	**901**	583
Pledged bank deposit	23	**28,800**	—
Bank balances and cash	24	**264,827**	250,848
		549,725	495,145
Current liabilities			
Trade and other payables	25	**151,492**	148,882
Amounts due to directors	22	**2,239**	2,973
Taxation payable		**11,878**	11,868
Bank borrowing — due within one year	26	**5,048**	—
		170,657	163,723
Net current assets		**379,068**	331,422
Total assets less current liabilities		**712,716**	577,755
Non-current liability			
Bank borrowing — due after one year	26	**83,998**	—
Net assets		**628,718**	577,755

Consolidated Statement of Financial Position (Continued)

As at 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Capital and reserves			
Share capital	27	**1,052**	1,052
Reserves		**581,863**	525,599
Equity attributable to owners of the Company		**582,915**	526,651
Non-controlling interests		**45,803**	51,104
		628,718	577,755

The consolidated financial statements on pages 63 to 129 were approved and authorised for issue by the board of directors on 26 March 2019 and are signed on its behalf by:

JAY CHUN
Director

TANG KIU SAM ALICE
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Attributable to owners of the Company									
	Share capital HK$'000	**Share premium** HK$'000	**Warrants reserve** HK$'000 (note ii)	**Contributed surplus** HK$'000 (note iii)	**Investment revaluation reserve** HK$'000	**Translation reserve** HK$'000	**Accumulated losses** HK$'000	**Subtotal** HK$'000	**Non-controlling interests** HK$'000	**Total** HK$'000
At 1 January 2017	1,052	927,197	1,500	119,612	–	21,046	(515,208)	555,199	67,570	622,769
Loss for the year	–	–	–	–	–	–	(30,698)	(30,698)	(16,754)	(47,452)
Other comprehensive income for the year	–	–	–	–	1,304	846	–	2,150	288	2,438
Total comprehensive income (expense) for the year	–	–	–	–	1,304	846	(30,698)	(28,548)	(16,466)	(45,014)
Reduction of share premium (note i)	–	(927,197)	–	927,197	–	–	–	–	–	–
Lapse of warrants (note ii)	–	–	(1,500)	–	–	–	1,500	–	–	–
At 31 December 2017	1,052	–	–	1,046,809	1,304	21,892	(544,406)	526,651	51,104	577,755
Profit (loss) for the year	–	–	–	–	–	–	58,224	58,224	(5,067)	53,157
Other comprehensive expense for the year	–	–	–	–	(1,047)	(913)	–	(1,960)	(234)	(2,194)
Total comprehensive (expense) income for the year	–	–	–	–	(1,047)	(913)	58,224	56,264	(5,301)	50,963
At 31 December 2018	1,052	–	–	1,046,809	257	20,979	(486,182)	582,915	45,803	628,718

Notes:

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

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

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

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
Operating activities		
Profit (loss) before taxation	**53,560**	(46,772)
Adjustments for:		
Interest income	**(4,394)**	(5,294)
Finance costs	**712**	5,987
Amortisation of intangible assets	**12,138**	12,137
Depreciation of property, plant and equipment	**58,084**	57,155
Loss (gain) on disposal of property, plant and equipment	**642**	(4,762)
Impairment loss on amount due from an associate	**—**	5
Loss allowance on financial assets	**258**	6,700
Write-down of inventories	**4,961**	9,825
Operating cash flows before movements in working capital	**125,961**	34,981
Increase in inventories	**(21,284)**	(7,231)
Decrease in trade and other receivables	**2,338**	60,493
Decrease in finance lease receivables	**9,467**	181
Increase in amount due from a related company	**(678)**	—
Increase (decrease) in trade and other payables	**2,543**	(33,732)
Cash from operations	**118,347**	54,692
Lump Sum Dividend Tax paid	**(378)**	(331)
PRC Enterprise Income Tax paid	**(15)**	(157)
Tax in other jurisdictions paid	**—**	(105)
Net cash from operating activities	**117,954**	54,099
Investing activities		
Purchases of property, plant and equipment	**(163,988)**	(22,797)
Placement of pledged bank deposit	**(28,800)**	—
Deposits paid for acquisitions of property, plant and equipment	**(1,084)**	(4,466)
Interest received	**2,525**	3,742
Repayment from a related company	**360**	6,531
Proceeds on disposal of property, plant and equipment	**187**	—
Advance to an associate	**—**	(5)
Net cash used in investing activities	**(190,800)**	(16,995)

	2018 HK$'000	2017 HK$'000
Financing activities		
New bank borrowing raised	90,291	—
Repayment of bank borrowing	(1,245)	—
Repayments to directors	(734)	(736)
Interest paid	(644)	—
Repayment of promissory note	—	(94,000)
Net cash from (used in) financing activities	87,668	(94,736)
Net increase (decrease) in cash and cash equivalents	14,822	(57,632)
Cash and cash equivalents at beginning of the year	250,848	307,754
Effect of foreign exchange rate changes	(843)	726
Cash and cash equivalents at end of the year, representing bank balances and cash	264,827	250,848

1. GENERAL

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

The Company is an investment holding company of a diverse group of companies that are principally engaged in provision of the casino management services, and the development, sale and leasing of electronic gaming equipment and systems. The principal activities of its principal subsidiaries are set out in note 38.

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

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

New and amendments to HKFRSs that are mandatorily effective for the current year

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

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

In addition, the Group has early applied Amendments to HKFRS 9 "Prepayment Features with Negative Compensation" which will be mandatorily effective for the Group for the financial year beginning on 1 January 2019.

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

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

HKFRS 15 “Revenue from Contracts with Customers”

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 “Revenue”, HKAS 11 “Construction Contracts” and the related interpretations.

The Group recognises revenue from the following major sources:

- provision of casino management services
- development, sale and leasing of electronic gaming equipment and systems

The Group has applied the full retrospective method of transition to HKFRS 15 and no comparative figures have been restated as the impact is negligible.

Information about the Group’s performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in notes 5 and 3, respectively.

Effects arising from initial application of HKFRS 15

At the date of initial application, the Group has assessed that the application of HKFRS 15 does not have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

HKFRS 9 “Financial Instruments” and the related amendments

In the current year, the Group has applied HKFRS 9 “Financial Instruments”, Amendments to HKFRS 9 “Prepayment Features with Negative Compensation” and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses (“ECL”) for financial assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9. i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening accumulated losses and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 “Financial Instruments: Recognition and Measurement”.

Accounting policies resulting from application of HKFRS 9 are disclosed in note 3.

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

HKFRS 9 "Financial Instruments" and the related amendments (Continued)

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement of financial assets and financial liabilities and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	AFS investment in equity securities HK$'000	Investment in equity instruments designated at FVTOCI HK$'000
Closing balance at 31 December 2017		
— HKAS 39	2,706	—
Effect arising from initial application of HKFRS 9:		
Reclassification		
From AFS to FVTOCI (note (a))	(2,706)	2,706
Opening balance at 1 January 2018	—	2,706

Notes:

(a) Reclassification from available-for-sale ("AFS") investment in equity securities to investment in equity instruments designated at fair value through other comprehensive income ("FVTOCI").

The Group elected to recognise the fair value changes of all its investment in equity securities previously classified as AFS investment in equity securities in other comprehensive income ("OCI"). These securities are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of HKFRS 9, HK$2,706,000 were reclassified from AFS investment in equity securities to investment in equity instruments designated at FVTOCI. The fair value gain of HK$1,304,000 relating to those instruments previously carried at fair value continued to accumulate in investment revaluation reserve.

