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## PARADISE ENTERTAINMENT LIMITED

滙彩控股有限公司\*

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 1180)

### ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

The Board announces the audited consolidated annual results of the Group for the year ended 31 December 2016 as follows:

#### CONSOLIDATED STATEMENT OF PROFIT OR LOSS

*For the year ended 31 December 2016*

	<i>Notes</i>	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i> (reclassified)
Turnover	5	<b>1,163,347</b>	1,092,078
Cost of sales and services		<b>(709,592)</b>	(679,220)
Gross profit		<b>453,755</b>	412,858
Other income	6	<b>12,169</b>	12,197
Marketing, selling and distribution costs		<b>(205,507)</b>	(199,889)
Administrative and operating expenses		<b>(239,196)</b>	(230,003)
Amortisation for intangible assets	12	<b>(27,348)</b>	(66,932)
Impairment loss on intangible assets	12	–	(67,280)
Loss arising from assignment of intangible assets	12	<b>(334,765)</b>	–
Finance costs	7	<b>(10,856)</b>	(9,524)
Loss before income tax expense	8	<b>(351,748)</b>	(148,573)
Income tax expense	9	<b>(3,394)</b>	(340)
Loss for the year		<b><u>(355,142)</u></b>	<b><u>(148,913)</u></b>
(Loss)/profit for the year attributable to:			
– Owners of the Company		<b>(380,380)</b>	(165,192)
– Non-controlling interests		<b>25,238</b>	16,279
		<b><u>(355,142)</u></b>	<b><u>(148,913)</u></b>
Loss per Share (HK cents)	11		
– Basic		<b><u>(36.1)</u></b>	<b><u>(15.7)</u></b>
– Diluted		<b><u>(36.1)</u></b>	<b><u>(15.7)</u></b>

\* *For identification purpose only*

## CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	<b>2016</b> <b>HK\$'000</b>	2015 <i>HK\$'000</i>
Loss for the year	<b>(355,142)</b>	(148,913)
Other comprehensive expense, net of tax		
Items that may be reclassified subsequently to profit or loss:		
– Exchange differences on translation of financial statements of overseas operations	<u>(154)</u>	<u>(355)</u>
Total comprehensive expense for the year	<u><b>(355,296)</b></u>	<u>(149,268)</u>
Total comprehensive (expense)/income for the year attributable to:		
– Owners of the Company	<b>(380,535)</b>	(165,547)
– Non-controlling interests	<u><b>25,239</b></u>	<u>16,279</u>
	<u><b>(355,296)</b></u>	<u>(149,268)</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 December 2016*

	<i>Notes</i>	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
<b>Non-current assets</b>			
Property, plant and equipment		<b>128,582</b>	193,936
Intangible assets	<i>12</i>	<b>105,194</b>	568,317
Interest in an associate		–	–
Available-for-sale financial assets		<b>1,115</b>	–
Finance lease receivables		<b>18,274</b>	–
		<hr/> <b>253,165</b>	<hr/> 762,253
<b>Current assets</b>			
Inventories		<b>70,577</b>	87,220
Debtors, deposits and prepayments	<i>13</i>	<b>221,009</b>	189,681
Cash and cash equivalents	<i>14</i>	<b>370,763</b>	237,390
		<hr/> <b>662,349</b>	<hr/> 514,291
<b>Current liabilities</b>			
Creditors and accrued charges	<i>15</i>	<b>198,746</b>	218,884
Obligations under finance leases – due within one year		–	65
Promissory note	<i>16</i>	<b>88,013</b>	–
Amounts due to Directors		<b>3,709</b>	3,535
Tax payable		<b>2,277</b>	338
		<hr/> <b>292,745</b>	<hr/> 222,822
<b>Net current assets</b>		<hr/> <b>369,604</b>	<hr/> 291,469
<b>Total assets less current liabilities</b>		<b>622,769</b>	1,053,722
<b>Non-current liability</b>			
Promissory note	<i>16</i>	–	77,158
<b>Net assets</b>		<hr/> <b>622,769</b>	<hr/> 976,564
<b>Capital and reserves</b>			
Share capital	<i>17</i>	<b>1,052</b>	1,053
Treasury Shares	<i>17</i>	–	(1,641)
Reserves		<b>554,147</b>	934,822
		<hr/> <b>555,199</b>	<hr/> 934,234
Equity attributable to owners of the Company		<b>67,570</b>	42,330
<b>Total equity</b>		<hr/> <b>622,769</b>	<hr/> 976,564

**Notes:**

**1. GENERAL INFORMATION**

The Company was incorporated in Bermuda as an exempted company with limited liability under the Companies Act of Bermuda and its Shares are listed on the Main Board of the Stock Exchange.

The addresses of the registered office of the Company is Clarendon House, 2 Church Street, Hamilton, HM11, Bermuda and the principal place of business of the Company is Unit C, 19/F., Entertainment Building, 30 Queen's Road Central, Hong Kong.

The Company is an investment holding company. The principal activities of the Group are provision of casino management services, and development, sale and leasing of electronic gaming equipment and system.

**2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS**

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

The consolidated financial statements have been prepared on the historical cost basis at the end of each reporting period.

The consolidated financial statements are presented in HK\$, which is the same as the functional currency of the Company.

**3. COMPARATIVE FIGURE – CHANGE IN PRESENTATION OF CONSOLIDATED STATEMENT OF PROFIT OR LOSS**

In the current year, the Directors decided to change the classification of certain line items in the consolidated statement of profit or loss to better reflect the financial information of the Group's activities. Prior year figures have been re-presented to reflect the new presentation. The reclassification has had no effect on the financial performance of Group for the year ended 31 December 2015.

The effect of change in presentation for the preceding year by certain line items presented in the consolidated statement of profit or loss is as follows:

	<b>For the year ended 31 December 2015</b>		
	<b>As previously reported HK\$'000</b>	<b>Reclassification HK\$'000</b>	<b>Restated HK\$'000</b>
<b>Consolidated statement of profit or loss</b>			
Cost of sales and services	<u>(642,251)</u>	<u>(36,969)</u>	<u>(679,220)</u>
Administrative and operating expenses	<u>(266,972)</u>	<u>36,969</u>	<u>(230,003)</u>

Breakdown of the expenses reclassified is as follows:

	<i>HK\$'000</i>
Depreciation	21,704
Repair and maintenance expenses	15,265
	<hr/>
	36,969
	<hr/> <hr/>

No consolidated statement of financial position as at 1 January 2015 and 31 December 2015 has been presented as the result from reclassifications disclosed above has no financial effects on the financial position of the Group with regard to the comparative figures on 1 January 2015 and 31 December 2015.

#### 4. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

The Group has applied the following amendments to HKFRSs and Hong Kong Accounting Standards (“HKASs”) issued by the HKICPA for the first time in the current year:

##### **New and amended standards and interpretations that are mandatorily effective for the current year**

Amendments to HKFRS 10, HKFRS 12 and HKAS 28	<i>Investment Entities: Applying the Consolidation Exception</i>
Amendments to HKFRS 11 HKFRS 14	<i>Accounting for Acquisitions of Interests in Joint Operations Regulatory Deferral Accounts</i>
Amendments to HKAS 1	<i>Disclosure Initiative</i>
Amendments to HKAS 16 and HKAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>
Amendments to HKAS 16 and HKAS 41	<i>Agriculture: Bearer Plants</i>
Amendments to HKAS 27	<i>Equity Method in Separate Financial Statements</i>
Amendments to HKFRSs	<i>Annual Improvements to 2012-2014 Cycle</i>

The Directors consider that the application of these new and amended HKFRSs and HKASs 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 the consolidated financial statements.

