Annual Report 2011

China LotSynergy Holdings Limited

華彩控股有限公司*

(Incorporated in Bermuda with limited liability)

Stock code: 8161

China LotSynergy 10th Integrate Excellence

* For identification purposes only

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Corporate Information

DIRECTORS

Executive Director

LAU Ting, *Chairperson and Chief Executive Officer*
WU Jingwei, *Co-Chief Executive Officer*
CHAN Tan Na, Donna *Chief Financial Officer*
LI Zi Kui
LIAO Yuang-whang
(resignation effective from 16 March 2012)
CHAN Shing
(resignation effective from 16 February 2012)

Non-Executive Director

HOONG Cheong Thard

Independent Non-Executive Director

HUANG Shenglan
CHAN Ming Fai
CUI Shuming

COMPANY SECRETARY

TAN Yung Kai, Richard

COMPLIANCE OFFICER

LAU Ting (appointment effective from 16 March 2012)
LIAO Yuang-whang
(resignation effective from 16 March 2012)

AUTHORISED REPRESENTATIVES

LAU Ting (appointment effective from 16 March 2012)
LIAO Yuang-whang
(resignation effective from 16 March 2012)
TAN Yung Kai, Richard

AUDIT COMMITTEE

HUANG Shenglan
CHAN Ming Fai
CUI Shuming

REMUNERATION COMMITTEE

HUANG Shenglan
CHAN Ming Fai
LAU Ting

NOMINATION COMMITTEE

LAU Ting
HUANG Shenglan
CHAN Ming Fai

AUDITORS

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

REGISTERED OFFICE

Canon's Court
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Bermuda

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Rosebank Centre
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Bermuda

BRANCH SHARE REGISTRARS IN HONG KONG

Computershare Hong Kong Investor Services Limited
Hopewell Centre, 46th Floor
183 Queen's Road East
Wanchai
Hong Kong

LEGAL ADVISERS

Appleby
Baker & McKenzie
Rong De Law Firm

PRINCIPAL BANKERS

Standard Chartered Bank (Hong Kong) Limited
The Hongkong and Shanghai Banking
Corporation Limited
China Construction Bank (Asia) Corporation Limited

Financial Summary

A summary of results and the assets and liabilities of China LotSynergy Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") is as follows:

RESULTS

	Year ended 31 December				
	2011 HK$'000	2010 HK$'000	2009 HK$'000	2008 HK$'000	2007 HK$'000
Turnover	**528,136**	282,577	84,578	117,377	310,267
Gross profit	**431,676**	220,340	37,002	55,145	259,350
Impairment of goodwill	**—**	—	—	(854,725)	—
Share option expenses	**(19,750)**	(9,520)	(10,667)	(12,940)	(20,327)
Gain on redemption of convertible note, net of imputed interest expense	**—**	151,119	(26,423)	(25,238)	(14,329)
Finance costs	**(19,495)**	(5,809)	—	—	—
Profit/(Loss) before income tax	**267,006**	250,221	(87,722)	(927,032)	249,967
Income tax	**(48,703)**	(33,477)	(5,030)	580	(1,034)
Profit for the year	**218,303**	216,744	(87,752)	(926,452)	245,933
Profit/(Loss) attributable to:					
Owners of the Company	**66,485**	152,254	(81,596)	(930,729)	132,094
Non-controlling interests	**151,818**	64,490	(6,156)	4,277	113,839
	218,303	216,744	(87,752)	(926,452)	245,933

ASSETS AND LIABILITIES

	As at 31 December				
	2011 HK$'000	2010 HK$'000	2009 HK$'000	2008 HK$'000	2007 HK$'000
Total current assets	**948,416**	614,238	1,175,545	1,110,564	1,338,118
Total assets	**1,766,710**	1,417,451	1,948,957	1,810,535	2,859,639
Total liabilities	**(549,172)**	(331,072)	(1,023,270)	(823,723)	(759,035)
Net assets	**1,217,538**	1,086,379	925,687	986,812	2,100,604

Management Discussion and Analysis

The Group is engaged as a technology and service provider of lottery systems, terminal equipment, game products and operation in the lottery market in China. The principal businesses of the Group cover various lottery products ranging from video lottery, computer ticket game (CTG) and high frequency lottery, to new media lottery. With technical competencies and effective operational management, the Group has established a solid foundation and a reputable brand name providing the Group with comprehensive capability for sustainable development in the industry.

CHINA LOTTERY PERFORMANCE

Total lottery sales in China (Welfare and Sports combined) have grown by 22% CAGR from 2006 to 2011. Maintaining such strong momentum, lottery sales in China in 2011 reached RMB221.58 billion, representing 33% growth compared to 2010.

In January 2012, the Ministry of Finance (MOF), Ministry of Civil Affairs and General Administration of Sport jointly announced the Implementation Details of the Regulations on the Administration of Lottery (the "Implementation Details") approved by the State Council. Taking effect from 1 March 2012, the Implementation Details will further tighten the supervision and management of the lottery market, contributing to the healthy and steady development of the industry as a whole.

BUSINESS REVIEW AND OUTLOOK

In 2011, the Group delivered good performance in its businesses in video lottery, computer ticket game (including high frequency lottery) and new media lottery with significant breakthroughs achieved. This has laid a sound basis for sustaining rapid and healthy development in 2012.

Video Lottery Business

China Welfare Lottery Video Lottery (VLT) Business

VLT, for which the Group is the exclusive equipment and service provider, was the fastest growing lottery product in the China lottery market. VLT maintained its strong momentum in 2011 with approximately 20,000 terminals connected and in operation in more than 860 sales venues across 28 provinces in China. The game generated sales of over RMB17 billion in 2011, representing 82.8% growth compared to 2010, far exceeding the average 33% growth of China lottery market as a whole. Contributing to over 13% of the total sales of Welfare Lottery in 2011, VLT was a major growth driver for Welfare Lottery. In the fourth quarter of 2011 in particular, the average daily sales of VLT exceeded RMB50 million. Such achievement was the result of the leadership of the relevant authorities of the state, the planning of the China Welfare Lottery Centre (CWLC) and the execution of provincial lottery authorities.

VLT has greatly contributed to social welfare and charitable campaigns in the nation, including providing subsidies to impoverished school children, opening Hope Primary Schools and old age homes, and establishing special funds to provide medical help. These campaigns fully reflect the purpose of the issuance of Welfare Lottery, which is helping the aged, the disadvantaged, orphans, the needy and providing disaster relief ("扶老、助殘、救孤、濟困、賑災"). They have achieved great social impact contributing to greater recognition of the product by players.