(b) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for trade receivables, from gaming operators and customers in relation to sale and leasing of gaming equipment and systems, finance lease receivables and amount due from a related company in trade nature. The ECL on these assets are assessed individually for receivables with significant balances and/or collectively using a provision matrix with appropriate groupings.

ECL for other financial assets at amortised cost, comprising of other receivables including chips on hands, loan receivable, amount due from a related company in non-trade nature, pledged bank deposit and bank balances are assessed on 12 months ECL ("12m ECL"), as there has been no significant increase in credit risk since initial recognition.

As at 1 January 2018, no additional credit loss allowance has been recognised against accumulated losses as the estimated allowance under the ECL model were not significantly different to the losses previously recognised under HKAS 39.

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

HKFRS 9 "Financial Instruments" and the related amendments (Continued)

Summary of effects arising from initial application of HKFRS 9 (Continued)

For the purposes of reporting cash flows from operating activities under indirect method for the year ended 31 December 2018, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2018 as disclosed above.

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[2]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1 and HKAS 8	Definition of Material[5]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2019.
2 Effective for annual periods beginning on or after 1 January 2021.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for business combinations and assets acquisition for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.
5 Effective for annual periods beginning on or after 1 January 2020.

Except for the new HKFRSs below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

HKFRS 16 "Leases"

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

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

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

HKFRS 16 "Leases" (Continued)

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

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of HK$49,247,000 as disclosed in note 30. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of HK$6,721,000 and refundable rental deposits received of HK$406,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 "Determining whether an Arrangement contains a Lease" and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC)-Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening accumulated loses without restating comparative information.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

The principal accounting policies are set out below.

Basis of consolidation

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

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

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

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

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

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation

Interests in an associate

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interests in an associate (Continued)

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

The Group assesses whether there is an objective evidence that the interest in an associate may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

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

Leasehold land and buildings

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model. When the payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

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

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

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

Intangible assets

Intangible assets acquired separately

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

Internally-generated intangible assets — research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (Continued)

Internally-generated intangible assets — research and development expenditure (Continued)

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

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

Impairment on tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of tangible and intangible assets are estimated individually, when it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

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

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

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

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

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) (Continued)

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments/receivables subsequently measured at FVTOCI. For financial instruments other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

(ii) Investment in equity instruments designated at FVTOCI

Investment in equity instruments designated at FVTOCI is subsequently measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the investment revaluation reserve; and is not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity instruments and will be transferred to accumulated losses.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income, gains and losses" line item in profit or loss.

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including financial lease receivables, trade receivables from gaming operators and customers in relation to sale and leasing of gaming equipment and systems, other receivables including chips on hand, loan receivable, amount due from a related company, pledged bank deposit and bank balances). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12m ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for finance lease receivables, trade receivables and amount due from a related company in trade nature. The ECL on finance lease receivables, trade receivables and amount due from a related company in trade nature are assessed individually for receivables with significant balances and/or collectively using a provision matrix with appropriate groupings.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (Continued)

For all other instruments including other receivables, loan receivable, amount due from a related company in non-trade nature, pledged bank deposit and bank balances, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the ability of the debtor to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor; and

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full.

The Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (Continued)

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over three years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with HKAS 17 "Leases".

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (Continued)

(v) Measurement and recognition of ECL (Continued)

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the basis:

- nature of financial instruments (i.e. the Group's trade and other receivables, finance lease receivables, loan receivable, amount due from a related party, pledged bank deposits and bank balances are each assessed as a separate group);
- past-due status;
- nature, size and industry of receivables; and
- external credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018) (Continued)

(i) AFS financial assets

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

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

(ii) Loans and receivables

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

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

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018) (Continued)

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

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

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

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

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

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

Derecognition of financial assets

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

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in equity instruments which the Group has elected on initial recognition to measure at FVTOCI upon application of HKFRS 9, the cumulative gain or loss previously accumulated in the investment revaluation reserve is not reclassified to profit or loss, but is transferred to accumulated losses.

On derecognition of an AFS financial assets, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments

Classification as debt or equity

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

Financial liabilities at amortised cost

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

Equity instrument

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

Derecognition of financial liabilities

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

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2)

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2) (Continued)

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Warranties

As a customer does not have the option to purchase a warranty which provides assurance that the product complies with agreed-upon specification separately, the Group accounts for the warranty in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets".

Principal versus agent

When another party is involved in providing services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified services itself (i.e. the Group is a principal) or to arrange for those services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified services before that service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified services by another party. In this case, the Group does not control the specified services provided by another party before that services is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

Revenue recognition (prior to 1 January 2018)

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (prior to 1 January 2018) (Continued)

Revenue arising from management services provided to gaming operators in Macau under service arrangements for gaming operations in mass market hall and slot machine hall is recognised as a performance obligation satisfied over time as the Group is entitled to receive its service income according to the relevant operating performance from the gaming operators.

Other service income is recognised when the services are provided.

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

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

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

Borrowing costs

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

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

Taxation

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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

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

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax is recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax is also recognised in other comprehensive income or directly in equity, respectively.

Foreign currencies

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases

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

The Group as lessor

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

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

The Group as lessee

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

Retirement benefit costs

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

Short-term employee benefits

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

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Revenue recognition from sales of electronic gaming equipment and systems at a point in time

Under HKFRS 15, control of the asset is transferred over time when the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date. Significant judgment is required in determining whether the terms of the Group's contracts with customers in relation to create an enforceable right to payment for the Group. Based on the assessment of the management, the terms of the relevant sales contracts do not create an enforceable right to payment for the Group after taking into consideration indicators. Accordingly, the sales of electronic gaming machines with no alternative use is considered the performance obligation satisfied at a point in time.

Key sources of estimation uncertainty

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

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

Determining whether the intangible asset and property, plant and equipment are impaired requires an estimation of the recoverable amount of the Macau Patent CGU (as defined in note 15(a)) to which these assets are allocated. The recoverable amount is based on the estimated value in use which is the aggregate of present value of estimated future cash flows. Where the actual future cash flows are less than expected, a material impairment loss may arise. The Group believes that no provision for impairment has to be recognised for the years ended 31 December 2018 and 31 December 2017. The situation will be closely monitored, and adjustments will be made in future periods, should future market activity indicate that such adjustments are required. As at 31 December 2018, the carrying amounts of intangible asset and property, plant and equipment allocated to the Macau Patent CGU are HK$80,919,000 (2017: HK$93,057,000) and HK$205,449,000 (2017: HK$94,091,000), respectively.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty (Continued)

Estimation of write-down amount of trading goods

Inventories are stated at the lower of cost and net realisable value. When the expectation of the net realisable value is less than the cost, write-down of inventories may arise. The management of the Group reviews regularly the suitability of the Group's write-down policy for trading goods and carries out review of the trading goods at the end of each reporting period. The management of the Group identifies slow-moving and obsolete trading goods with reference to an aged analysis and management's assessment of technical specification and determines the write-down amount for trading goods by considering the saleability of trading goods. As at 31 December 2018, the carrying amount of trading goods, after the write-down amount of HK$4,961,000 (2017: HK$9,825,000), was HK$54,082,000 (2017: HK$37,496,000).

Estimated useful lives of property, plant and equipment

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

Provision of ECL for trade receivables

The Group uses provision matrix to calculate ECL for the trade receivables. The provision rates are based on internal credit ratings and nature of the receivable as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables with significant balances and credit impaired are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in note 20.