##### **New and amended standards and interpretations in issue but not yet effective**

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

Amendments to HKFRS 10 and HKAS 28	<i>Sales or Contributions of Assets between an Investor and its Associate or Joint Venture<sup>4</sup></i>
Amendments to HKFRS 2	<i>Classification and Measurement of Share based Payment Transactions<sup>2</sup></i>
Amendments to HKFRS 4	<i>Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts<sup>2</sup></i>
HKFRS 9	<i>Financial Instruments<sup>2</sup></i>
HKFRS 15	<i>Revenue from Contracts with Customers<sup>2</sup></i>
Amendments to HKFRS 15	<i>Clarifications to HKFRS 15 Revenue from Contracts with Customers<sup>2</sup></i>
HKFRS 16	<i>Leases<sup>3</sup></i>
Amendments to HKAS 7	<i>Disclosure Initiative<sup>1</sup></i>
Amendments to HKAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses<sup>1</sup></i>

- <sup>1</sup> Effective for annual periods beginning on or after 1 January 2017
- <sup>2</sup> Effective for annual periods beginning on or after 1 January 2018
- <sup>3</sup> Effective for annual periods beginning on or after 1 January 2019
- <sup>4</sup> No mandatory effective date is determined but is available for early adoption

### ***HKFRS 9 Financial Instruments***

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include the requirements for the classification and measurement of financial liabilities and for derecognition, and was further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include (a) impairment requirements for financial assets; and (b) limited amendments to the classification and measurement requirements by introducing a “fair value through other comprehensive income” (“FVTOCI”) measurement category for certain financial assets.

Key requirements of HKFRS 9 are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 “Financial Instruments: Recognition and Measurement” are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measure at FVTOCI. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in financial liabilities’ credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.
- In relation to the impairment assessment of financial assets, HKFRS 9 adopts an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- HKFRS 9 introduces a new model which is more closely aligns hedge accounting with risk management activities undertaken by companies when hedging their financial and non-financial risk exposures. As a principle-based approach, HKFRS 9 looks at whether a risk component can be identified and measured and does not distinguish between financial items and non-financial items. The new model also enables an entity to use information produced internally for risk management purposes as a basis for hedge accounting. Under HKAS 39, it is necessary to exhibit eligibility and compliance with the requirements in HKAS 39 using metrics that are designed solely for accounting purposes. The new model also includes eligibility criteria but these are based on an economic assessment of the strength of the hedging relationship. This can be determined using risk management data. This should reduce the costs of implementation compared with those for HKAS 39 hedge accounting because it reduces the amount of analysis that is required to be undertaken only for accounting purposes.

The Directors anticipate that the application of HKFRS 9 in the future may have a material impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the financial effect on the Group's financial statements until a detailed review has been completed.

### ***HKFRS 15 Revenue from Contracts with Customers***

In July 2014, HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related Interpretations when it becomes effective.

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

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

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

The Directors anticipate that the application of HKFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the financial effect on the Group's financial statements until a detailed review has been completed.

## 5. TURNOVER AND SEGMENT INFORMATION

The Group's operating and reportable segments are determined based on information reported to the Board, being the chief operating decision maker ("CODM"), for the purposes of resources allocation and assessment of segment performance, and are organised into business units, based on their products and services, as follows:

Casino service	–	Provision of casino management services in Macau
Gaming system	–	Development, sale and leasing of electronic gaming equipment and system

The Group monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects, as explained in the table below, is measured differently from operating profit or loss in the consolidated financial statements. Group financing (including finance costs) is managed on a group basis and is not allocated to operating segments.

The following tables present revenue and profit information regarding the Group's operating segments for the years ended 31 December 2016 and 31 December 2015.

### (a) Business segments

#### For the year ended 31 December 2016

	Operating and reportable segments		Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
	Casino service <i>HK\$'000</i>	Gaming system <i>HK\$'000</i>		
<b>Revenue</b>				
Revenue from external customers	<u>826,392</u>	<u>336,955</u>	<u>–</u>	<u>1,163,347</u>
<b>Segment results</b>	<u>(131,221)</u>	<u>(182,229)</u>	<u>(27,442)</u>	<u>(340,892)</u>
Finance costs				<u>(10,856)</u>
<b>Loss before income tax expense</b>				<u>(351,748)</u>



**As at 31 December 2016**

	Operating and reportable segments		Unallocated HK\$'000	Total HK\$'000
	Casino service HK\$'000	Gaming system HK\$'000		
<b>Assets</b>				
Segment assets	<u>597,635</u>	<u>216,851</u>	<u>101,028</u>	<u>915,514</u>
Total assets				<u>915,514</u>
<b>Liabilities</b>				
Segment liabilities	<u>177,617</u>	<u>22,928</u>	<u>92,200</u>	<u>292,745</u>
Total liabilities				<u>292,745</u>
<b>Other information</b>				
Capital expenditures	4,017	6,061	441	10,519
Amortisation of intangible assets	12,137	15,211	-	27,348
Depreciation of property, plant and equipment	49,810	14,477	655	64,942
Loss/(gain) on disposal of property, plant and equipment	9,967	(3,280)	-	6,687
Prepayment of machine costs recognised as expenses	8,607	-	-	8,607
Impairment loss recognised in respect of amount due from an associate	-	-	26	26
Loss arising from assignment of intangible assets	<u>-</u>	<u>334,765</u>	<u>-</u>	<u>334,765</u>

For the year ended 31 December 2015

	Operating and reportable segments		Unallocated HK\$'000	Total HK\$'000
	Casino service HK\$'000	Gaming system HK\$'000		
<b>Revenue</b>				
Revenue from external customers	<u>891,064</u>	<u>201,014</u>	<u>-</u>	<u>1,092,078</u>
<b>Segment results</b>	<u>(80,975)</u>	<u>(30,297)</u>	<u>(27,777)</u>	<u>(139,049)</u>
Finance costs				<u>(9,524)</u>
<b>Loss before income tax expense</b>				<u>(148,573)</u>

As at 31 December 2015

	Operating and reportable segments		Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
	Casino service <i>HK\$'000</i>	Gaming system <i>HK\$'000</i>		
<b>Assets</b>				
Segment assets	<u>655,190</u>	<u>614,250</u>	<u>7,104</u>	<u>1,276,544</u>
Total assets				<u>1,276,544</u>
<b>Liabilities</b>				
Segment liabilities	<u>173,987</u>	<u>44,156</u>	<u>81,837</u>	<u>299,980</u>
Total liabilities				<u>299,980</u>
<b>Other information</b>				
Capital expenditures	52,063	12,142	14	64,219
Amortisation of intangible assets	12,138	54,794	–	66,932
Depreciation of property, plant and equipment	41,858	13,515	1,226	56,599
Prepayment of machine costs recognised as expenses	21,438	–	–	21,438
Impairment loss recognised in respect of amount due from an associate	–	–	18	18
Impairment loss on intangible assets	<u>–</u>	<u>67,280</u>	<u>–</u>	<u>67,280</u>

#### Information about major customers

Revenue from customers contributing over 10% of the total revenue of the Group for the years ended 31 December 2016 and 31 December 2015 is as follows:

	<b>2016</b> <b><i>HK\$'000</i></b>	2015 <i>HK\$'000</i>
Customer A	<u>694,330</u>	<u>772,740</u>
Customer B	<u>275,141</u>	<u>263,080</u>

Revenue from customer A and customer B for the years ended 31 December 2016 and 31 December 2015 are generated from casino service and gaming system segments.

Revenue reported above represented the revenue generated from external customers which did not include the intersegment sales of approximately HK\$18,667,000 (2015: HK\$18,667,000) during the year ended 31 December 2016 amongst two operating and reportable segments.

Revenue under gaming system segment reported above represented the revenue generated from external customers which has included the sharing of net gaming revenue indirectly through casino service segment in the amount of HK\$141,434,000 (2015: HK\$144,755,000) during the year ended 31 December 2016.

Assets and liabilities are allocated based on the operation of the segment. Investment in shares (classified as available-for-sale financial assets) held by the Group are not considered to be segment assets but rather are managed by the treasury function. The promissory note are not considered to be segment liabilities but rather are managed by the treasury function.