Management Discussion and Analysis

In strict adherence to the overall planning, organization and management of CWLC, the Group stepped up its efforts in software and hardware development, manufacturing and operation maintenance for video lottery. The next generation terminal or third-generation terminal for VLT, which comes with dual screens and more salient features, is designed to support more sophisticated and entertaining games. This has taken the development of video lottery terminal in China to a new height. The third-generation terminals deployed to selected sales venues in Hebei Province and Tianjin are delivering impressive performance. 15,000 third-generation VLT terminals are expected to be rolled out nationwide in 2012. According to the deployment of CWLC, part of these terminals will be deployed to new sales venues while the remainder will replace certain first-generation VLT terminals. Overall, there will be a net increase in the number of connected VLT terminals to generate more sales. 2012 will be the year for third-generation terminal. As the only video lottery product in China, driven by its unique characteristics and the rollout of third-generation terminals, VLT will continue to sustain good momentum and impressive sales.

CTG Business (including High Frequency Lottery)

CTG Business

The Group has maintained its strong foothold in the CTG space. In 2011, total sales of Welfare Lottery's CTGs reached RMB90.7 billion, representing 24% growth compared to 2010. With RMB10.1 billion sales in CTG, Guangdong province remained the top performing province in Welfare Lottery. The Group is the exclusive terminal provider to the province's Welfare Lottery. In 2012, the Group will work with Guangdong Welfare Lottery in rolling out additional CTG terminals in an effort to help expand the province's presence in the nation's CTG market. Meanwhile the Group continued to provide terminal maintenance services to Shenzhen Welfare Lottery. Constant innovation and improvement in its terminal and component products including lottery scanner and reader has enabled the Group to maintain its competitive advantage in this regard. In the domestic market, the Group has supplied lottery scanners and readers to more customers. Overseas, the Group has supplied components as well as terminals to lottery operators in Vietnam and Russia.

As supply contracts for CTG system and terminal under Welfare Lottery in several provinces will become due in 2012, the Group will endeavour to compete for such opportunity with its experience in CTG system and terminal integration. Furthermore, the Group looks to expand its presence in the Sports Lottery space by actively participating in the bidding exercise of the China Sports Lottery Administration Centre for provision of terminal and service.

Management Discussion and Analysis

High Frequency Lottery Business (KENO)

The joint venture company between the Group and GTECH Corporation is the exclusive provider of the system, games, terminal and operation maintenance for KENO, the only nationwide high frequency CTG game with a unified system under Welfare Lottery. Total sales of KENO in 2011 increased 37% compared to 2010 with Hebei province and Liaoning province continuing to be the best performers with average daily sales per terminal ("ADSPT") exceeding RMB2,200. This is the best ADSPT in all CTGs (including high frequency lottery games) in the nation.

Overall performance of KENO would have been better if there had not been further delay in obtaining approval for the increase of the payout ratio, slowdown in supply of KENO terminals, and a lower-than-expected terminal connection rate. However, it is worth mentioning that the introduction of local high-frequency CTG games in certain provinces in the second half of 2011 has not affected the steady growth of KENO, indicating that KENO is an incremental lottery product to the market. The Group believes the new payout ratio and adoption of flexible business model will allow KENO, the only nationwide high frequency lottery game under Welfare Lottery, to grow rapidly in China.

New Media Lottery Business

Telephone Lottery and Internet Service Business

2011 represented a milestone for the Group's telephone lottery and Internet service business. In line with the development trend and market situation surrounding the lottery industry, the Group has been in cooperation with several provincial lottery authorities in the business of telephone betting since 2009 when the Group commenced this business. It is one of the few companies with a handful of authorizations from provincial lottery authorities. The Group has also partnered with telecom operators and financial institutions. Committed to becoming a major participant in the telephone lottery and Internet service business in China, the Group has improved its business structure by making necessary acquisitions in related business operations. In 2011, the sales of the Group's telephone lottery business increased 344% compared to the previous year.

The growing skill sets of the working team have played an important role in the rapid development of the Group's telephone lottery and Internet service business in 2011, which consists of different project teams for telecom operators, financial institutions, mobile application platforms and Internet services respectively. The implementation of project-based management has proved to be more effective in resource allocation and more efficient in execution, resulting in expedited and greater progress in all projects. While efforts were made to strengthen existing businesses and boost player loyalty, new businesses have been developed attracting a large number of new users.

On the cooperation with telecom operators, the Group has become China Mobile's official partner for its mobile payment-based lottery business. The Group also has established a relationship with China Telecom's Bestpay in addition to maintaining its full cooperation with China Unicom. The Group is currently the only company in the lottery industry in cooperation with the nation's three telecom leaders providing access to lottery services to mobile phone users everywhere in China.

Management Discussion and Analysis

On the cooperation with financial institutions, the Group has made significant progress in the business cooperation with China Merchants Bank, Bank of Communications, Union Pay and Bank of China. The cooperation with China Merchants Bank's mobile banking arm is worth mentioning as the business was greatly welcomed by customers upon launch with impressive sales. This is a very successful example of cooperation between a lottery sector participant and a financial institution.

A new version of the Group's lottery client-end product was launched in the third quarter of 2011, the first of its kind to support high definition screen in China. Enhanced and additional functions are made available simultaneously on a variety of mobile platforms including the iOS and Android, contributing to greater player experience and loyalty. Now available on all main-stream mobile application stores, the Group's mobile lottery client-end application has become a market-leading product in the industry.

New-type Lottery Business

In line with rapid development of the lottery industry and taking advantage of its experience in the sector backed by technological strength and innovations, the Group has developed the new-type lottery business on new media channels including the mobile, Internet and video platform. This encompasses new electronic lottery, interactive lottery game and mobile lottery game, etc. The use of new electronic devices in purchasing lottery has become the trend given it is environmentally friendly, convenient, interactive, secure and reliable. All of these features suggest that this new-type lottery adapts well to the fast-pace lifestyle and consumption habit of modern people and particularly appealing to middle-to-high income consumers. The new-type lottery has huge growth potential and brilliant prospect.

In 2011, the Group's focus on new-type lottery business mainly fell in two broad areas including R & D on technology and business promotion with target customers. On product offering, an all-in solution in support of multiple sales channels and different types of lottery games has been developed. With innovative and unique design and complete system functionality, this solution represents the right new-type lottery product for the rapidly growing China market. The solution has been promoted to lottery authorities at various levels and was highly recognized. The Group has entered into exclusive cooperation agreements or reached intent on cooperation with several major provincial lottery authorities.