5. REVENUE

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

	2018 HK$'000	2017 HK$'000
Casino management services:		
Provision of casino management services, recognised over time	**1,066,939**	973,959
Electronic gaming equipment and systems:		
Sale of electronic gaming equipment and systems, recognised at a point in time	**88,696**	22,792
Leasing of electronic gaming equipment and systems	**5,902**	12,203
Royalty income, recognised over time	**2,670**	2,890
	97,268	37,885
Total	**1,164,207**	1,011,844
Analysis of revenue:		
Recognised over time	**1,069,609**	976,849
Recognised at a point in time	**88,696**	22,792
	1,158,305	999,641
Leasing income	**5,902**	12,203
Total	**1,164,207**	1,011,844

Performance obligations for contracts with customers

Provision of casino management services

The Group provides management services to gaming operators in Macau under service arrangements for gaming operations in mass market hall and slot machine hall. Such services are recognised as a performance obligation satisfied over time as the Group is entitled to receive its service income according to the relevant operating performance from the gaming operators.

The directors of the Company considered that the Group acts as the principal for the casino management service operations with services provided to gaming operators as the Group controls the specified service to be provided by the Group before the service is transferred to a customer.

5. REVENUE (Continued)

Performance obligations for contracts with customers (Continued)

Sale of electronic gaming equipment and systems

The Group enters into contracts with customers (casino operators) for the sale of electronic gaming equipment and systems include multi-elements as follows:

(a) Procurement and delivery of electronic gaming equipment and systems;

(b) Assist in obtaining the local regulatory approval of the electronic gaming equipment and systems;

(c) On-site installation of the electronic gaming equipment and systems at the casino; and

(d) After sales warranty service from three months to one year.

The directors of the Company considered that these multi-elements are not separately identifiable components and therefore, the revenue on sale of electronic gaming equipment and systems is recognised as sale of goods when the goods are approved by the local regulatory authority, delivered and titles have been passed.

Royalty income

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

6. SEGMENT INFORMATION

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

Casino management services	— Provision of casino management services in Macau
Gaming systems	— Development, sale and leasing of electronic gaming equipment and systems

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

6. SEGMENT INFORMATION (Continued)

Information regarding the above segments is reported below:

Segment revenue and results

For the year ended 31 December 2018

	Casino management services HK$'000	Gaming systems HK$'000	Unallocated HK$'000	Consolidated HK$'000
Segment revenue	1,066,939	97,268		1,164,207
Segment results	138,345	(57,450)		80,895
Unallocated corporate income				8
Unallocated corporate expenses				(27,343)
Profit before taxation				53,560
Taxation				(403)
Profit for the year				53,157
Other information				
Capital expenditure	22,392	148,565	48	171,005
Amortisation of intangible assets	12,138	—	—	12,138
Depreciation of property, plant and equipment	50,101	6,870	1,113	58,084
Loss allowance on financial assets	—	258	—	258
Write-down of inventories	—	4,961	—	4,961

6. SEGMENT INFORMATION (Continued)

Segment revenue and results (Continued)

For the year ended 31 December 2017

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

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

Information about major customers

During the year, revenue derived from two (2017: two) customers, each of which contributed over 10% of the Group's revenue, is as follows:

	Customer A		Customer B	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
Casino management services segment	**780,174**	681,849	**286,765**	292,110
Gaming systems segment	**438**	1,072	**—**	—
Total	**780,612**	682,921	**286,765**	292,110

7. OTHER INCOME, GAINS AND LOSSES

	2018 HK$'000	2017 HK$'000
Bank interest income	**3,004**	2,915
Finance lease interest income	**142**	1,131
Loan interest income	**1,248**	1,248
	4,394	5,294
(Loss) gain on disposal of property, plant and equipment	**(642)**	4,762
Income from repair services	**2,723**	2,501
Rental income	**6,559**	4,757
Sundry income	**2,636**	4,196
	15,670	21,510

8. FINANCE COSTS

	2018 HK$'000	2017 HK$'000
Interest on bank borrowing	**712**	—
Imputed interest on promissory note (note)	**—**	5,987
	712	5,987

Note: The promissory note was fully repaid on maturity during the year ended 31 December 2017. The effective interest rate of the promissory note was 13.36% per annum.

9. PROFIT (LOSS) BEFORE TAXATION

	2018 HK$'000	2017 HK$'000
Profit (loss) before taxation has been arrived at after charging:		
Directors' emoluments (note 10)	25,972	25,846
Other staff costs		
— Salaries and other benefits	143,598	142,167
— Retirement benefit scheme contributions	2,040	1,849
Total staff costs	171,610	169,862
Amortisation of intangible assets	12,138	12,137
Auditor's remuneration	2,380	2,380
Loss allowance on financial assets	258	6,700
Cost of inventories recognised as expenses	30,174	7,476
Depreciation of property, plant and equipment	58,084	57,155
Impairment loss on amount due from an associate	—	5
Research and development expenditure (note)	67,388	47,740
Write-down of inventories	4,961	9,825

Note: Research and development expenditure for the year ended 31 December 2018 of HK$67,388,000 (2017: HK$47,740,000) includes staff costs of HK$34,007,000 (2017: HK$27,566,000), depreciation of HK$922,000 (2017: HK$987,000), operating lease expenses of HK$2,349,000 (2017: HK$2,187,000) and other expenses of HK$30,110,000 (2017: HK$17,000,000).

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

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

	Executive Directors			Independent non-executive directors			
	Mr. Jay Chun	Mr. Shan Shiyong, alias, Sin Sai Yung	Mr. Hu Liming	Mr. Li John Zongyang	Mr. Kai-Shing Tao	Ms. Tang Kiu Sam Alice	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2018							
Fees	**—**	**—**	**—**	**120**	**120**	**120**	**360**
Salaries and other benefits	**12,142**	**12,000**	**120**	**—**	**—**	**—**	**24,262**
Accommodation benefits	**1,320**	**—**	**—**	**—**	**—**	**—**	**1,320**
Retirement benefit scheme contributions	**12**	**18**	**—**	**—**	**—**	**—**	**30**
	13,474	**12,018**	**120**	**120**	**120**	**120**	**25,972**
2017							
Fees	—	—	—	120	120	120	360
Salaries and other benefits	12,058	12,000	120	—	—	—	24,178
Accommodation benefits	1,275	—	—	—	—	—	1,275
Retirement benefit scheme contributions	15	18	—	—	—	—	33
	13,348	12,018	120	120	120	120	25,846

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

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

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

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

	2018 HK$'000	2017 HK$'000
Salaries and other benefits	9,163	9,227
Retirement benefit scheme contributions	24	22
	9,187	9,249

	Number of individuals	
	2018	2017
Emoluments of the employees were within the following bands:		
HK$1,000,001 — HK$1,500,000	—	1
HK$1,500,001 — HK$2,000,000	1	—
HK$2,500,001 — HK$3,000,000	—	1
HK$3,000,001 — HK$3,500,000	1	—
HK$4,500,001 — HK$5,000,000	1	1

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

11. TAXATION

	2018 HK$'000	2017 HK$'000
Current tax charge		
— Lump Sum Dividend Tax	378	378
— PRC Enterprise Income Tax	25	197
— Tax in other jurisdictions	—	105
	403	680

The provision for taxation is calculated on the assessable profit for operating subsidiaries established in the PRC at the PRC Enterprise Income Tax rate of 25% prevailing in the PRC. Taxation for overseas subsidiaries, except for those incorporated in Macau and the PRC, are charged at the appropriate current rate of taxation ruling in the relevant countries.

11. TAXATION (Continued)

No provision for Macau Complementary Tax ("Macau CT") or Hong Kong Profits Tax is made in the consolidated financial statements as the Group did not generate any assessable profit in Macau and Hong Kong for both years.