(b) **Geographical segments**

The following table set out information about the geographical analysis of the Group's revenue, non-current assets (excluding available-for-sale financial assets), total assets and capital expenditure. In presenting the geographical information, segment revenue is based on the geographical location of external customers and segment non-current assets (excluding available-for-sale financial assets), total assets and capital expenditure are based on the geographical location of the assets.

	Revenue		Non-current assets		Total assets		Capital expenditure	
	2016	2015	2016	2015	2016	2015	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Macau	1,143,207	1,088,060	247,965	757,321	801,702	1,253,061	9,757	62,365
Others countries and places	20,140	4,018	4,085	4,932	113,812	23,483	762	1,854
	<u>1,163,347</u>	<u>1,092,078</u>	<u>252,050</u>	<u>762,253</u>	<u>915,514</u>	<u>1,276,544</u>	<u>10,519</u>	<u>64,219</u>

(c) **Turnover**

	2016	2015
	HK\$'000	HK\$'000
Revenue from provision of casino management services	826,392	891,064
Revenue from leasing of electronic gaming equipment and system	151,222	147,869
Sale of electronic gaming equipment and system	185,733	53,145
	<u>1,163,347</u>	<u>1,092,078</u>

6. **OTHER INCOME**

	2016	2015
	HK\$'000	HK\$'000
Bank interest income	2,668	3,585
Finance lease interest income	950	–
Loan interest income	301	–
Rental income	3,325	3,249
Sundry income	4,925	5,363
	<u>12,169</u>	<u>12,197</u>

7. **FINANCE COSTS**

	2016	2015
	HK\$'000	HK\$'000
Interest on:		
Obligations under finance leases wholly repayable within five years	1	8
Effective interest on:		
Promissory note ( <i>note 16</i> )	10,855	9,516
	<u>10,856</u>	<u>9,524</u>

## 8. LOSS BEFORE INCOME TAX EXPENSE

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
<b>Loss before income tax expense has been arrived at after charging:</b>		
Auditor's remuneration		
– Audit services	930	935
– Other services	180	–
Cost of inventories recognised as expenses	66,152	11,618
Depreciation of property, plant and equipment	64,942	56,599
Operating lease rentals paid in respect of rented premises	11,522	11,432
Research and development*	18,644	19,621
Amortisation of intangible assets	27,348	66,932
Impairment loss recognised in respect of amount due from an associate	26	18
Impairment loss on intangible assets	–	67,280
Loss on disposal of property, plant and equipment	6,687	–
Bad debt written off	875	–
Prepayment of machine costs recognised as expenses	8,607	21,438
Staff costs		
– Directors' emoluments	25,770	26,001
– Other staff costs		
– Salaries and other benefits	109,058	109,967
– Retirement benefit scheme contributions	1,527	1,154
Total staff costs	<u>136,355</u>	<u>137,122</u>

\* Research and development expenditure includes HK\$17,272,000 (2015: HK\$15,468,000) relating to staff costs, depreciation and operating lease rentals paid which are included in the respective total amounts disclosed separately above.

## 9. INCOME TAX EXPENSE

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Income tax expense comprise of:		
Current tax:		
Hong Kong Profits Tax	–	–
Macau Complementary Tax	2,000	–
Lump Sum Dividend Tax	331	331
PRC Enterprise Income Tax	26	15
Other countries tax	6	–
	<u>2,363</u>	<u>346</u>
Under/(over) provision in prior years:		
Macau Complementary Tax	1,031	(6)
	<u>3,394</u>	<u>340</u>

**(i) Hong Kong Profits Tax**

Hong Kong Profits Tax is calculated at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits for the year.

No provision for Hong Kong Profits Tax had been made as the Group did not generate any assessable profits in Hong Kong during both years.

**(ii) PRC Enterprise Income Tax**

For operating subsidiaries established in the PRC, PRC Enterprise Income Tax is calculated at the rate of 25% (2015: 25%) prevailing in the PRC for the year with certain tax preference.

**(iii) Macau Complementary Tax**

For operating subsidiaries established in Macau, Macau Complementary Tax is calculated at the rate of 12% (2015: 12%) prevailing in Macau for the year with certain tax preference.

Pursuant to a confirmation letter issued by the Macau Financial Service Bureau dated 7 January 2015, gaming related revenue generated from the service agreement signed between LT (Macau) Limited, a wholly-owned subsidiary of the Company, and SJM is not subject to Macau Complementary Tax since it is derived from SJM's gaming revenue, which gaming revenue is exempted pursuant to the terms of no. 2 of article 28 of the Law 16/2001 and the exemption granted by Dispatch no. 378/2011 of 23 November 2011.

Pursuant to the Dispatch of the Macau Financial Services bureau dated 18 February 2015, LT (Macau) Limited, a wholly-owned subsidiary of the Company, is allowed to pay an annual lump sum dividend withholding tax of approximately MOP341,000 (equivalent to approximately HK\$331,000) for each of the years ended 31 December 2012 through to 2016 as payment in lieu of Macau Complementary Tax otherwise due by the shareholders of LT (Macau) Limited on dividend distributions from gaming profits generated in relation to the operation of the casinos at Casino Kam Pek Paradise, Lisboa Casino and Casino Macau Jockey Club. Such annual lump sum tax payments are required regardless of whether dividends were actually distributed or whether LT (Macau) Limited has distributable profits in the relevant years. During the year ended 31 December 2016, lump sum dividend tax of HK\$331,000 (2015: HK\$331,000) has been recognised which was charged to the consolidated statement of profit or loss.

**(iv) Other countries tax**

Taxation for overseas subsidiaries, except those incorporated in PRC and Macau, are charged at the appropriate current rate of taxation ruling in the relevant countries.

## 10. DIVIDENDS

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
2014 final dividend paid: HK5.0 cents per Share	—	52,775

The Directors do not recommend the payment of final dividend for the year ended 31 December 2016 (2015: nil).

## 11. LOSS PER SHARE

The calculation of the basic and diluted loss per Share is based on the following data:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
<b>For the purpose of calculating basic loss per Share</b>		
Loss for the year attributable to the owners of the Company	<u>(380,380)</u>	<u>(165,192)</u>
<b>For the purpose of calculating diluted loss per Share</b>		
Loss for the year attributable to the owners of the Company	<u>(380,380)</u>	<u>(165,192)</u>
<b>Number of Shares</b>		
Issued ordinary Shares at 1 January	1,053,621	1,057,445
Effect of repurchase of Shares	<u>(1,377)</u>	<u>(2,381)</u>
Weighted average number of ordinary Shares for the purpose of calculating basic and diluted loss per Share	<u>1,052,244</u>	<u>1,055,064</u>

### Diluted loss per Share

For the year ended 31 December 2016, diluted loss per Share was the same as the basic loss per Share as the average market price of ordinary Shares during the year did not exceed the exercise price of the warrant issued by the Company during the year ended 31 December 2016.

For the year ended 31 December 2015, diluted loss per Share was the same as the basic loss per Share as there was no dilutive potential ordinary Shares.