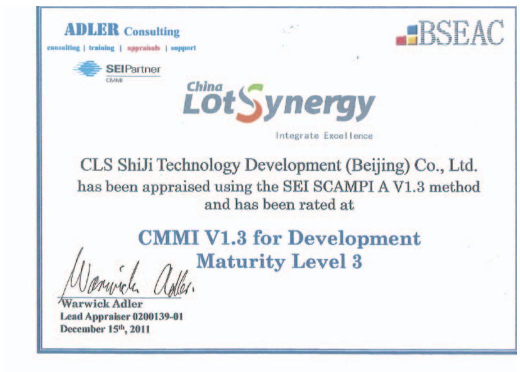
The Group anticipates breakthrough in this business when favourable policies are in place, allowing the commercial rollout of new-type lottery to take place in selected province in 2012. The Group will continue to cultivate on new-type lottery business in a practical, stepwise and efficient manner. Meanwhile, more resources and R & D efforts will be committed to strengthen the Group's existing technology and product offerings to constantly provide innovative lottery games to the lottery industry in China.

As we look ahead, new-type lottery not only helps to attract new lottery players and enhance the competitiveness of lottery sales channels, it will become a main growth driver for the lottery industry in China. It represents a new market with tremendous potential given the huge target customer base in China (with over 900 million mobile phone users and 510 million Internet users respectively in the nation). The Group believes technologically advanced products and well-established partnership with customers have positioned the Group for the right opportunities while strengthening its leading position in this area.

Management Discussion and Analysis

TECHNOLOGICAL STRENGTH

The Group has consistently improved its technology in relation to lottery transaction system, game design and development, terminal design and development, new media lottery system and client-end development for its video lottery, CTG (including hi-frequency lottery) and new media lottery businesses. CMMI is currently the most practical and prevailing benchmark for software process and maturity level adopted internationally. The Group obtained CMMI III accreditation in 2011, taking its technology development maturity and project management technique to the next level. While further strengthening the Group's technology capabilities, this has made us a fully compliant, mature and reliable technology provider for the lottery industry in China.



CORPORATE SOCIAL RESPONSIBILITY

The Group commits to corporate social responsibility by participating in public welfare and charitable endeavours. It has co-founded and donated to the China Social Assistance Foundation, a registered national public-fundraising foundation in China. In 2011, the Foundation implemented a number of charitable programmes including a programme to provide medical help to rural migrant workers suffering from Pneumoconiosis, a programme to improve the standard of living of single elderly people and the level of management and service in old age homes, as well as established special funds dedicated to helping rural migrant workers and education for school age children. The charitable programmes of the Foundation have since its inception benefitted hundreds of thousands of people in 20 provinces and cities across China, which have been widely reported by print and online media in the nation. They have had a huge social impact and greatly contributed to social welfare development in China. In the Report on the Level of Transparency of Charities in China 2011 published by the Ministry of Civil Affairs, the China Social Assistance Foundation ranked no. 8 from an investigation of 1000 various charities and organizations in China based on their publicly available information on their management, business, and financial integrity, as well as the accessibility, accuracy and availability of such information.

The Group believes engagement in social welfare development, caring for social well-being and commitment to corporate social responsibility should be practised by all enterprises with forward-looking planning, and they are the fundamental beliefs shared by all participants in the China lottery market. The Group will uphold such beliefs and continue to contribute to social welfare development in China.

CONCLUSION

2012 represents a year with challenges and opportunities for the lottery businesses of the Group. While the Implementation Details ensures more orderly and healthy development of the lottery industry, this will provide greater protection to market participants such as China LotSynergy who has strictly abided by all relevant industry rules and regulations for the further development of its businesses. With the nation's lottery industry embarking on a new epoch taking advantage of new media platforms, we believe the Group will stand out in the competition to become a truly leading participant in the China lottery industry with proper business planning, strong technological capabilities and dedication to corporate social responsibility. While we strive to give our best to the lottery industry and players in China, we will deliver outstanding results to our shareholders in the long run.

Management Discussion and Analysis

FINANCIAL REVIEW

The Group recorded a turnover of approximately HK$528.1 million for the year ended 31 December 2011, representing an increase of 87% over 2010. Due to the surge of sales from VLT and CTG businesses, the Group recorded approximately HK$66.5 million profit attributable to owners of the Company for the year ended 31 December 2011. Excluding gain on redemption of convertible note, net of imputed interest expense, the profit attributable to owners of the Company in 2010 was HK$1.1 million. Therefore, the net profit generated from the core businesses of the Group increased by 5,945% as compared with last year.

LIQUIDITY, FINANCIAL RESOURCES, GEARING RATIO AND CAPITAL STRUCTURE

The Group believes that it has adequate financial resources to fund its capital and operating requirements. At 31 December 2011, the Group had an outstanding corporate guarantee for unlimited amount for banking facilities of a property installment loan and term loan facility of HK$106.9 million (at 31 December 2010: HK$106.9 million) and an outstanding corporate guarantee for a maximum of RMB80 million plus interest and fees for a banking facilities of a working capital loan of RMB80 million (at 31 December 2010: Nil) granted to the Group. The Group had outstanding bank borrowings at 31 December 2011 of HK$380.6 million (at 31 December 2010: HK$105.1 million). At 31 December 2011, the bank borrowings and banking facilities of the Group were secured by (i) leasehold land and building of the Group amounted to approximately HK$135.5 million (at 31 December 2010: HK$138.3 million), (ii) standby letter of credit issued by a bank for an aggregate amount of US$29.8 million (at 31 December 2010: Nil), (iii) accounts receivable of approximately HK$152.4 million (at 31 December 2010: Nil) and (iv) bank deposits amounting to approximately HK$293.8 million (at 31 December 2010: Nil).

The Group's total equity amounted to approximately HK$1,217.5 million at 31 December 2011 (at 31 December 2010: HK$1,086.4 million). At 31 December 2011, net current assets of the Group amounted to approximately HK$413.7 million (at 31 December 2010: HK$355.9 million), including approximately HK$648.9 million in cash and deposits with banks and financial institution (at 31 December 2010: HK$347.6 million).

The gearing ratio (defined as total liabilities over total assets) of the Group at 31 December 2011 was approximately 31% (at 31 December 2010: 23.4%).

EXPOSURE TO EXCHANGE RATES FLUCTUATION

All the Group's assets, liabilities and transactions are denominated either in Hong Kong dollar, United States dollar or Renminbi. Foreign exchange risk arising from the normal course of operations is considered to be minimal.

PLEDGE OF ASSET

At 31 December 2011, the Group's leasehold land and building at net book value of approximately HK$135.5 million (at 31 December 2010: HK$138.3 million) was pledged to bank to secure the bank borrowing granted to the Group. At 31 December 2011, the Group's accounts receivable at outstanding balance of approximately HK$152.4 million (at 31 December 2010: Nil) and bank deposits amounting to approximately HK$293.8 million (at 31 December 2010: Nil) were pledged to bank to secure the working capital loan and banking facilities granted to the Group.