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

Pursuant to the approval letter issued by the Financial Services Bureau of the Macau government dated 15 August 2017, LT Macau is obligated to pay an annual lump sum dividend withholding tax of Macau Pataca ("MOP") 389,000 (equivalent to HK$378,000) for each of the years ended/ending 31 December 2017 to 2019 and MOP97,000 (equivalent to HK$94,000) for the three months ending 31 March 2020 as payment in lieu of Macau CT otherwise due by the shareholders of LT Macau on dividend distributions from gaming profits generated in relation to the operation of the casinos at Casino Kam Pek Paradise, Casino Lisboa and Casino Macau Jockey Club. These annual lump sum tax payments are required regardless of whether dividends were actually distributed or whether LT Macau had distributable profits in the relevant years. For the year ended 31 December 2018, provision for taxation of HK$378,000 (2017: HK$378,000) has been recognised which was charged to the consolidated statement of profit or loss.

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

	2018 **HK$'000**	2017 HK$'000
Profit (loss) before taxation	**53,560**	(46,772)
Tax charge (credit) at the Macau CT rate of 12%	**6,427**	(5,613)
Tax effect of expenses not deductible for tax purposes	**23,678**	26,345
Tax effect of income not taxable for tax purposes	**(30,462)**	(21,688)
Tax effect of tax losses not recognised	**1,199**	1,531
Utilisation of tax losses previously not recognised	**(831)**	(447)
Lump sum dividend tax	**378**	378
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	**14**	174
Taxation for the year	**403**	680

At 31 December 2018, the Group had unused tax losses of approximately HK$95,494,000 (2017: HK$135,452,000) available to offset against future taxable profits which may be carried forwards indefinitely except for HK$26,596,000 (2017: HK$71,720,000) which derived from Macau and will expire in three years from the year of assessment. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future taxable profit streams.

12. DIVIDEND

The directors of the Company recommend the payment of a final dividend of HK2.5 cents per ordinary share for the year ended 31 December 2018 (2017: nil) which is subject to the shareholders' approval at the forthcoming annual general meeting of the Company to be held on 21 May 2019. The final dividend payable in this connection will be HK$26,305,000, calculated on the basis of 1,052,185,315 ordinary shares in issue at the date of this annual report.

13. EARNINGS (LOSS) PER SHARE

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

	2018	2017
	HK$'000	HK$'000
Earnings (loss)		
Profit (loss) for the year attributable to owners of the Company for the purpose of calculating basic and diluted earnings (loss) per share	**58,224**	(30,698)

	2018	2017
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic and diluted earnings (loss) per share	**1,052,185**	1,052,185

For the year ended 31 December 2018, no diluted earnings per share were presented as there were no dilutive potential ordinary shares.

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

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
COST						
At 1 January 2017	—	201,333	258,826	41,550	9,285	510,994
Currency realignment	—	52	—	197	—	249
Additions	—	3,399	19,405	1,151	1,177	25,132
Transfer from inventories	—	—	5,308	—	—	5,308
Disposals	—	(749)	(5,230)	(151)	—	(6,130)
At 31 December 2017	—	204,035	278,309	42,747	10,462	535,553
Currency realignment	—	(41)	—	(173)	—	(214)
Additions	134,003	10,741	21,909	2,710	1,642	171,005
Disposals	—	(16,434)	(4,700)	(14)	—	(21,148)
At 31 December 2018	134,003	198,301	295,518	45,270	12,104	685,196
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
At 1 January 2017	—	136,684	180,594	27,695	2,641	347,614
Currency realignment	—	39	—	85	—	124
Provided for the year	—	20,389	30,894	4,670	1,202	57,155
Eliminated on disposal	—	(749)	(3,412)	(99)	—	(4,260)
At 31 December 2017	—	156,363	208,076	32,351	3,843	400,633
Currency realignment	—	(33)	—	(107)	—	(140)
Provided for the year	1,072	19,470	31,241	4,399	1,902	58,084
Eliminated on disposal	—	(16,434)	(3,873)	(12)	—	(20,319)
At 31 December 2018	1,072	159,366	235,444	36,631	5,745	438,258
CARRYING AMOUNTS						
At 31 December 2018	132,931	38,935	60,074	8,639	6,359	246,938
At 31 December 2017	—	47,672	70,233	10,396	6,619	134,920

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

Leasehold land and buildings	Over the shorter term of the lease, or 50 years
Leasehold improvements	20% or over the remaining terms of the leases if shorter
Plant and machinery	10%–20%
Furniture, fixtures and equipment	15%–20%
Motor vehicles	10%–20%

At the end of the reporting period, the Group assessed certain property, plant and equipment with net carrying amount of HK$205,449,000 (2017: HK$94,091,000), allocated to the Macau Patent CGU, for impairment having regard to the market conditions in Macau. The details of the determination of the recoverable amounts of the assets allocated to the Macau Patent CGU are disclosed in note 15(a). No impairment loss was recognised on property, plant and equipment for the years ended 31 December 2018 and 31 December 2017.

15. INTANGIBLE ASSETS

	Macau Patent-Betting terminal system HK$'000 (note a)	**U.S. Patent-Betting terminal system** HK$'000 (note b)	**Total** HK$'000
COST			
At 1 January 2017, 31 December 2017 and 31 December 2018	182,066	657,535	839,601
ACCUMULATED AMORTISATION AND IMPAIRMENT			
At 1 January 2017	76,872	657,535	734,407
Provided for the year	12,137	—	12,137
At 31 December 2017	89,009	657,535	746,544
Provided for the year	12,138	—	12,138
At 31 December 2018	101,147	657,535	758,682
CARRYING AMOUNTS			
At 31 December 2018	80,919	—	80,919
At 31 December 2017	93,057	—	93,057

15. INTANGIBLE ASSETS (Continued)

Notes:

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

At the end of the reporting period, the Group assessed for impairment by considering the recoverable amount of the patent as well as certain property, plant and equipment, allocated to the Macau Patent CGU, having regard to the market conditions in Macau. The recoverable amount of the Macau Patent CGU is the value in use of the Macau Patent CGU based on the present value of estimated future cash flows to be generated over the remaining license period and with reference to the valuation report prepared by an independent professional valuer, International Valuation Limited, which was approved by the directors of the Company. The valuation of intangible asset and property, plant and equipment in relation to patent is assessed by comparing the recoverable amount of the Macau Patent CGU to their carrying amounts at the end of each reporting period. No impairment loss was recognised on the intangible asset allocated to the Macau Patent CGU for the years ended 31 December 2018 and 31 December 2017.

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

- Growth rates of revenue and costs ranging from 2.50% to 3.00% (2017: ranging from 2.50% to 2.70%) per annum are applied in the profit or loss projection for the remaining license period.

- Pre-tax discount rate of 15.60% (2017: 15.10%) is adopted based on the analysis performed by an independent professional valuer which reflects current market assessments of the time value of money and the risks specific to the Macau Patent CGU.

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

16. INTERESTS IN AN ASSOCIATE

	2018 **HK$'000**	2017 HK$'000
Cost of investment in an associate, unlisted	**–**	21,672
Share of post-acquisition losses	**–**	(21,672)
	–	–

16. INTERESTS IN AN ASSOCIATE (Continued)

Particulars of the Group's associate as at 31 December 2017 were as follows:

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

The associate was accounted for using the equity method consolidated financial statements in prior years. The unrecognised share of loss of the associate for the year ended 31 December 2017 was HK$10,000 and the cumulated unrecognised share of loss of the associate was HK$2,110,000 at 31 December 2017.