## 12. INTANGIBLE ASSETS

	Patents – Biophar – maceutical products (note a) HK\$'000	Macau Patent – Betting terminal system (note b) HK\$'000	US Patent – Betting terminal system (note c) HK\$'000	Total  HK\$'000
<b>Cost</b>				
At 1 January 2015, 31 December 2015, 1 January 2016 and 31 December 2016	4,705	182,066	657,535	844,306
<b>Accumulated amortisation and impairment</b>				
At 1 January 2015	4,705	52,597	84,475	141,777
Amortisation for the year	–	12,138	54,794	66,932
Impairment loss (note c(i))	–	–	67,280	67,280
At 31 December 2015 and 1 January 2016	4,705	64,735	206,549	275,989
Amortisation for the year	–	12,137	15,211	27,348
Written off (note c(ii))	–	–	435,775	435,775
At 31 December 2016	4,705	76,872	657,535	739,112
<b>Net carrying amount</b>				
At 31 December 2016	–	105,194	–	105,194
At 31 December 2015	–	117,331	450,986	568,317

### Notes:

- (a) It represents the exclusive rights to use certain technologies acquired for the manufacture of certain biopharmaceutical products which were fully amortised in prior years.
- (b) The patent relates to a computerised system (the “System”) for operating multi-gambling games. The System was installed in Casino Kam Pek Paradise and other casinos in Macau. The Group generates revenue from sharing of revenue with casino owners under income-sharing agreements involving the distribution of electronic gaming equipment installed with the 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 carried out the reviews of the recoverable amounts of this class of intangible asset as well as those of certain property, plant and equipment, which belong to the cash-generating-unit in Macau patent (“Macau Patent CGU”), having regard to the market conditions in Macau. The recoverable amounts of these assets in the Macau Patent CGU have been determined by the Directors based on the value-in-use, determined based on the remaining license period and with reference to the valuation report conducted by an independent professional valuer, International Valuation Limited, which was approved by the Directors. No impairment loss was recognised on intangible assets under the Macau Patent CGU for the years ended 31 December 2016 and 31 December 2015.

Key assumptions adopted by management in the cash flow projection of the Macau Patent CGU are as follows:

- Growth rate of 2.50% to 5.54% (2015: range of 3.04% to 5.57%) per annum is applied in the profit or loss projection for the remaining license period, which was in line with the average inflation rate for Macau.
  - Pre-tax discount rate of 19.10% (2015: 19.64%) is adopted based on the assessment of the discount rate analysis independently performed by the independent professional valuer.
- (c) The amount represents various patents and patent applications in the United States relating to the System (“U.S. Patents”). The Group generated revenue from the sale and leasing of electronic gaming equipment installed with the System in the United States. The U.S. Patents was amortised over its useful life of 12 years using the straight line method.
- (i) At 31 December 2015, the Directors conducted an impairment assessment. With reference to a valuation on the patent conducted by an independent professional valuer, International Valuation Limited, under the income-based approach, the Directors recognised an impairment loss to the carrying amount of the patent of approximately HK\$67,280,000. The impairment loss has been included in the consolidated statement of profit or loss for the year ended 31 December 2015.
  - (ii) Pursuant to an agreement dated 25 April 2016, the subsidiaries of the Company, namely Fresh Idea Global Limited (“FIGL”), Solution Champion Limited (“SCL”) and LT Game, collectively, FIGL, SCL and LT Game are referred to as “LTG Parties”, entered into the Agreement for granting the exclusive rights to make, have made, use, sell, offer for sale, import, license/sub-license, and otherwise exploit the Licensed Products worldwide (other than Macau), which involves the assignment and license of the U.S. Patents and associated technology in relation to the Licensed Products (the “Exclusive Right”) to IGT, an independent third party, being the licensee and the assignee under Agreement. A one-time, non-refundable and non-creditable upfront payment of US\$12,950,000 (equivalent to approximately HK\$101,010,000, the “Upfront Payment”) was paid by IGT for the grant of the Exclusive Right.

Besides, the Group is also entitled to receive the earn-out payments (the “Earn-out Payments”) according to the Agreement for the placements of certain Licensed Products (either transfer of ownership of products or not) based upon a flat fee per unit or flat fee per day after the assignment of intangible assets.

In the preparation of the consolidated financial statements for the year ended 31 December 2016, the Directors have reassessed the amortisation period and amortisation method for this class of intangible assets. In prior years, the future economic benefits were expected to be consumed by the Group on a straight line basis over the estimated useful life of 12 years through sale and leasing of electronic gaming equipments installed with the System. Taking into account the change in use of the intangible assets brought about by the assignment and license of the U.S. Patents and associated technology, the Directors determined that the useful life of 12 years may no longer be appropriate. Further, the future economic benefits flowing to the Group in the form of the Earn-out Payments could not be reliably estimated in terms of amount, timing and duration. Accordingly, it is determined that the remaining carrying amount of this class of intangible assets be fully written down as at 31 December 2016. As a result, a loss arising from assignment of the intangible assets amounting to HK\$334,765,000 is recognised in profit or loss account, after taking into account the Upfront Payment received.



### 13. DEBTORS, DEPOSITS AND PREPAYMENTS

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Trade debtors ( <i>note i</i> )	102,428	78,461
Less: Impairment loss	<u>(287)</u>	<u>(287)</u>
Trade debtors, net of impairment loss	102,141	78,174
Deposits	52,978	61,018
Loan receivable ( <i>note ii</i> )	15,901	–
Other debtors and prepayments	<u>49,989</u>	<u>50,489</u>
	<u><b>221,009</b></u>	<u><b>189,681</b></u>

*Notes:*

- (i) At the end of the reporting period, trade debtors comprise amounts receivables from the share of gaming revenue (“Gaming Partners”) and sale and leasing of electronic gaming equipment and system (“Customers”). No interest is charged on the trade debtors.

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.

The Group normally allows a credit period of 30 days to its Gaming Partners and Customers. The Directors consider that the Group’s credit policy is consistent with the gaming industry practice in Macau.

An aging analysis of the trade debtors net of impairment loss recognised, based on the date of billing at the end of the reporting period is as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Within 30 days	68,861	56,528
31 – 60 days	278	4,955
61 – 90 days	161	3,214
91 – 180 days	6,599	9,376
181 – 365 days	8,631	2,202
More than 365 days	<u>17,611</u>	<u>1,899</u>
	<u><b>102,141</b></u>	<u><b>78,174</b></u>

Aging of trade debtors which are past due but not impaired:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Overdue by:		
1 – 30 days	44	81
31 – 60 days	42	3,177
61 – 90 days	51	2,981
91 – 180 days	6,494	9,427
181 – 365 days	6,552	1,915
More than 365 days	17,542	1,899
	<u>30,725</u>	<u>19,480</u>

The Group did not provide any allowance on the past due receivables as there has not been a significant change in credit quality and the amounts are still considered recoverable based on the historical experience. The Group does not hold any collateral over these balances.

- (ii) Pursuant to a loan agreement dated 5 October 2016, LT View Limited (the “Lender”), a subsidiary of the Company incorporated in the British Virgin Islands, agreed to grant a loan to LT Game Japan Limited (the “Borrower”), 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 with interest charged at the rate of 8% per annum. The total outstanding principal amount and accrued interest will be repayable on the maturity date of 5 October 2017. The loan is unsecured and guaranteed by Mr. Pak Suil, who holds 18% shareholding in, and is a director of, LT Game. The Borrower was a company owned as to 5.05% by the Group and 35.16% by Mr. Pak Suil, respectively. Following the completion of a reorganisation of the Borrower on 30 December 2016, the Borrower has become a wholly-owned company of another corporate (the “Corporate”) and the Group and Mr. Pak Suil own 0.83% and 5.76% of the Corporate, respectively. Details of the loan agreement are set out in the announcement of the Company dated 5 October 2016.

#### 14. CASH AND CASH EQUIVALENTS

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Deposits with other financial institutions	1,279	1,280
Cash at bank ( <i>note</i> )	304,468	174,095
Cash chips in hand	63,009	59,947
Cash in hand	2,007	2,068
	<u>370,763</u>	<u>237,390</u>

*Note:* The bank balances carry interest at prevailing market rates for both years.

At 31 December 2016, the cash and cash equivalents of the Group denominated in RMB amounted to approximately HK\$2,128,000 (2015: HK\$3,940,000), which is not freely convertible in the international market.