CONTINGENT LIABILITIES

At 31 December 2011, the Group did not have any material contingent liabilities (at 31 December 2010: Nil).

STAFF

At 31 December 2011, the Group had 430 (at 31 December 2010: 314) full time employees. The management believes that the competence of employees is a major contributing factor to the Group's sustained growth and advancement in profitability. Staff remuneration is based on performance and experience. In addition to basic salary, benefits for employees include a performance-related bonus, contributory provident fund, medical insurance and regulated employees' social security program in China. The Group also adopted a share option scheme under which options may be granted to eligible staff based on individual performance. Training programmes for staff are provided as and when required. The Group will further strengthen its team, and in particular on the build up of its technical team, in order to offer enhanced services for the China lottery market.

Biographies of Directors and Senior Management

DIRECTOR

LAU Ting

Board's Chairperson and Chief Executive Officer

Ms. Lau, aged 55, is the Board's Chairperson, an Executive Director and the Chief Executive Officer of the Company. Ms. Lau is the founder of the Group and leads the development and implementation of the Group's overall business strategies. She has over twenty years of solid experience in business planning and management, merger and acquisition, and financial and human resources management. Ms. Lau is also an executive director of Burwill Holdings Limited listed in Hong Kong. She is the mother of Ms. CHAN Tan Na, Donna.

WU Jingwei

Executive Director and Co-Chief Executive Officer

Mr. Wu, aged 40, is an Executive Director and the Co-Chief Executive Officer of the Company. The main role of Mr. Wu is to assist the Chief Executive Officer in implementing of the Group's overall strategies for development. He is responsible for the marketing and the operation management of the Group. Mr. Wu has over fifteen years of experience in information technology. Prior to joining the Group in July 2007, Mr. Wu had held senior management positions in PKU Founder Group and Hisense Group. Mr. Wu holds a bachelor's degree in Mechanical Engineering from Beijing Technology and Business University.

LIAO Yuang-whang

Resignation effective from 16 March 2012

Mr. Liao, aged 42, is an Executive Director, Executive Vice President/Chief Financial Officer and the Compliance Officer of the Company until his resignation takes effect. Mr. Liao has over ten years of experience in banking and finance. Prior to joining the Group in September 2007, Mr. Liao had previously been the Director of Investor Relations of Samson Holding Ltd., a company listed in Hong Kong, and Vice-President and Chief Financial Officer of the subsidiaries of Samson Holding Ltd.. Mr. Liao held the position of Director in the Private Equity of Citibank, Hong Kong. He also held the positions of Investment Director, Risk Analyst and Vice-President of Private Equity at Citibank, Taipei. Mr. Liao holds a Bachelor of Arts Degree in Management Science from National Chiao Tung University and a Master of Philosophy in Management from Cambridge University. Mr. Liao is currently a Non-Executive Director of two Hong Kong Listed companies, namely Samson Holding Limited and China Tianyi Holdings Limited (formerly known as Tianyi Fruit Holdings Limited).

CHAN Tan Na, Donna

Executive Director and Chief Financial Officer

Ms. Chan, aged 31, joined the Group in February 2012 and is an Executive Director and Chief Financial Officer. Ms. Chan is responsible for the management of several departments of the Group including finance, investor relations and company secretarial. She holds a Bachelor degree in Economics and Finance from the University of Hong Kong and a Master degree in Economics from Boston University, USA. She is a qualified Chartered Financial Analyst (CFA) and holds licenses in relation to asset management from the Hong Kong Securities Institute. From 2005 to early 2012, Ms. Chan held positions at Deutsche Bank's Corporate Finance department and Atlantis Investment Management (Hong Kong) Limited, where she was involved in several initial public offerings, share placements, mergers and acquisitions, and bond issuances. Her experiences span across different sectors including technology, media, telecommunication, real estate, natural resources and consumer goods. In her capacity as a fund manager, she was in charge of equity investments in listed and unlisted companies in the Greater China region. She has also worked with a diverse portfolio of clients from Europe and the USA including sovereign wealth funds, mutual funds, endowment funds as well as other institutional investors. She is the daughter of Ms. LAU Ting.

Biographies of Directors and Senior Management

LI Zi Kui

Executive Director, Vice President and General Manager of the Group's CTG Business Unit

Mr. Li, aged 48, is an Executive Director, Vice President and General Manager of the Group's CTG Business Unit. Mr. Li joined the Group in 2011. Mr. Li has over twenty-five years of solid management experience in the information technology sector. For near twenty years, he had been engaged in the China Welfare lottery space as a chief engineer with technical management responsibility, gaining extensive experience with proven track record in various lottery segments including computer ticket game, video lottery and instant lottery. Mr. Li holds a bachelor's degree in computer science and engineering from The PLA Information Engineering University and an EMBA from Beijing Institute of Technology and holds a senior engineer qualification.

HOONG Cheong Thard

Non-Executive Director

Mr. Hoong, aged 43, currently is a Non-Executive Director and the Consultant of the Company. Mr. Hoong joined the Group in September 2006 and had been an Executive Director and the Chief Executive Officer of the Company until September 2008. Mr. Hoong has over ten years of experience in investment banking and has extensive experience in international capital markets and mergers and acquisitions. Mr. Hoong was a Director in Equity Capital Markets at Deutsche Bank responsible for Greater China. He was also previously an Executive Director in Equity Capital Markets at UBS and has held senior positions in Corporate Finance at Barclays Group and a major international accounting firm where he was involved in auditing. Mr. Hoong is currently the Managing Director of Far East Consortium International Limited, a company listed in Hong Kong, and the Director and President of Tokai Kanko Co. Limited, a company listed in Tokyo, Japan. Mr. Hoong is also a non-executive director of Kosmopolito Hotels International Limited, a company listed in Hong Kong and a non-executive director of Land General Berhad, a company listed in Malaysia. He is a member of the Institute of Chartered Accountants in England and Wales and holds a bachelor's degree in Mechanical Engineering from Imperial College, University of London.

HUANG Shenglan

Independent Non-Executive Director

Mr. Huang, aged 60, joined the Group in October 2002 and is an Independent Non-Executive Director. Mr. Huang was an executive director and the deputy governor of China Everbright Bank, Head Office and was an executive director and the general manager of China Everbright Technology Limited. Mr. Huang holds a diploma in Arts from Huazhong Normal University and in International Economics from Huadong Normal University and a certificate in International Economic Law from Xiamen University and in Advanced Management Programme from the Business School of Harvard University, USA. Mr. Huang is also an independent non-executive director of two Hong Kong Listed companies, namely Burwill Holdings Limited and Symphony Holdings Limited and an independent director of a Shanghai listed company, namely Chongqing Road & Bridge Co. Limited.