The associate was deregistered during the year ended 31 December 2018.

17. INVESTMENT IN EQUITY INSTRUMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE-FOR-SALE INVESTMENT IN EQUITY SECURITIES

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

18. OTHER ASSETS

	2018 HK$'000	2017 HK$'000
Deposits paid for acquisitions of property, plant and equipment	1,234	6,862
Rental deposits	3,129	8,788
	4,363	15,650

19. INVENTORIES

	2018 HK$'000	2017 HK$'000
Consumables	24,916	25,179
Trading goods	54,082	37,496
	78,998	62,675

20. TRADE AND OTHER RECEIVABLES

	2018 HK$'000	2017 HK$'000
Trade receivables (note i)	72,738	65,545
Less: loss allowance	(287)	(287)
	72,451	65,258
Chips on hand (note ii)	29,354	33,607
Deposits paid	45,176	42,198
Loan receivable (note iii)	15,600	15,600
Other receivables and prepayments (note iii)	13,618	12,983
	176,199	169,646

Notes:

(i) As at 31 December 2018 and 1 January 2018, trade receivables from contracts with customers amounted to HK$72,451,000 and HK$65,258,000, respectively. At the end of the reporting period, trade receivables comprise amounts receivable from the gaming operators for the Group's provision of casino management services and customers for the Group's sale and leasing of electronic gaming equipment and systems. No interest is charged on the trade receivables.

Before accepting any new customer, the Group gathers and assesses the credit information of the potential customer in considering the customer's quality and determining the credit limits for that customer. Recoverability and credit limits of the existing customers are reviewed by the Group regularly. At the end of the reporting period, included in the Group's trade receivable balances are receivables with aggregate carrying amount of HK$69,739,000 (2017: HK$62,070,000), which are neither past due nor impaired. The directors of the Company considered that trade receivables which are neither past due nor impaired are of good credit quality given the continuous subsequent settlements from gaming operators and other customers.

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

As at 31 December 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$2,712,000 which are past due as at the reporting date. Out of the past due balances, HK$1,859,000 has been past due 90 days or more and is not considered as in default based on historical repayment pattern from the specific debtors. The Group does not hold any collateral over these balances.

20. TRADE AND OTHER RECEIVABLES (Continued)

Notes: (Continued)

(i) (Continued)

As at 31 December 2018, 96.3% of the trade receivables that are neither past due nor impaired have the best credit scoring attributable under the internal credit scoring system used by the Group.

As at 31 December 2018, included in balance of the Group's trade receivables (net of loss allowance) are receivables with an aggregate carrying amount of HK$2,712,000 (2017: HK$3,188,000), which is past due at the end of the reporting period for which the Group has not provided for impairment loss. The trade receivables which are past due but not impaired were either settled subsequent to the end of that reporting period or amounts due from receivables which do not have historical default of payments. The Group does not hold any collateral over these balances.

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

	2018 HK$'000	2017 HK$'000
Age:		
0–30 days	69,812	62,076
31–60 days	524	1,043
61–90 days	126	390
91–180 days	159	830
181–365 days	1,830	324
Over 365 days	—	595
	72,451	65,258

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

	2018 HK$'000	2017 HK$'000
Overdue by:		
1–30 days	597	303
31–60 days	250	829
61–90 days	6	374
91–180 days	1,817	763
181–365 days	42	324
Over 365 days	—	595
	2,712	3,188

Movement in the loss allowance

	HK$'000
At 1 January 2017, 31 December 2017 and 31 December 2018	287

20. TRADE AND OTHER RECEIVABLES (Continued)

Notes: (Continued)

(i) (Continued)

The loss allowance represented individually impaired trade receivables with an aggregate balance of HK$287,000.

At 31 December 2018, the allowance for credit loss represents lifetime ECL recognised for trade receivables under simplified approach. There is no movement in lifetime ECL that has been recognised for the trade receivables.

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

(iii) Pursuant to a loan agreement dated 5 October 2016, LT View Limited, a wholly-owned subsidiary of the Company incorporated in the BVI, agreed to grant a loan to LT Game Japan Limited ("LT Japan"), a company which is incorporated in Japan and is principally engaged in the development and manufacture of gaming products, in the principal amount of US$2,000,000 (equivalent to HK$15,600,000) with interest charged at the rate of 8% per annum. The loan is unsecured and guaranteed by Mr. Pak Suil, who holds an 18% shareholding in, and is a director of, LT Game Limited, an indirect subsidiary of the Company incorporated in the BVI. Pursuant to the loan agreement and the amendments to the loan agreement dated 4 October 2017, 4 April 2018 and 4 October 2018 (collectively referred to as the "Loan Agreement"), the maturity date of the loan principal and accrued interest thereon is 5 April 2019.

At 31 December 2018, HK$2,797,000 (2017: HK$1,549,000) was included in other receivables and prepayments in respect of the interest receivable pursuant to the Loan Agreement.

Details of impairment assessment of trade and other receivables for the year ended 31 December 2018 are set out in note 34.

21. FINANCE LEASE RECEIVABLES

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

	2018 **HK$'000**	2017 HK$'000
Analysed as:		
Current	–	11,393

	Minimum lease payments		Present value of minimum lease payments	
	2018 **HK$'000**	2017 HK$'000	**2018** **HK$'000**	2017 HK$'000
Finance lease receivables (net of allowance) comprise:				
Within one year	–	11,535	–	11,393
Less: unearned finance lease income	–	(142)	–	N/A
Present value of minimum lease payment receivables	–	11,393	–	11,393

21. FINANCE LEASE RECEIVABLES (Continued)

At 31 December 2017, effective interest rates of the above finance leases ranged from 5.71% to 6.31% per annum. All the Group's finance lease receivables were denominated in US$.

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

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

Contingent rents recognised in income during the year ended 31 December 2018 amounted to HK$439,000 (2017: HK$1,312,000).

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

	As at 1 January	As at 31 December		Maximum amount outstanding during the year ended	
	2017	**2018**	2017	**2018**	2017
	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Empire Technological Group Limited (note)	7,114	**901**	583	**901**	7,114

Note: Empire Technological Group Limited is a company wholly-owned by the brother-in-law of Mr. Jay Chun, an Executive Director.

The amount due from a related company is unsecured, interest-free and repayable on demand. Except that the amount of HK$678,000 is trade in nature and aged within 0 to 30 days based on invoice date which are neither past due nor impaired at the end of the reporting period.

The amounts due to directors represent amount of HK$1,036,000 (2017: HK$1,769,000) payable to Mr. Jay Chun, an Executive Director, amount of HK$943,000 (2017: HK$944,000) payable to Mr. Shan Shiyong, an Executive Director, and amounts in aggregate of HK$260,000 (2017: HK$260,000) payable to other directors of the Company. The amounts are unsecured, interest-free and repayable on demand.

23. PLEDGED BANK DEPOSIT

The amount as at 31 December 2018 represents a bank deposit pledged to a bank to secure a bank facility granted by the bank to a subsidiary of the Company. The bank facility represents a bank guarantee amounting to MOP29,635,000 (equivalent to HK$28,772,000) for the period from 30 April 2018 to 31 March 2020, which is in favour of SJM for the Group's fulfilment of all its obligations, in particular for reimbursement by the Group to SJM of the employee's salaries and benefits for those gaming operation employees employed by SJM who work for the casino under the Group's management, as stipulated under the service agreement (and all related supplemental agreements) entered into between SJM and the Group for provision of casino management services by the Group to SJM.