## 15. CREDITORS AND ACCRUED CHARGES

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Trade creditors	109,090	90,428
Other creditors and accrued charges	89,656	128,456
	<u>198,746</u>	<u>218,884</u>

An aging analysis of trade creditors, based on the date of receipt of goods is as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Within 30 days	42,376	17,536
31 – 60 days	9,784	3,547
61 – 90 days	4,716	3,050
91 – 365 days	11,610	41,274
Over 365 days	40,604	25,021
	<u>109,090</u>	<u>90,428</u>

## 16. PROMISSORY NOTE

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
At 1 January	77,158	67,642
Imputed interest charged ( <i>note 7</i> )	10,855	9,516
At 31 December	<u>88,013</u>	<u>77,158</u>

At the end of the reporting period, the promissory note (the “Promissory Note”) was repayable as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Within 1 year	88,013	–
After 1 year but within 2 years	–	77,158
	<u>88,013</u>	<u>77,158</u>

On 19 June 2013, the Group issued the Promissory Note with a principal amount of HK\$200,000,000 to Mr. Jay Chun, the Chairman and an executive Director, as part of the consideration for the Group’s acquisition of patents and patent applications in the U.S. in relation to the System (see note 12). The Promissory Note is unsecured, non-interest bearing and has a maturity period of 4 years from the date of issue but can be repaid in whole or in part before maturity at the discretion of the Company. Early redemption of the Promissory Note shall be subject to discount of the outstanding principal amount as follows: 4% within the first year, 3% within the second year, 2% within the third year and 1% within the fourth year. At 31 December 2016, the outstanding principal amount of the Promissory Note amounted to HK\$94,000,000 (2015: HK\$94,000,000).

The Promissory Note is measured at amortised cost using the effective interest method with the effective interest rate at 13.36% per annum.

## 17. SHARE CAPITAL AND TREASURY SHARES

	Number of Shares of HK\$0.001 each		Share capital	
	2016 '000	2015 '000	2016 HK\$'000	2015 HK\$'000
<b>Authorised:</b>				
At the beginning and end of the year	<u>1,000,000,000</u>	<u>1,000,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>
<b>Issued and fully paid:</b>				
At the beginning of the year	1,053,621	1,057,445	1,053	1,057
Repurchase and cancellation of Shares ( <i>note</i> )	<u>(1,436)</u>	<u>(3,824)</u>	<u>(1)</u>	<u>(4)</u>
At the end of the year	<u>1,052,185</u>	<u>1,053,621</u>	<u>1,052</u>	<u>1,053</u>

### Note:

During the year ended 31 December 2015, pursuant to the general mandate given to the Directors, the Company repurchased 5,260,000 Shares at prices ranging from HK\$1.01 to HK\$2.85 through the Stock Exchange at a total consideration of approximately HK\$9,682,000 and 3,824,000 repurchased Shares were cancelled in 2015. This cancellation resulted in the decrease in issued share capital of approximately HK\$4,000 and share premium of approximately HK\$8,037,000.

At 31 December 2015, the Company held a total of 1,436,000 treasury Shares at the total consideration of HK\$1,641,000, which were cancelled in January 2016. This cancellation resulted in the decrease in issued share capital of approximately HK\$1,000 and share premium of approximately HK\$1,640,000.

## 18. CONTINGENT LIABILITIES

At the end of the reporting period, the Group had the following significant outstanding litigation:

In 2012, the Company had been served with a summon issued by the Macau Judicial Base Court (“Tribunal Judicial de Base”), pursuant to which SHFL Entertainment (Asia) Limited (formerly known as Shuffle Master Asia Limited) (“SHFL Macau”) has commenced injunction proceedings against the Company, its subsidiaries (i) LT Game (an entity which owns the global (including Macau) rights to use, distribute and maintain the material and equipment that uses the invention object of the Macau Invention Patent No. I/000150 (“Patent I/150”) and the Macau Invention Patent No. I/000380 (“Patent I/380”)), and (ii) Natural Noble Limited (“Natural Noble”) (the owner of Patent I/380) and Mr. Jay Chun (the Chairman and an executive Director, the inventor and registered owner of Patent I/150) (collectively, the “Respondents”) (the “Injunction”).

The Injunction seeks orders to restrain, amongst others, the Respondents from, amongst other things, (i) making any representation or expression on any monopoly right over all and any solutions allowing players to play remotely in real time on a plurality of live games; and (ii) unfairly competing with SHFL Macau in any manner, amongst other ancillary petitions. Details of the Injunction and Macau First Instance Court decision are set out in the Company's announcement dated 1 November 2012 and 19 November 2013. Following the dismissal of the injunction filed by SHFL Macau by Macau First Instance Court, SHFL Macau appealed against the dismissal before the Macau Second Instance Court. On 12 June 2014, the Macau Second Instance Court confirmed the dismissal of the Injunction by agreeing with the Macau First Instance Court decision.

On 3 May 2016, the main lawsuit in relation to the violation of the Macau registered Patents I/150 and I/380 was dismissed after SHFL Macau withdrew its claim against the Respondents. SHFL Macau was ordered to pay all court fees related to the court case. Details were disclosed in the Company's announcement dated 5 May 2016.

The Directors believe that it will not have any material adverse impact on the Group's operations.

## 19. OPERATING LEASE COMMITMENTS

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

	<b>2016</b> <b>HK\$'000</b>	2015 HK\$'000
Within one year	<b>46,284</b>	53,046
In the second to fifth year inclusive	<b>63,805</b>	97,552
	<b><u>110,089</u></b>	<u>150,598</u>

Leases relate to a Director's quarter, warehouse facilities and office premises and are negotiated for average terms of one to five (2015: one to five) years.

## 20. CAPITAL COMMITMENTS

	<b>2016</b> <b>HK\$'000</b>	2015 HK\$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:		
Acquisition of property, plant and equipment	<b><u>2,927</u></b>	<u>9,709</u>

## 21. RELATED PARTY TRANSACTIONS

- (a) Other than the related party transactions and balances disclosed elsewhere in these consolidated financial statements, the Group had the following significant transactions with its related parties during the year:

	Directors		Associate		Related parties	
	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
Sale of electronic gaming equipment and system to (note i)	-	-	-	-	20,140	491
Loan interest income from (note ii)	-	-	-	-	301	-
Consultancy fee paid to (note iii)	-	-	-	-	778	920
Salaries and other benefits paid to (note iv)	-	-	-	-	4,962	4,946
Loan receivable from (note ii)	-	-	-	-	15,901	-
Amount due from (note v)	-	-	6,150	6,124	-	-
Amounts due to (note vi)	3,709	3,535	-	-	-	-

### Notes:

- (i) The related parties are companies wholly-owned by the brother-in-law of Mr. Jay Chun, the Chairman and executive Director of the Company.
- (ii) The related company is LT Game Japan Limited. Further details of the loan and the related company are set out in note 13(ii).
- (iii) The related party is the brother-in-law of Mr. Jay Chun, the Chairman and executive Director of the Company.
- (iv) The related party is the spouse of Mr. Jay Chun, the Chairman and an executive Director of the Company. The transactions were charged at pre-determined amounts agreed between the parties involved.
- (v) The amount due is unsecured, interest-free and has no fixed terms of repayments. During the year ended 31 December 2016, impairment loss of approximately HK\$26,000 (2015: HK\$18,000) was recognised to the consolidated statement of profit or loss.
- (vi) The amounts due are unsecured, interest-free and have no fixed terms of repayments.

### (b) Key Management Personnel Remuneration

	2016 HK\$'000	2015 HK\$'000
Short-term employee benefits	32,462	33,626
Retirement benefits scheme contributions	48	45
	<b>32,510</b>	<b>33,671</b>

## BUSINESS AND FINANCIAL REVIEW

### Overview of Results

2016 was a transformation year for both the Group and the Macau gaming market. Revenue and earnings of the Group showed gradual improvement in tandem with the Macau gaming market. Separately, the Group continued to strengthen our relationship and align our interest with IGT, a global leader in electronic gaming machine industry. This has led to encouraging growth momentum on ETG machines deployment in the United States.