CHAN Ming Fai

Independent Non-Executive Director

Mr. Chan, aged 50, joined the Group in May 2006 and is an Independent Non-Executive Director of the Company. He is currently the Chief Executive Officer of Full Seas Technology Group and is primarily responsible for the formulation and execution of the Group's strategy. Prior to that, he was the President of Dandelion Capital Group, which is a private financial advisory company. He has over twenty years of experience in investment banking and asset management. Mr. Chan had worked for Jardine Fleming Investment Management with a major responsibility to market unit trusts and asset management products in Hong Kong and subsequently in various Asian markets, and was particularly instrumental in the establishment of Jardine Fleming's investment trust operation in Japan, Korea and Indonesia. Mr. Chan also cofounded the KGI Group, which is a pan-Asian investment bank with shareholders including major investors and institutions in Asia, where he was the head of the asset management operation which managed about USD400 million in hedge funds and other portfolios, and was also a member of the management committee of KGI Group. Mr. Chan received a bachelor's degree in Social Sciences with major in Economics from the University of Hong Kong. Mr. Chan is also an independent non-executive director of Burwill Holdings Limited, a company listed in Hong Kong. During the period from May 2009 to September 2010, Mr. Chan was a Non-Executive Director of Advanced Engine Components Limited, a company listed in Australia.

Biographies of Directors and Senior Management

CUI Shuming

Independent Non-Executive Director

Mr. Cui, aged 74, joined the Group in June 2008 and is an Independent Non-Executive Director of the Company. He graduated from People's University of China. He was the Deputy Head of the Bank of China, Jiangsu branch, the Executive Director of The National Commercial Bank, Ltd. and the General Manager of its Hong Kong branch, a Director and the Executive Vice President of The Ka Wah Bank Limited and an Independent Non-Executive Director of two public listed companies in Hong Kong, Cheung Tai Hong Holdings Limited (currently known as ITC Properties Group Limited) and Wah Sang Gas Holdings Limited. Mr. Cui is currently an Independent Non-Executive Director of Burwill Holdings Limited and Yue Da Mining Holdings Limited, both are listed companies in Hong Kong. He has over forty years' experience in international finance and corporate planning and management.

SENIOR MANAGEMENT

CHEN Hengben

Mr. Chen, aged 72, joined the Group in 2008. He is currently the Vice President of the Group and the Chairman of the Group's CTG Business in Guangdong Province. Mr. Chen, who is among the pioneers in China engaged in the development of the lottery system and equipment, has over 40 years of practical experience in computer science and electronic engineering. He was a member of Guangdong Provincial Committee of the Chinese People's Political Consultative Conference, a senior engineer for the Research Institute of China Ordnance Industry and the vice president covering technology for the Computer Center of Guangdong Provincial Science and Technology Commission; In 1992, he took part in establishing Guangzhou Horse Race Ground and assumed the position of vice chief commander for the project construction of the Real Time Racing Lottery Bidding System for Guangzhou Horse Race Ground. In 1999, he was appointed as chief commander for the project construction of Macau Dog Racing Club Real Time Lottery Bidding System. Afterwards he founded Guangzhou San Huan Yong Xin Technology Company Limited and Guangzhou Lottnal Terminal Technology Company Limited. Mr. Chen holds a bachelor's degree in Computer from South China University of Technology.

LAN Jianzhang

Mr. Lan, aged 40, joined the Group in 2009. He is currently the Vice President of the Group and General Manager of the Group's New Type Lottery Business Unit. Mr. Lan had held senior position at China Lottery Online Technology Co., Ltd, responsible for the strategies, products and business development. He has extensive and proven experience in the lottery industry including video lottery segment. Mr. Lan has over fifteen years' experience in the information technology and internet sector. He had held management positions at leading companies in the sector including the PKU Founder Group, responsible for the development of high-end information technology and household appliances. Mr. Lan holds a bachelor's degree from Beijing University of Aeronautics & Astronautics, a master's degree in physics from Chinese Academy of Sciences, and an EMBA from Beijing Institute of Technology.

HE Ying

Ms. He, aged 42, joined the Group in 2007. She is currently the Vice President of the Group, General Manager of the Group's Mobile and Internet Services Business Unit and General Manager of Marketing Department. Ms. He had been the general manager of the marketing department at Founder Technology Group Corporation and vice general manager at Hisense Cyber Product Limited. Ms. He has been engaged in the information technology industry for fifteen years, has extensive experience in marketing and corporate management. Ms. He holds a bachelor's degree in Computer Science from the Beijing University of Technology.

JI Youjun

Mr. Ji, aged 39, joined the Group in 2007. He is currently the Vice President of the Group and the General Manager of the Research & Development Center of the Group. Mr. Ji had been the head of household product development at Founder Technology Group Corporation and vice general manager at Hisense Cyber Product Limited. Mr. Ji has extensive experience in the development and management of information technology hardware and software products. He holds a bachelor's degree from Harbin University of Science and Technology.

Biographies of Directors and Senior Management

CHONG Ming, John

Mr. Chong, aged 40, joined the Group in 2001. He is currently the Vice President of the Group, with over 10 years of solid experience in corporate management and sino-foreign cooperation. Mr. Chong had been an officer with the legal aid department of the Department of Justice and the Legislative Council Secretariat of Hong Kong respectively. Mr. Chong holds a degree in Translation and Interpretation from the City University of Hong Kong, and is currently completing a Juris Doctoral degree with the Chinese University of Hong Kong.

ZHU Xinxin, Sandy

Ms. Zhu, aged 32, joined the Group in 2008. She is currently the Assistant President of the Group and Director of Human Resource and Administrative Department (China). Ms. Zhu had been the operation manager of Protiviti Independent Risk Consulting, China, a global business consulting and internal audit firm. Ms. Zhu had also worked in Accenture, a global leading management consulting, technology services and outsourcing company. At Accenture, she participated in various projects like CNOOC SAP implementation project, Robert Half International PeopleSoft Implementation project and BP Finance & Accounting Outsourcing project. Ms. Zhu holds a bachelor's degree in business and finance from the University of Westminster and a master's degree in development finance from the University of Manchester.

SONG Xiaojun

Ms. Song, aged 45, joined the Group in 2007. She is currently the Head of the Legal Department of the Group. Ms. Song obtained the lawyer qualification certificate in mainland China and she has over seventeen years of experience in legal areas, specialising in commercials, dispute resolutions and intellectual property. Ms. Song had worked at the China University of Politics and Law, law firms in Mainland China and Hong Kong respectively. Ms. Song holds a bachelor's degree in law from the China University of Politics and Law and a master's degree (Magister Juris) in European and Comparative Law from Oxford University.