24. BANK BALANCES AND CASH

Bank balances carry interest at market rates which range from 0.01% to 3.10% (2017: 0.01% to 2.00%) per annum.

25. TRADE AND OTHER PAYABLES

	2018 HK$'000	2017 HK$'000
Trade payables	21,426	38,183
Accrued staff costs	29,213	28,610
Accrued promotional expenses	32,802	29,403
Contract liabilities	44,878	28,772
Deposits received	1,086	1,021
Other sundry payables	15,552	14,892
Other accrued expenses	6,535	8,001
	151,492	148,882

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

	2018 HK$'000	2017 HK$'000
Age:		
0–30 days	14,672	10,711
31–60 days	5,665	4,893
61–90 days	250	3,104
91–365 days	839	14,334
Over 365 days	—	5,141
	21,426	38,183

25. TRADE AND OTHER PAYABLES (Continued)

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

Deposits received from customers in relation to the sale of electronic gaming equipment and systems result in contract liabilities being recognised until the goods approved by the local regulatory authority are delivered and titles have been passed. Such deposits are expected to be recognised as revenue within one year from date of receipt.

The following table summarises the liability activity related to contracts with customers:

	Liabilities in relation to deposits received from customers	
	2018	2017
	HK$'000	HK$'000
Balance at 1 January	**28,772**	9,346
Balance at 31 December	**44,878**	28,772
Increase	**16,106**	19,426

26. BANK BORROWING

	2018	2017
	HK$'000	HK$'000
Bank borrowing	**89,046**	—
The bank borrowing is repayable as follows*:		
Within one year	**5,048**	—
Within a period of more than one year but not exceeding two years	**5,176**	—
Within a period of more than two years but not exceeding five years	**16,335**	—
Within a period of more than five years	**62,487**	—
	89,046	—
Less: Amounts due within one year shown under current liabilities	**(5,048)**	—
Amounts due after one year shown under non-current liability	**83,998**	—

* The amounts due are based on scheduled repayment dates set out in the mortgage loan agreement.

26. BANK BORROWING (Continued)

At 31 December 2018, the bank borrowing carried interests at the Lending Prime Rate as quoted by the lending bank from time to time minus 2.85% (2017: nil) per annum. The effective interest rate of the bank borrowing is 2.53% (2017: nil) per annum.

At 31 December 2018, the bank borrowing of HK$89,046,000 (2017: nil) was secured by a mortgage over the Group's leasehold land and buildings with carrying amount of HK$132,931,000 (2017: nil). The bank borrowing is denominated in MOP.

27. SHARE CAPITAL

	Number of shares '000	Share capital HK$'000
Ordinary shares of HK$0.001 each		
Authorised:		
At 1 January 2017, 31 December 2017 and 31 December 2018	1,000,000,000	1,000,000
Issued and fully paid:		
At 1 January 2017, 31 December 2017 and 31 December 2018	1,052,185	1,052

28. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2018, property, plant and equipment of HK$5,091,000 (2017: HK$2,335,000) were settled by utilising deposits paid for acquisitions of property, plant and equipment during the year.

29. PLEDGE OF ASSETS

At 31 December 2018, the Group's bank deposit and leasehold land and buildings with carrying amounts of HK$28,800,000 and HK$132,931,000 as set out in notes 23 and 14, respectively, were pledged to banks to secure for certain facilities granted by the banks to the Group.

30. OPERATING LEASES

The Group as lessee

	2018 HK$'000	2017 HK$'000
Minimum operating lease rentals in respect of rented premises recognised during the year	**37,340**	60,013

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

	2018 HK$'000	2017 HK$'000
Within one year	**35,575**	41,666
In the second to fifth year inclusive	**13,672**	33,942
	49,247	75,608

Operating lease payments represent rentals payable by the Group for a director's quarters, certain of its warehouse facilities and office premises. Leases of rented premises are negotiated for terms ranging from one to six (2017: one to six) years.

31. CAPITAL COMMITMENTS

	2018 HK$'000	2017 HK$'000
Capital expenditure in respect of property, plant and equipment contracted for but not provided in the consolidated financial statements	**1,062**	5,773

32. RETIREMENT BENEFIT SCHEMES

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

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

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

33. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt and equity of the Company, comprising issued share capital disclosed in note 27 and reserves as disclosed in consolidated statement of changes in equity. The management reviews the capital structure by considering the cost of capital and the risks associated with each class of capital. In view of this, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as new borrowings. The Group's approach to capital management remains unchanged throughout the year.

34. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2018 **HK$'000**	2017 HK$'000
Financial assets		
Financial assets at amortised cost/loans and receivables (including cash and cash equivalents)	**458,501**	413,154
Investment in equity instruments designated at FVTOCI	**1,428**	—
AFS investment in equity securities	**—**	2,706
	459,929	415,860
Financial liabilities		
Amortised cost	**129,349**	57,069

34. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies

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

Market risk

Foreign currency risk

Foreign currency risk refers to the risk that movement in foreign currency exchange rates will affect the Group's financial results and its cash flows. Several subsidiaries of the Company have foreign currency sales and purchases, but the management considers the amount of foreign currency sales and purchases to be insignificant. The management considers that the Group is not exposed to significant foreign currency risk in relation to transactions denominated in MOP and US$ as MOP and US$ are pegged to HK$.

As at 31 December 2018, the Group has certain bank balances which are denominated in New Taiwan Dollars ("TWD") and Renminbi ("RMB") (being currency other than the functional currency of the relevant group entities) amounting to HK$901,000 (2017: HK$981,000) and HK$123,000 (2017: HK$1,632,000), respectively. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The following details the Group's sensitivity to a reasonably possible change of 5.0% (2017: 5.0%) in exchange rate of TWD and RMB against HK$, while all other variables are held constant. 5.0% (2017: 5.0%) is the sensitivity rate used when reporting foreign currency risk internally to the key management personnel and represents the management's assessment of the reasonably possible change in foreign currency rate. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5.0% (2017: 5.0%) change in foreign currency rate. For a 5.0% (2017: 5.0%) strengthening in TWD and RMB against HK$, the Group's loss for the year would be decreased by HK$40,000 (2017: HK$43,000) and HK$5,000 (2017: HK$72,000), respectively. If TWD or RMB had been weakened against HK$ in an opposite magnitude and all other variables were held constant, the potential effect on the results would be equal and opposite.

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

34. FINANCIAL INSTRUMENTS (Continued)

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

Market risk (Continued)

Price risk management

The Group is exposed to equity price risk on the investment in equity securities operating in trading business and quoted on the Tokyo Stock Exchange and bank borrowing. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of MOP Lending Prime Rate arising from the Group's MOP denominated bank loan. The Group currently does not have a policy to hedge such risk. For investment in equity instruments designated at FVTOCI (2017: AFS investment in equity securities), the management monitors market price exposure and will consider hedging significant market price exposure should the need arise.

The sensitivity analysis below have been determined based on the exposure to equity price risk on the listed equity securities in investment in equity instruments designated at FVTOCI (2017: AFS investment in equity securities) at the end of the reporting period. If the market bid price on such listed equity securities had been 10% (2017: 10%) higher and all other variables were held constant, the potential effect on investment revaluation reserve is as follows:

	2018 **HK$'000**	2017 HK$'000
Increase in investment revaluation reserve		
— Listed equity securities in investment in equity instruments designated at FVTOCI (2017: AFS investment in equity securities)	**143**	271

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

Interest rate risk

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

Interest expenses on financial liabilities not measured at FVTPL:

	2018 **HK$'000**	2017 HK$'000
Financial liabilities at amortised cost	**712**	—

34. FINANCIAL INSTRUMENTS (Continued)

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

Market risk (Continued)

Interest rate risk (Continued)

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

	2018 **HK$'000**	2017 HK$'000
Increase (decrease) in profit for the year/decrease in loss for prior year		
— Variable-rate bank balances	**634**	494
— Variable-rate bank borrowing	**(445)**	—
	189	494

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

Credit risk and impairment assessment

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2018 and 2017 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position.