Total reported revenue of the Group for the year ended 31 December 2016 was HK\$1,163.3 million, representing an increase of 6.5% over that of HK\$1,092.1 million for the year ended 31 December 2015. The increase was a direct result of strong demand for electronic gaming equipment and system in the Macau market. A breakdown of the contribution of revenue by segments for the years ended 31 December 2016 and 31 December 2015 is detailed below:

	<b>2016</b> <i>HK\$ million</i>	2015 <i>HK\$ million</i>
Casino service	<b>826.4</b>	891.1
Gaming system:		
Sale of machines	<b>185.7</b>	53.1
Revenue sharing from LMG terminals	<b>151.2</b>	147.9
	<b>336.9</b>	201.0
Total reported revenue	<b><u>1,163.3</u></b>	<b><u>1,092.1</u></b>

Adjusted EBITDA for the year ended 31 December 2016 was HK\$97.5 million, representing an increase of 40.1% over that of HK\$69.6 million for the year ended 31 December 2015. The increase was mainly due to the solid performance of the gaming system segment and effective cost control for the year ended 31 December 2016. The following table reconciles Adjusted EBITDA to the loss for the year:

	<b>2016</b> <i>HK\$ million</i>	2015 <i>HK\$ million</i>
Loss for the year	<b>(355.1)</b>	(148.9)
Adjustments for:		
Interest income	<b>(3.9)</b>	(3.5)
Finance costs	<b>10.8</b>	9.5
Income tax expense	<b>3.4</b>	0.3
Depreciation of property, plant and equipment	<b>64.9</b>	56.6
Loss on disposal of property, plant and equipment	<b>6.7</b>	–
Amortisation for intangible assets	<b>27.3</b>	66.9
Impairment loss on intangible assets	<b>–</b>	67.3
Loss arising from assignment of intangible assets	<b>334.8</b>	–
Prepayment of machine costs recognised as expenses	<b>8.6</b>	21.4
<b>Adjusted EBITDA</b>	<b><u>97.5</u></b>	<b><u>69.6</u></b>

*Remark:* Adjusted EBITDA for the year ended 31 December 2015 was restated from HK\$48.2 million as previously reported to HK\$69.6 million with the adjustment of adding back of non-cash prepayment of machine costs recognised as expenses of HK\$21.4 million to the loss for that year so as to conform with current year's presentation.

An analysis of Adjusted EBITDA by segments is as follows:

	<b>2016</b>	2015
	<b><i>HK\$ million</i></b>	<i>HK\$ million</i>
Casino service	<b>(53.1)</b>	(9.0)
Gaming system	<b>177.7</b>	105.1
Sub-total	<b>124.6</b>	96.1
Unallocated corporate expenses	<b>(27.1)</b>	(26.5)
Adjusted EBITDA	<b>97.5</b>	69.6

The Adjusted EBITDA from casino service recorded a loss of HK\$53.1 million for the year ended 31 December 2016, as compared to the loss of HK\$9.0 million for the year ended 31 December 2015. The increase in loss from casino service was mainly due to decrease in total GGR of the tables under our management for the year ended 31 December 2016 when compared to that for the year ended 31 December 2015. The Adjusted EBITDA from gaming system was HK\$177.7 million, representing an increase of 69.1% over that of HK\$105.1 million for the year ended 31 December 2015. The increase of Adjusted EBITDA from gaming system was mainly due to strong demand of gaming machines deployment in Macau during the year ended 31 December 2016. The Adjusted EBITDA from operations of the Group excluding unallocated corporate expenses for the year ended 31 December 2016 was HK\$124.6 million, representing an increase of 29.7% over that of HK\$96.1 million for the year ended December 2015.

The Group's loss for the year ended 31 December 2016 was approximately HK\$355.1 million, as compared to the loss of HK\$148.9 million for the year ended 31 December 2015. The loss for the year ended 31 December 2016 was mainly due to the loss arising from assignment of intangible assets of HK\$334.8 million in relation to the assignment and license of patent and associated technology to IGT in April 2016 (without taking into account the possible Earn-out Payments to the Group during the term of the Agreement).

### **Casino Service**

The Group's revenue from the provision of casino management services for the year ended 31 December 2016 consisted of service income received from Casino Kam Pek Paradise, Casino Waldo and Casino Macau Jockey Club for mass gaming tables, LMG terminals and slot machines.

For the year ended 31 December 2016, revenue generated by the provision of casino management services contributed 71.0% to the total reported revenue of the Group, as compared to 81.6% recorded for the year ended 31 December 2015.



The following table sets forth data on the provision of casino management services for the years ended 31 December 2016 and 31 December 2015:

<i>(Average no. of units)</i>	For the year ended 31 December								
	2016				2015				
	Kam Pek	Waldo	*Macau Jockey Club		Kam Pek	Waldo	Macau Jockey Club		Total
Club			Total	LMG Zone			Total		
Traditional gaming tables	37	26	-	63	37	27	-	-	64
LMG tables	10	4	4	18	8	3	4	2	17
LMG terminals	935	300	172	1,407	898	300	172	234	1,604
Slot machines	194	180	-	374	194	139	-	-	333

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

\*\* *Since 1 January 2016, the Group has changed the provision of casino management services to revenue sharing from LMG at Lisboa LMG Zone*

As at 31 December 2016, the Group had a total of 81 (2015: 81) gaming tables under management.

For the year ended 31 December 2016, the Group recorded a revenue of HK\$826.4 million from casino service segment, representing a decrease of 7.3% over that of HK\$891.1 million for the year ended 31 December 2015. Our casino market focuses on the mass market segment, and our targeted customers come mostly from local and southern China region. The decrease in revenue from the casino service segment in 2016 was mainly due to the lower same-day visitations to Macau and macro headwind in China.

The following tables set out certain key operational data of mass gaming tables, LMG terminals and slot machines in our two major casino operations for the years ended 31 December 2016 and 31 December 2015:

		For the year ended 31 December			
		Kam Pek		Waldo	
		2016	2015	2016	2015
<b>Traditional gaming tables</b>					
GGR	<i>(HK\$ million)</i>	<b>654.7</b>	756.5	<b>382.6</b>	395.7
Gaming tables	<i>(Average no. of tables)</i>	<b>37</b>	37	<b>26</b>	27
Net win/table/day	<i>(HK\$ thousand)</i>	<b>48.3</b>	56.0	<b>40.2</b>	40.2
<b>LMG tables</b>					
GGR	<i>(HK\$ million)</i>	<b>511.8</b>	528.8	<b>95.1</b>	64.1
Terminals	<i>(Average no. of terminals/tables)</i>	<b>935/10</b>	898/8	<b>300/4</b>	300/3
Net win/terminal/day	<i>(HK\$)</i>	<b>1,496</b>	1,613	<b>866</b>	585
Net win/LMG table/day	<i>(HK\$ thousand)</i>	<b>139.8</b>	181.1	<b>65.0</b>	58.5
<b>Total gaming tables</b>					
GGR	<i>(HK\$ million)</i>	<b>1,166.5</b>	1,285.3	<b>477.7</b>	459.8
Gaming tables	<i>(Average no. of tables)</i>	<b>47</b>	45	<b>30</b>	30
Net win/table/day	<i>(HK\$ thousand)</i>	<b>67.8</b>	78.3	<b>43.5</b>	42.0
<b>Slot</b>					
GGR	<i>(HK\$ million)</i>	<b>70.7</b>	75.6	<b>6.3</b>	3.8
Slot machines	<i>(Average no. of units)</i>	<b>194</b>	194	<b>180</b>	139
Net win/slot/day	<i>(HK\$)</i>	<b>996</b>	1,068	<b>96</b>	75
<b>Total GGR</b>	<b><i>(HK\$ million)</i></b>	<b><u>1,237.2</u></b>	<b><u>1,360.9</u></b>	<b><u>484.0</u></b>	<b><u>463.6</u></b>

### Gaming System

The Group's revenue from gaming system segment consisted of income received from selling electronic gaming equipment and system as well as revenue sharing from LMG terminals in Macau and overseas markets.