TAN Yung Kai, Richard

Mr. Tan, aged 40, joined the Group in 2000. He is currently the Financial Controller of the Group and the Company Secretary, responsible for the overall compliance and financial accounting of the Company. Mr. Tan has over ten years of experience in the audit and the accounting fields. He had worked for Deloitte Touche Tohmatsu, an international accounting firm involved in the various auditing and due diligence activities. He holds a bachelor's degree in Commerce from McGill University, Canada and a master's degree in Corporate Finance from the Hong Kong Polytechnic University. Mr. Tan is a member of the Hong Kong Institute of Certified Public Accountants and American Institution of Certified Public Accountants.

ZHANG Yi

Mr. Zhang, aged 35, joined the Group in 2008. He is currently the Financial Controller (China) of the Group, responsible for the overall financing and investment management of the Group's China region. Prior to joining the Group, Mr. Zhang had previously been the Investment Head of Investment Development Department of Fosun Group (0656.HK). Fosun Group is one of the largest non-state-owned corporations in China with operations in pharmaceutical, property development, steel, mining, retail, services and strategic investment. Mr. Zhang had also worked for Yongjin Group and Jiuzhitang Co., Ltd (000989.SZ), both are the famous corporations in China. Mr. Zhang has near fifteen years of experience in the financial management and investment management fields. Mr. Zhang holds an international MBA and bachelor's degree in Economics from the Guanghua School of Management, Peking University. Mr. Zhang is also a non-practicing member of the Chinese Institute of Certified Public Accountants (CICPA) and a member of the Association of Chartered Certified Accountants (ACCA).

Report of the Directors

The board of Directors of the Company (the "Board") presents to the shareholders their report together with the audited financial statements of the Group for the year ended 31 December 2011.

FINANCIAL RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 31 December 2011 are set out in the consolidated income statement on page 33.

No interim dividend was paid during the year.

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES AND SEGMENT INFORMATION

The principal activity of the Company is investment holding.

The Group is principally engaged in the business of provision of lottery systems, terminal equipment, game products and operation in the lottery market in China. The principal businesses of the Group cover various lottery products ranging from video lottery, computer ticket game (CTG) and high frequency lottery, to new media lottery.

Analysis of the Group's turnover and segment information for the year ended 31 December 2011 are set out in note 5 to the consolidated financial statements.

MAJOR SUPPLIERS AND CUSTOMERS

The Group's five largest customers accounted for about 95% of its turnover for the year. In addition, the largest customer of the Group accounted for about 78% of the Group's turnover.

The percentage of the Group's purchases attributable to the Group's five largest suppliers was about 62%. In addition, the largest supplier of the Group accounted for about 40% of the Group's purchases.

Save as disclosed above, none of the Directors, their respective associates nor shareholders (which to the knowledge of the Directors owned more than 5% of the Company's share capital) had any interest in the above customers and suppliers at any time during the year.

PROPERTY, PLANT AND EQUIPMENT

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

SUBSIDIARIES

The particulars of the Company's principal subsidiaries as at 31 December 2011 are set out in note 16 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in share capital during the year are set out in note 30 to the consolidated financial statements.

Report of the Directors

DISCLOSEABLE TRANSACTION

On 14 February 2011, a subsidiary of the Company, as the purchaser, entered into an equity interests transfer agreement with the independent third parties, as the vendors, to acquire 70% of the equity interests in 重慶拓扣網絡科技有限公司 ("Chongqing Tuokou"), a lottery sales service provider engaged in the research and development and operation of a sales platform for high frequency lottery games in the PRC. The aggregate consideration of this acquisition is RMB21,000,000 (approximately HK$24,851,400), which shall be satisfied by payment of cash and issue of consideration shares. The vendors have guaranteed that the profit after tax of Chongqing Tuokou for 2011 will reach RMB4,500,000. The completion of this acquisition took place on 13 April 2011.

On 2 November 2011, a subsidiary of the Company, as the purchaser, entered into an equity interests transfer agreement with the independent third parties, as the vendors, to acquire 70% of the equity interests in 廣州頂尚信息科技有限公司 ("Guangzhou Dingshang"). Guangzhou Dingshang, together with its subsidiaries, is a group of innovative technology companies engaged in mobile Internet value-added business and dedicated to providing premium services to their customers. The aggregate consideration of this acquisition is RMB28,000,000 (approximately HK$34,146,000), which shall be satisfied by payment of cash and issue of consideration shares. The vendors have provided a guarantee of RMB8,500,000 and RMB10,000,000 profit before tax of Guangzhou Dingshang together with its subsidiaries for 2011 and 2012 respectively. The completion of this acquisition took place on 7 December 2011.

REDEMPTION OF NEW CONVERTIBLE NOTE

Pursuant to the terms and conditions of the New Convertible Note (the "New Convertible Note") mentioned in the announcement of the Company dated 21 September 2010, the Company redeemed part of the principal under the New Convertible Note in the sum of HK$95,000,000 in cash to International Game Technology on 27 September 2011. After the aforesaid redemption, the outstanding principal sum of the New Convertible Note is HK$71,250,000, which is expected to be redeemed on 12 May 2012.

SHARE PREMIUM REDUCTION

The Board announced on 18 March 2011 that it intended to make a proposal to the shareholders of the Company for a reduction of the share premium account of the Company ("Share Premium Reduction"). The sum of the reduction would be applied to eliminate the accumulated losses of the Company as at 31 December 2010. The Board considers that the elimination of the accumulated losses of the Company in full would afford the Company more flexibility to declare dividends to its shareholders at the earliest opportunity in the future as and when the Board considers appropriate. The Share Premium Reduction has been approved by the shareholders of the Company at the Annual General Meeting held on 26 May 2011 and became effective on the same day.

CHANGES OF DIRECTOR, COMPLIANCE OFFICER AND AUTHORISED REPRESENTATIVE

Mr. LI Zi Kui has been appointed as an Executive Director of the Company since 10 August 2011.

Ms. CHAN Tan Na, Donna has been appointed as an Executive Director and Chief Financial Officer of the Company since 16 February 2012.

Mr. CHAN Shing has resigned as an Executive Director of the Company with effect from 16 February 2012.

Mr. LIAO Yuang-whang has tendered his resignation as an Executive Director, Chief Financial Officer, Compliance Officer and Authorised Representative of the Company with effect from 16 March 2012. Ms. LAU Ting has accepted her appointment as Compliance Officer and Authorised Representative of the Company with effect from 16 March 2012.