Trade receivables arising from contracts with customers/finance lease receivables/amount due from a related company in trade nature

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed twice a year. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on trade balances individually or based on provision matrix. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has concentration of credit risk as 79% (2017: 76%) and 98% (2017: 94%) of the total trade receivables which were due from the Group's largest customer and the five largest customers, respectively. The directors of the Company consider that there is no significant credit risk on the trade receivables from the five largest customers given their strong financial background and good creditability. The remaining trade receivables balances are spread over a number of customers.

34. FINANCIAL INSTRUMENTS (Continued)

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

Credit risk and impairment assessment (Continued)

Pledged bank deposit/bank balances

For the pledged bank deposit and bank balances, no allowance for impairment was made since the directors of the Company consider the probability of default is negligible as such amounts are receivable from or placed in banks in Macau and Hong Kong having reputation.

Loan receivable

For the loan receivable, no allowance for impairment was made since the directors of the Company consider the loss given default is minimal with reference to a guarantee provided by Mr. Pak Suil, who holds an 18% shareholding in, and is a director of, LT Game Limited, an indirect subsidiary of the Company incorporated in the BVI.

Other receivables/amount due from a related company in non-trade nature

For other receivables including chips on hand and amount due from a related company in non-trade nature, no allowance for impairment was made since the directors of the Company consider the probability of default is minimal after assessing the counter-parties' financial background and creditability.

Liquidity risk

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

As at 31 December 2018, based on the existing levels of bank balances, the Group will be able to meet its future cash flow requirements. Accordingly, the management considers that the Group's liquidity risk is minimal.

The following table details the Group's remaining contractual maturity for its financial liabilities that will result in cash outflow. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes principal cash flows.

34. FINANCIAL INSTRUMENTS (Continued)

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

Liquidity risk (Continued)

Liquidity and interest risk tables

	Weighted average effective interest rate	Less than 1 month or repayable on demand	1–3 months	3 months to 1 year	1–5 years	Over 5 years	Total undiscounted cash flows	Total carrying amount
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2018								
Trade and other payables	N/A	**38,064**	**–**	**–**	**–**	**–**	**38,064**	**38,064**
Amounts due to directors	N/A	**2,239**	**–**	**–**	**–**	**–**	**2,239**	**2,239**
Bank borrowing	2.53%	**–**	**1,809**	**5,428**	**28,950**	**70,558**	**106,745**	**89,046**
		40,303	**1,809**	**5,428**	**28,950**	**70,558**	**147,048**	**129,349**
2017								
Trade and other payables	N/A	27,472	26,624	–	–	–	54,096	54,096
Amounts due to directors	N/A	2,973	–	–	–	–	2,973	2,973
		30,445	26,624	–	–	–	57,069	57,069

(c) Fair value

Other than investment in equity instruments designated at FVTOCI (2017: AFS investment in equity securities), the fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

Investment in equity instruments designated at FVTOCI (2017: AFS investment in equity securities) in respect of listed equity securities are determined by reference to the quoted bid prices in an active market.

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

34. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value (Continued)

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

Financial assets	Fair value as at 31 December 2018 HK$'000	Fair value as at 31 December 2017 HK$'000	Fair value hierarchy	Valuation techniques and key input
Investment in equity instruments designated at FVTOCI (2017: AFS investment in equity securities)				
— Listed equity securities	**1,428**	2,706	Level 1	Quoted bid prices in an active market

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

35. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Amounts due to directors HK$'000 (note 22)	Promissory note HK$'000	Bank borrowing HK$'000 (note 26)	Interest payable HK$'000 (Note)	Total HK$'000
At 1 January 2017	3,709	88,013	—	—	91,722
Repayments to directors	(736)	—	—	—	(736)
Repayment of promissory note	—	(94,000)	—	—	(94,000)
Imputed interest expense	—	5,987	—	—	5,987
At 31 December 2017	2,973	—	—	—	2,973
Repayments to directors	(734)	—	—	—	(734)
New bank borrowing raised	—	—	90,291	—	90,291
Repayment of bank borrowing	—	—	(1,245)	—	(1,245)
Interest paid	—	—	—	(644)	(644)
Interest expense	—	—	—	712	712
At 31 December 2018	2,239	—	89,046	68	91,353

Note: The amount is included in trade and other payables as set out in note 25.

36. RELATED PARTY TRANSACTIONS

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

	2018 HK$'000	2017 HK$'000
Sale of electronic gaming equipment and systems (note i)	**1,054**	2,282
Consultancy fee (note ii)	**450**	420
Staff costs (note iii)	**4,631**	4,962

Notes:

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

(ii) The related party is the brother-in-law of Mr. Jay Chun, an Executive Director.

(iii) The related party is the spouse of Mr. Jay Chun, an Executive Director. The transactions were charged at pre-determined amounts agreed between the parties involved.

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

37. FINANCIAL INFORMATION OF THE COMPANY

The financial information of the Company as at 31 December 2018 and 31 December 2017 is as follows:

	2018 HK$'000	2017 HK$'000
Non-current asset		
Interests in subsidiaries	**575,401**	580,348
Current assets		
Prepayment and deposits	**383**	323
Bank balances and cash	**136**	154
	519	477
Current liabilities		
Other payables	**2,278**	2,014
Amounts due to directors	**378**	377
	2,656	2,391
Net current liabilities	**(2,137)**	(1,914)
Total assets less current liabilities	**573,264**	578,434
Capital and reserves		
Share capital	**1,052**	1,052
Reserves	**572,212**	577,382
	573,264	578,434

37. FINANCIAL INFORMATION OF THE COMPANY (Continued)

Movement in reserves:

	Share premium HK$'000	Contributed surplus HK$'000 (note)	Warrants reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2017	927,197	141,191	1,500	(219,068)	850,820
Loss and total comprehensive expense for the year	—	—	—	(273,438)	(273,438)
Reduction of share premium	(927,197)	927,197	—	—	—
Lapse of share warrants	—	—	(1,500)	1,500	—
At 31 December 2017	**—**	**1,068,388**	**—**	**(491,006)**	**577,382**
Loss and total comprehensive expense for the year	**—**	**—**	**—**	**(5,170)**	**(5,170)**
At 31 December 2018	**—**	**1,068,388**	**—**	**(496,176)**	**572,212**

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

38. PARTICULARS OF SUBSIDIARIES

(a) General information of subsidiaries

Particulars of the principal subsidiaries of the Company as at 31 December 2018 and 31 December 2017 are as follows:

Name of subsidiary	Place of incorporation/ operation	Nominal value of issued ordinary share/ registered capital	Class of share	The Group's attributable equity interest		Principal activities
				2018 %	2017 %	
Century Force Limited	Macau/Macau	MOP25,000	Ordinary	100	100	Properties holding
Fairy Host Limited	BVI/Macau	US$1	Ordinary	82	82	Investment holding
Fresh Idea Global Limited	BVI/Hong Kong	US$1	Ordinary	100	100	Investment holding
LifeTec (Holdings) Limited	BVI/Hong Kong	HK$141,176	Ordinary	100	100	Investment holding
LifeTec Enterprise Limited	Hong Kong/ Hong Kong	HK$100	Ordinary	100	100	Provision of management and consulting services
LT (Macau) Limited	Macau/Macau	MOP1,000,000	Ordinary	100	100	Provision of casino management services and operation of electronic gaming equipment and systems
LT Capital Limited	BVI/Hong Kong	US$1	Ordinary	100	100	Investment holding
LT Game (Canada) Limited	Canada/United States	CAD100	Ordinary	100	100	Market development
LT Game Australia PTY Limited	Australia/ Australia	AUD100	Registered capital	100	100	Market development
LT Game Limited	BVI/Macau	US$5,000	Ordinary	82	82	Development, sale and leasing of electronic gaming equipment and systems