For the year ended 31 December 2016, revenue generated by the sale of machines and the revenue sharing from LMG terminals contributed 29.0% to the total reported revenue of the Group, as compared to 18.4% for the year ended 31 December 2015. The following table shows a breakdown of revenue from gaming system segment for the years ended 31 December 2016 and 31 December 2015:

	<b>2016</b>	2015
	<b><i>HK\$ million</i></b>	<i>HK\$ million</i>
Sale of machines	<b>185.7</b>	53.1
Revenue sharing from LMG terminals	<b>151.2</b>	147.9
Total revenue from gaming system	<b><u>336.9</u></b>	<u>201.0</u>

The gaming system segment realised a significant revenue from LMG deployment in 2016. The growth came from a mix of both sale and revenue sharing from LMG terminals. The gaming system segment revenue was approximately HK\$336.9 million for the year ended 31 December 2016, a remarkable increase of 67.6% over that of HK\$201.0 million for the year ended 31 December 2015.

### ***Sale of Machines***

The Group deployed 991 LMG terminals in Macau and the overseas markets for the year ended 31 December 2016, a record high of LMG terminal deployment. This was mainly due to strong demand from the Macau flagship casinos opening and the additional deployment in various casinos. The following table shows a breakdown of sale of machines for the years ended 31 December 2016 and 31 December 2015:

	For the year ended 31 December			
	2016		2015	
	<i>No. of casino</i>	<i>No. of LMG terminals</i>	<i>No. of casino</i>	<i>No. of LMG terminals</i>
Macau market	<b>6</b>	<b>893</b>	2	212
Overseas market	<b>4</b>	<b>98</b>	1	24
Total	<b><u>10</u></b>	<b><u>991</u></b>	<u>3</u>	<u>236</u>

The Group deployed a total of 893 terminals at 6 casinos in Macau, namely Wynn Palace, The Parisian Macau and Galaxy Macau in Cotai, and Casino Diamond at Holiday Inn, Casino Babylon at the Macau Fisherman's Wharf and Casino StarWorld in the Peninsula, as at 31 December 2016. The Group also deployed 98 terminals at 4 casinos in the overseas markets as at 31 December 2016.

### ***Revenue Sharing from LMG Terminals***

Revenue sharing from LMG terminals for the year ended 31 December 2016 recorded HK\$151.2 million, representing an increase of 2.2% over that of HK\$147.9 million for the year ended 31 December 2015. The following tables set out certain key operational data of LMG terminals and our revenue sharing for the years ended 31 December 2016 and 31 December 2015:

		<b>For the year ended 31 December</b>	
		<b>2016</b>	2015
No. of LMG terminals		<b>1,680</b>	1,777
Net win/terminal/day	<i>(HK\$)</i>	<b>1,115</b>	1,024
Our revenue sharing	<i>(HK\$ million)</i>	<b>151.2</b>	147.9

The average daily GGR per LMG terminal improved 8.9% year-on-year from HK\$1,024 in 2015 to HK\$1,115 in 2016. In the beginning of 2016, Lisboa LMG Zone had reconfigured its gaming floor and retained 100 terminals (from 234 terminals). Meanwhile, Casino Kam Pek Paradise increased its number of LMG terminals from 898 to 935 units.

### ***ETG Distribution from IGT***

In April 2016, the Group entered into a strategic agreement with IGT, a global leader in electronic gaming machine industry. The Group assigned and licensed certain U.S. patents and associated technology to IGT to receive a non-refundable Upfront Payment of US\$12.95 million (approximately HK\$101.0 million) and a 15-year Earn-out Payment for every live and random number generator electronic table games deployment in the global market (other than Macau).

As at 31 December 2016, IGT has deployed 252 Live ETG in 7 casinos in the United States, including the largest Live ETG installation at the Sands Bethlehem with a total of 150 terminals. Most of machines deployed were under trial or testing period at the end of 2016. As such, revenue from such deployment would be recognised by the Group in 2017.

### **PROSPECTS**

Macau reversed its 26-month gross gaming revenue slump in August 2016, and showed double digit year-on-year growth in the fourth quarter of 2016. The Macau gaming industry continued to perform well into early 2017 and the growth trajectory is expected to continue on the back of higher visitations from infrastructure improvement.

We continue to innovate to offer premium gaming experience to the players, as well as higher operating efficiency to our customers. In September 2016, we deployed an advanced version of LMG terminal – “Fast Betting Terminal” in The Parisian Macau. It was an important milestone for our product development pipeline. In October 2016, the Group has been granted an exclusive distribution right from LT Game Japan Limited, a company which is incorporated in Japan and is principally engaged in the development and manufacturing of gaming

products, for their brand new mechanical slot products in Macau. The Group will continue to expand its range of electronic gaming products to cope with the rising demand in the Asia market.

International opportunities will continue to be one of our focuses. It is a highly competitive industry with substantial resources and efforts required. As such, we are excited to enter into a strategic agreement with IGT, a global leader in electronic gaming machine industry, in April 2016. We have seen encouraging momentum from IGT distribution in the United States market, especially in Nevada, Pennsylvania and California State, during the year ended 31 December 2016. Undoubtedly, this strategic agreement with IGT will not only expedite our penetration into the overseas markets, but also increase the sustainable revenue base of the Group.

Looking ahead, the Group remains cautiously optimistic and will continue to expand our existing businesses. We will also develop our product line further, catering not only to the Macau gaming market but the overseas markets as well. As always, the Group pledges to seek and evaluate every opportunity and will strive to achieve long-term sustainable growth in order to maximise returns to the Shareholders.

## **DIVIDEND**

The Directors do not recommend the payment of final dividend for the year ended 31 December 2016 (2015: nil).

## **BOOK CLOSURE**

To ascertain Shareholders' eligibility to attend and vote at the 2017 AGM to be held on 25 May 2017, the register of members will be closed from 22 May 2017 to 25 May 2017, both dates inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the 2017 AGM, all transfers of Shares accompanied by the relevant share certificates must be lodged with the Company's Share Registrars, Tricor Secretaries Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on 19 May 2017.

## **LIQUIDITY AND FINANCIAL RESOURCES**

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

As at 31 December 2016, the consolidated net assets of the Group amounted to HK\$622.8 million, representing a decrease of HK\$353.8 million or 36.2% from HK\$976.6 million as at 31 December 2015. The decrease in consolidated net assets of the Group during the year ended 31 December 2016 was mainly due to the Group's loss of HK\$355.1 million for the year ended 31 December 2016.

## **Cash and Cash Equivalents**

As at 31 December 2016, cash and cash equivalents of the Group amounted to HK\$370.8 million, including a total of approximately HK\$205.8 million of cash and cash equivalents placed as fixed deposits at banks in Macau and Hong Kong with maturities ranging from 1 to 3 months. The fixed deposits are denominated in HK\$, MOP and US\$.

## **Borrowings and Gearing Ratio**

As at 31 December 2016, the Group had outstanding unsecured and unguaranteed borrowings of HK\$91.7 million, comprising promissory note of HK\$88.0 million and amounts due to Directors of HK\$3.7 million. The promissory note is unsecured, interest free and repayable within one year. The amounts due to Directors are unsecured, interest-free and have no fixed terms of repayment.

The Group's gearing ratio (expressed as a percentage of borrowings over net assets) as at 31 December 2016 was 14.7% (2015: 8.3%). Total borrowings of the Group as at 31 December 2016 increased by HK\$11.0 million while the net assets of the Group decreased by HK\$353.8 million as compared to that as at 31 December 2015. As a result, the Group's gearing ratio increased by 6.4% to 14.7% as at 31 December 2016.

As at 31 December 2016, the Group had net cash (being cash and cash equivalent less borrowings) of HK\$279.0 million (2015: HK\$156.6 million).

## **Contingent Liabilities**

Particulars of the Group's significant contingent liabilities as at 31 December 2016 are set out in note 18.

## **Capital Commitments**

Particulars of the Group's significant capital commitments as at 31 December 2016 are set out in note 20.

## **Foreign Exchange Exposure**

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

## **Charges on Group Assets**

As at 31 December 2016, the Group did not have any assets pledged.

## **Employees and Remuneration Policy**

As at 31 December 2016, the Group had 489 employees. 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.

## **COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE**

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 2016 except for certain deviations disclosed below:

### **Code Provision A.2.1**

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.

### **Code Provision A.4.1**

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 an 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.



### **Code Provision E.1.2**

Pursuant to code provision E.1.2 of the CG Code, the Chairman of the Board should attend the annual general meeting. However, Mr. Jay Chun was unable to attend the annual general meeting held on 1 June 2016 as he was engaged in other commitments of the Company.

### **Code Provision C.3.3(e)(i)**

In accordance with code provision C.3.3(e)(i) of the CG Code, the Audit Committee must meet, at least twice a year, with the independent auditor of the Company. However, during the year ended 31 December 2016, the Audit Committee met with the independent auditor of the Company once. The number of meetings between the Audit Committee and the independent auditor of the Company fell short of two times a year because of the conflicting schedules of the members of the Audit Committee, which rendered it difficult to arrange for such meetings.

## **COMPLIANCE WITH THE MODEL CODE**

The Company has adopted the Model Code as its 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 2016.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES**

In January 2016, 1,436,000 Shares (repurchased in late 2015 and classified as treasury Shares as at 31 December 2015) were cancelled.

Save as disclosed, neither the Company nor its subsidiaries had purchased, sold or redeemed any of the Company's listed Shares during the year ended 31 December 2016.

## **ISSUE OF UNLISTED WARRANTS PURSUANT TO SPECIFIC MANDATE**

On 22 September 2016, the Company entered into a subscription agreement with a subscriber, Sky Rock Development Limited, a company incorporated in the British Virgin Islands with limited liability and the entire issued share capital of which is legally and beneficially owned by Mr. Chang Wang ("Mr. Chang"). Mr. Chang, the sole shareholder and director of the subscriber, is well-known in the gaming and casino industry in Macau. Mr. Chang is the founder of Mocha Clubs, the largest slot hall operator in Macau. Under the subscription agreement, the Company has agreed to issue and the subscriber has agreed to subscribe for 50,000,000 unlisted warrants at the issue price of HK\$0.03 per warrant. The subscription agreement was approved by the Shareholders in a special general meeting of the Company held on 24 October 2016. The warrants were issued on 31 October 2016 pursuant to the specific mandate and the issue price for HK\$1,500,000 in total was received by the Company and applied to the Group's general working capital. Each warrant carries the right to subscribe at any time within one-year period commencing from the completion date for one share at the subscription price of HK\$1.40 per Share (subject to adjustment). Further details regarding the issue of unlisted warrants are set out in the Company's announcements dated 22 September 2016, 26 September 2016, 6 October 2016 and 24 October 2016; and the Company's circular dated 6 October 2016.



During the year ended 31 December 2016, no unlisted warrant was exercised to subscribe for Shares of the Company and there were 50,000,000 unlisted warrants outstanding as at 31 December 2016. If the unlisted warrants are fully exercised at the subscription price of HK\$1.40 per share (subject to adjustment), an additional fund of HK\$70 million (subject to adjustment) will be raised and expected to be used as the Group's general working capital.

## **REVIEW OF ANNUAL RESULTS BY THE AUDIT COMMITTEE**

The Audit Committee comprises three independent non-executive Directors. As at the date of this announcement, the members of the Audit Committee are Mr. Li John Zongyang (chairman), Mr. Kai-Shing Tao and Ms. Tang Kiu Sam Alice. The Audit Committee has reviewed with the management of the Company the accounting principles and practices adopted by the Group and the consolidated financial statements for the year ended 31 December 2016.

## **DEFINITIONS**

“2017 AGM”	the annual general meeting of the Company to be held on 25 May 2017
“Adjusted EBITDA”	the Group's profit or loss for the year attributable to owner of the Company before interest income, finance costs, income tax expense, depreciation of property, plant and equipment, amortisation for intangible assets, prepayment of machine costs recognised as expenses, gain or loss on disposal of property, plant and equipment, loss arising from assignment of intangible assets and impairment loss on intangible assets, where applicable
“Agreement”	The Patent and Technology Assignment and License Agreement dated 25 April 2016 entered into between the Group and IGT
“Audit Committee”	the audit committee of the Company
“Board”	the board of Directors
“CG Code”	the Corporate Governance Code contained in Appendix 14 to the Listing Rules
“Company”	Paradise Entertainment Limited, a company incorporated in Bermuda with limited liability, the issued Shares of which are listed on the Main Board of the Stock Exchange
“Directors”	the directors of the Company
“ETG”	electronic table game

“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
“HKFRSs”	Hong Kong Financial Reporting Standards issued by the HKICPA
“HKICPA”	Hong Kong Institute of Certified Public Accountants
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“IGT”	IGT, a Nevada corporation and a subsidiary of International Game Technology, which is listed on the New York Stock Exchange under the trading symbol “IGT”
“Licensed Products”	any Live ETG or RNG ETG, Mobile/Online Gaming Application, or associated system that either (a) the manufacture, use, offer for sale, sale or importation of which is covered by any Patents, (b) is manufactured or operated using a method or process covered by any Patents, or (c) is developed, manufactured, or operated using any of the LT Game Macau Technology
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Live ETG”	the gaming systems and associated electronic gaming stations for extending casino games that typically involve a live dealer (e.g. baccarat, roulette, blackjack, craps, etc.) to include multiple stations for players to play the game with the dealer in real time remotely from the table at which the dealer is located
“LMG”	live multi game
“LT Game”	LT Game Limited, a company established in the British Virgin Islands with limited liability, an indirect 82%-owned subsidiary of the Company

“LT Game Macau Technology”	all technology that (a) is (i) owned by the Group or any of its affiliates or (ii) licensed to the Group or its affiliate (by a person that is not an affiliate of the Group) with the right to sublicense, in each case (i) or (ii), as of the date of the Agreement, (b) is in the possession or control of LT Game or any of its representatives as of the date of the Agreement, (c) can be licensed and disclosed to IGT upon the terms hereunder without violating any contractual restriction existing as of the date of the Agreement between the Group or its affiliate, on the one hand, and a person that is not an affiliate of the Group, on the other hand, and (d) was developed or is under development for, embodied by, included within, or used to make or operate Live ETGs or RNG ETGs only in Macau
“Macau”	the Macao Special Administrative Region of the PRC
“Mobile/Online Gaming Application”	a software application that enables play of, as or with a Live ETG or RNG ETG through a personal or mobile device, such as a phone, tablet computer, laptop computer, desktop computer or other device that is movable by the player, any associated hardware, networking or other systems that enable such application, in each case where the application is provided by or for the benefit of operators of physical or online gaming establishments (including physical and virtual casinos), physical or online lottery establishments (including agents, operators and locations that support lottery terminals), and patrons, customers and users of the foregoing, whether such uses are online or on-premises or outside of such gaming or lottery establishments, and whether for real money wagering or not
“Model Code”	the Model Code for Securities Transaction by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
“MOP”	Macau Pataca, the lawful currency of Macau
“Patents”	all patents and patent applications that are owned by the Group and claim any Live ETG, RNG ETG or portion thereof, 29 of which existing as of the date of the Agreement in various countries outside of Macau are to be assigned to IGT
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC

“RNG ETG”	the gaming systems and associated electronic gaming stations that operate separately from Live ETGs and that can simulate table game outcomes using only a software driven random number generator
“Share(s)”	ordinary share(s) of HK\$0.001 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“SJM”	Sociedade de Jogos de Macau, S.A., one of the three concessionaires for operation of casino games in Macau
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent

By Order of the Board  
**Paradise Entertainment Limited**  
**Chan Kin Man**  
*Company Secretary*

Hong Kong, 29 March 2017

*As at the date of this announcement, the executive Directors are 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 and Mr. Hu Liming and the independent non-executive Directors are Mr. Li John Zongyang, Mr. Kai-Shing Tao and Ms. Tang Kiu Sam Alice.*