38. PARTICULARS OF SUBSIDIARIES (Continued)

(a) General information of subsidiaries (Continued)

Name of subsidiary	Place of incorporation/ operation	Nominal value of issued ordinary share/registered capital	Class of share	The Group's attributable equity interest 2018 %	2017 %	Principal activities
LT Harvest Limited	Macau/Macau	MOP25,000	Ordinary	**100**	100	Provision of management services
LT View Limited	BVI/Hong Kong	US$1	Ordinary	**100**	100	Provision of management services
Natural Noble Limited	BVI/Macau	US$1	Ordinary	**100**	100	Investment holding
New Wahdo Customer Service Limited	Macau/Macau	MOP25,000	Ordinary	**100**	100	Provision of management services
Rich Yield Limited	Macau/Macau	MOP25,000	Ordinary	**100**	100	Investment holding
Shenzhen Caijing Software Technology Co., Ltd. (note a)	PRC/PRC	RMB500,000	Registered capital	**100**	100	Software development
Solution Champion Limited	BVI/Hong Kong	US$1	Ordinary	**100**	100	Investment holding
Streetsteel Limited	Macau/Macau	MOP25,000	Ordinary	**100**	100	Investment holding
Tech (Macau) Limited	Macau/Macau	MOP3,000,000	Ordinary	**82**	82	Sale and leasing of electronic gaming equipment and systems
Zhuhai Caijing Software Technology Co., Ltd. (note a)	PRC/PRC	RMB6,800,000	Registered capital	**100**	100	Software development

Notes:

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

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

None of the subsidiaries had issued any debt securities at the end of the year.

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

38. PARTICULARS OF SUBSIDIARIES (Continued)

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

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

Name of subsidiary	Place of incorporation/ principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Total comprehensive expense allocated to non-controlling interests		Accumulated non-controlling interests	
		2018	2017	**2018**	2017	**2018**	2017
				HK$'000	HK$'000	**HK$'000**	HK$'000
LT Game Limited and its subsidiaries	BVI/Macau	**18%**	18%	**(5,187)**	(16,460)	**45,948**	51,135
Individually immaterial subsidiaries with non-controlling interests						**(145)**	(31)
						45,803	51,104

38. PARTICULARS OF SUBSIDIARIES (Continued)

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

LT Game Limited and its subsidiaries

	2018 HK$'000	2017 HK$'000
Current assets	**292,164**	297,707
Non-current assets	**28,426**	32,973
Current liabilities	**65,323**	46,595
Equity attributable to owners of the Company	**209,319**	232,950
Non-controlling interests	**45,948**	51,135
Revenue	**112,269**	43,432
Expenses, other gains and losses	**139,789**	136,478
Loss for the year	**(27,520)**	(93,046)
Loss for the year attributable to:		
Owners of the Company	**(22,567)**	(76,298)
Non-controlling interests	**(4,953)**	(16,748)
	(27,520)	(93,046)
Other comprehensive (expense) income for the year attributable to:		
Owners of the Company	**(1,064)**	1,324
Non-controlling interests	**(234)**	288
	(1,298)	1,612
Total comprehensive expense for the year attributable to:		
Owners of the Company	**(23,631)**	(74,974)
Non-controlling interests	**(5,187)**	(16,460)
	(28,818)	(91,434)
Net cash used in operating activities	**(3,561)**	(47,149)
Net cash from investing activities	**32,003**	30,110
Net cash used in financing activities	**(733)**	(79)
Net cash inflow (outflow)	**27,709**	(17,118)

Financial Summary

For the year ended 31 December 2018

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

RESULTS

	Year ended 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**1,164,207**	1,011,844	1,163,347	1,092,078	1,192,288
Profit (loss) before taxation	**53,560**	(46,772)	(351,748)	(148,573)	44,888
Taxation	**(403)**	(680)	(3,394)	(340)	21,653
Profit (loss) for the year	**53,157**	(47,452)	(355,142)	(148,913)	66,541
Profit (loss) for the year attributable to:					
Owners of the Company	**58,224**	(30,698)	(380,380)	(165,192)	58,443
Non-controlling interests	**(5,067)**	(16,754)	25,238	16,279	8,098
	53,157	(47,452)	(355,142)	(148,913)	66,541

ASSETS AND LIABILITIES

	At 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**883,373**	741,478	915,514	1,276,544	1,415,324
Total liabilities	**(254,655)**	(163,723)	(292,745)	(299,980)	(223,795)
	628,718	577,755	622,769	976,564	1,191,529
Total equity attributable to:					
Owners of the Company	**582,915**	526,651	555,199	934,234	1,162,238
Non-controlling interests	**45,803**	51,104	67,570	42,330	29,291
	628,718	577,755	622,769	976,564	1,191,529

Definition

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

"2019 AGM"	the forthcoming annual general meeting of the Company to be held on 21 May 2019
"Adjusted EBITDA"	the Group's profit or loss for the year before interest income, finance costs, income tax expense, depreciation of property, plant and equipment, amortisation of intangible assets, gain or loss on disposal of property, plant and equipment, and costs incurred or associated with corporate exercises or potential projects, where applicable
"Audit Committee"	the audit committee of the Company
"Board"	the board of Directors
"CG Code"	the Corporate Governance Code contained in Appendix 14 to the Listing Rules
"Company"	Paradise Entertainment Limited, a company incorporated in Bermuda with limited liability, the issued Shares of which are listed on the Main Board of the Stock Exchange
"DETG"	Dealer-operated Electronic Table Game
"DICJ"	Direcção de Inspecção e Coordenação de Jogos, the Gaming Inspection and Coordination Bureau in Macau
"Director(s)"	the director(s) of the Company
"ESG"	environmental, social and governance
"ETG"	electronic table game
"Galaxy"	Galaxy Casino, S.A., one of the three concessionaires for operation of casinos in Macau
"GGR"	gross gaming revenue, being total net win generated by all casino gaming activities combined, calculated before deduction of commissions and other expenses, if any
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"IGT"	a Nevada corporation and a subsidiary of International Game Technology PLC, which is listed on the New York Stock Exchange under the trading symbol "IGT"
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"LMG"	live multi game

"LT Game"	LT Game Limited, a company established in the British Virgin Islands with limited liability, an indirect 82%-owned subsidiary of the Company
"Macau"	the Macao Special Administrative Region of the PRC
"Model Code"	the Model Code for Securities Transaction by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
"MOP"	Macau Pataca, the lawful currency of Macau
"Nomination Committee"	the nomination committee of the Company
"PRC"	the People's Republic of China
"Remuneration Committee"	the remuneration committee of the Company
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
"Share(s)"	ordinary share(s) of HK$0.001 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Shares
"SJM"	Sociedade de Jogos de Macau, S.A., one of the three concessionaires for operation of casinos in Macau
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Technical Standards"	DETG Technical Standards Version 1.0 published by the DICJ
"U.S."	the United States of America
"US$"	the United States dollars, the lawful currency of the U.S.
"%"	per cent