Report of the Directors

RESERVES

Details of movements in reserves during the year are set out in note 32 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2011, the distributable reserves to the shareholders in accordance with the Company's Bye-laws was approximately HK$20,154,000 (As at 31 December 2010: Nil).

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws although there is no statutory restriction against the granting of such rights under the laws of Bermuda.

CHANGES IN DIRECTORS' BIOGRAPHICAL DETAILS

Pursuant to Rule 17.50A (1) of the GEM Listing Rules, the change of directors' biographical details are set out as follows:

The annual emolument of Mr. HOONG Cheong Thard had been changed to HK$520,000 with effect from 1 January 2012. The annual emolument and director's fee of Ms. LAU Ting, Mr. WU Jingwei, Mr. LI Zi Kui, Mr. HUANG Shenglan, Mr. CHAN Ming Fai and Mr. CUI Shuming had been changed, with effect from 1 February 2012, to HK$7,800,000, HK$4,739,280, HK$1,520,988 (including a portion paid in RMB), HK$438,840, HK$322,560 and HK$292,560 respectively.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year ended 31 December 2011.

SHARE OPTION SCHEME

As at 31 December 2011, there were options for 706,700,000 shares granted by the Company pursuant to the option scheme, as adopted by the shareholders of the Company on 30 July 2002 (the "Option Scheme"), which were valid and outstanding.

Summary of the principal terms of the Option Scheme is as follows:

(i) Purpose of the Option Scheme

The purpose of the Option Scheme is to provide incentives to Participants (as stated in paragraph (ii)) to contribute to the Group and to enable the Group to recruit high-calibre employees and attract resources that are valuable to the Group.

(ii) Participants

Any person being an employee, officer, buying agent, selling agent, consultant, sales representative, marketing representative, business representative of, or supplier or provider of goods or services to, the Group or its holding company or subsidiary, including any executive or non-executive director of the Group or its holding company or subsidiary.

(iii) Maximum number of shares

The limit on the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Option Scheme and any other share option schemes of the Company and/or its holding company and/or its subsidiary must not exceed 30% of the number of issued shares from time to time. The total number of Shares available for issue under the Option Scheme as at the date of this report is 153,832,800 Shares, representing approximately 2.08% of the issued share capital of the Company as of that date.

Report of the Directors

SHARE OPTION SCHEME *(Cont'd)*

(iv) Maximum entitlement of each Participant

Unless approved by shareholders of the Company in general meeting, no Participant shall be granted an option which would result in the total number of shares issued and to be issued upon exercise of all options granted and to be granted (including options exercised, cancelled and outstanding) to such Participant in any 12-month period up to and including the proposed date of grant for such options would exceed 1% of the number of shares in issue as at the proposed date of grant.

(v) Option period

An option may be exercised in accordance with the terms of the Option Scheme at any time during a period of not exceeding 10 years to be notified by the Board to the grantee, such period to commence on the date of grant or such later date as the Board may determine and expiring on the last day of the said period. Under the Option Scheme, the Board may, at its discretion, prescribe a minimum period for which an option must be held before it can be exercised.

(vi) Payment on acceptance of option

HK$1.00 in cash is payable by the Participant who accepts the grant of an option in accordance with the terms of the Option Scheme on acceptance of the grant of an option.

(vii) Subscription price

The subscription price for the shares under the options to be granted under the Option Scheme will be a price determined by the Board and notified to a Participant at the time the grant of the options is made to (and subject to acceptance by) the Participant and will be at least the highest of: (a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheets on the date of the grant (subject to acceptance) of the option, which must be a business day; (b) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of the grant (subject to acceptance) of the option; and (c) the nominal value of the shares.

(viii) The life of the Option Scheme

The Option Scheme shall be valid and effective for a period of ten years commencing on 30 July 2002, after which period no further options will be granted or accepted but the provisions of the Option Scheme shall remain in full force and effect in all other respects.

Report of the Directors

SHARE OPTION SCHEME *(Cont'd)*

Movements of share options granted under the Option Scheme during the year ended 31 December 2011:

	Date of grant	Exercise price per Share HK$	Exercise period from	until	No. of Shares under the options: outstanding at the beginning of the year	granted during the year	exercised during the year	cancelled during the year	lapsed during the year	outstanding at the end of the year	Closing price per Share at the date of grant of the options during the year HK$
(i) Name of Directors											
LAU Ting	08/06/2006	0.305	08/06/2007	07/06/2011	600,000	—	—	—	(600,000)	—	—
	08/06/2006	0.305	08/06/2008	07/06/2011	600,000	—	—	—	(600,000)	—	—
	08/06/2006	0.305	08/06/2009	07/06/2011	600,000	—	—	—	(600,000)	—	—
	08/06/2006	0.305	08/06/2010	07/06/2011	600,000	—	—	—	(600,000)	—	—
CHAN Shing	08/06/2006	0.305	08/06/2007	07/06/2011	600,000	—	—	—	(600,000)	—	—
	08/06/2006	0.305	08/06/2008	07/06/2011	600,000	—	—	—	(600,000)	—	—
	08/06/2006	0.305	08/06/2009	07/06/2011	600,000	—	—	—	(600,000)	—	—
	08/06/2006	0.305	08/06/2010	07/06/2011	600,000	—	—	—	(600,000)	—	—
WU Jingwei	11/01/2007	0.445	01/01/2008	31/12/2011	2,000,000	—	—	(2,000,000)	—	—	—
	11/01/2007	0.445	01/01/2009	31/12/2011	2,000,000	—	—	(2,000,000)	—	—	—
	11/01/2007	0.445	01/01/2010	31/12/2011	2,000,000	—	—	(2,000,000)	—	—	—
	11/01/2007	0.445	01/01/2011	31/12/2011	2,000,000	—	—	(2,000,000)	—	—	—
	04/07/2007	0.975	01/01/2008	31/12/2013	1,200,000	—	—	(1,200,000)	—	—	—
	04/07/2007	0.975	01/01/2009	31/12/2013	1,200,000	—	—	(1,200,000)	—	—	—
	04/07/2007	0.975	01/01/2010	31/12/2013	1,200,000	—	—	(1,200,000)	—	—	—
	04/07/2007	0.975	01/01/2011	31/12/2013	1,200,000	—	—	(1,200,000)	—	—	—
	04/07/2007	0.975	01/01/2012	31/12/2013	800,000	—	—	—	—	800,000	—
	13/11/2007	0.960	01/01/2008	31/12/2011	8,000,000	—	—	(8,000,000)	—	—	—
	13/11/2007	0.960	01/01/2009	31/12/2011	8,000,000	—	—	(8,000,000)	—	—	—
	13/11/2007	0.960	01/01/2010	31/12/2011	8,000,000	—	—	(8,000,000)	—	—	—
	25/08/2008	0.500	25/08/2009	24/08/2013	2,000,000	—	—	(2,000,000)	—	—	—
	25/08/2008	0.500	25/08/2010	24/08/2013	2,000,000	—	—	(2,000,000)	—	—	—
	25/08/2008	0.500	25/08/2011	24/08/2013	2,000,000	—	—	—	—	2,000,000	—
	25/08/2008	0.500	25/08/2012	24/08/2013	2,000,000	—	—	—	—	2,000,000	—
	02/10/2009	0.500	01/09/2010	31/08/2014	3,400,000	—	—	(3,400,000)	—	—	—
	02/10/2009	0.500	01/09/2011	31/08/2014	3,400,000	—	—	—	—	3,400,000	—
	02/10/2009	0.500	01/09/2012	31/08/2014	3,400,000	—	—	—	—	3,400,000	—
	02/10/2009	0.500	01/09/2013	31/08/2014	3,400,000	—	—	—	—	3,400,000	—
	13/05/2011	0.216	13/05/2011	12/05/2013	—	11,500,000	—	—	—	11,500,000	0.216
LIAO Yuang-whang	18/09/2007	0.904	18/09/2008	17/09/2011	3,200,000	—	—	(3,200,000)	—	—	—
	18/09/2007	0.904	18/09/2009	17/09/2011	2,800,000	—	—	(2,800,000)	—	—	—
	13/11/2007	0.960	18/09/2008	17/09/2012	8,000,000	—	—	(8,000,000)	—	—	—
	13/11/2007	0.960	18/09/2009	17/09/2012	8,000,000	—	—	(8,000,000)	—	—	—
	13/11/2007	0.960	18/09/2010	17/09/2012	8,000,000	—	—	(8,000,000)	—	—	—
	25/08/2008	0.500	25/08/2009	24/08/2013	2,000,000	—	—	(2,000,000)	—	—	—
	25/08/2008	0.500	25/08/2010	24/08/2013	2,000,000	—	—	(2,000,000)	—	—	—
	25/08/2008	0.500	25/08/2011	24/08/2013	2,000,000	—	—	—	—	2,000,000	—
	25/08/2008	0.500	25/08/2012	24/08/2013	2,000,000	—	—	—	—	2,000,000	—
	02/10/2009	0.500	01/09/2010	31/08/2014	3,500,000	—	—	(3,500,000)	—	—	—
	02/10/2009	0.500	01/09/2011	31/08/2014	3,500,000	—	—	—	—	3,500,000	—
	02/10/2009	0.500	01/09/2012	31/08/2014	3,500,000	—	—	—	—	3,500,000	—
	02/10/2009	0.500	01/09/2013	31/08/2014	3,500,000	—	—	—	—	3,500,000	—
	13/05/2011	0.216	13/05/2011	12/05/2013	—	10,500,000	—	—	—	10,500,000	0.216
LI Zi Kui	17/08/2009	0.500	17/02/2010	16/08/2014	5,000,000	—	—	—	—	5,000,000	—
	17/08/2009	0.500	17/08/2010	16/08/2014	5,000,000	—	—	—	—	5,000,000	—
	13/05/2011	0.216	13/05/2011	12/05/2013	—	6,500,000	(6,500,000)	—	—	—	0.216

Report of the Directors

SHARE OPTION SCHEME *(Cont'd)*

	Date of grant	Exercise price per Share HK$	Exercise period from	until	No. of Shares under the options: outstanding at the beginning of the year	granted during the year	exercised during the year	cancelled during the year	lapsed during the year	outstanding at the end of the year	Closing price per Share at the date of grant of the options during the year HK$
(i) Name of Directors											
HOONG Cheong Thard	30/06/2006	0.285	16/08/2007	29/06/2016	17,600,000	—	—	—	—	17,600,000	—
	30/06/2006	0.285	16/08/2008	29/06/2016	17,600,000	—	—	—	—	17,600,000	—
	06/04/2009	0.500	12/09/2009	11/09/2012	6,000,000	—	—	—	—	6,000,000	—
	06/04/2009	0.500	12/09/2010	11/09/2012	6,000,000	—	—	—	—	6,000,000	—
	06/04/2009	0.500	12/09/2011	11/09/2012	6,000,000	—	—	—	—	6,000,000	—
	13/05/2011	0.216	13/05/2011	12/05/2013	—	2,000,000	—	—	—	2,000,000	0.216
HUANG Shenglan	08/06/2006	0.305	08/06/2007	07/06/2011	600,000	—	—	—	(600,000)	—	—
	08/06/2006	0.305	08/06/2008	07/06/2011	600,000	—	—	—	(600,000)	—	—
	08/06/2006	0.305	08/06/2009	07/06/2011	600,000	—	—	—	(600,000)	—	—
	08/06/2006	0.305	08/06/2010	07/06/2011	600,000	—	—	—	(600,000)	—	—
	13/05/2011	0.216	13/05/2011	12/05/2013	—	2,000,000	—	—	—	2,000,000	0.216
CHAN Ming Fai	08/06/2006	0.305	08/06/2008	07/06/2011	600,000	—	—	—	(600,000)	—	—
	08/06/2006	0.305	08/06/2009	07/06/2011	600,000	—	—	—	(600,000)	—	—
	08/06/2006	0.305	08/06/2010	07/06/2011	600,000	—	—	—	(600,000)	—	—
	13/05/2011	0.216	13/05/2011	12/05/2013	—	2,000,000	—	—	—	2,000,000	0.216
CUI Shuming	13/05/2011	0.216	13/05/2011	12/05/2013	—	2,000,000	—	—	—	2,000,000	0.216
(ii) Continuous contract employees	08/06/2006	0.305	08/06/2007	07/06/2011	8,600,000	—	—	—	(8,600,000)	—	—
	08/06/2006	0.305	08/06/2008	07/06/2011	11,000,000	—	(600,000)	—	(10,400,000)	—	—
	08/06/2006	0.305	08/06/2009	07/06/2011	11,000,000	—	(600,000)	—	(10,400,000)	—	—
	08/06/2006	0.305	08/06/2010	07/06/2011	11,000,000	—	(600,000)	—	(10,400,000)	—	—
	11/05/2007	0.775	02/05/2008	01/05/2014	1,800,000	—	—	—	—	1,800,000	—
	11/05/2007	0.775	02/05/2009	01/05/2014	1,800,000	—	—	—	—	1,800,000	—
	11/05/2007	0.775	02/05/2010	01/05/2014	1,800,000	—	—	—	—	1,800,000	—
	11/05/2007	0.775	02/05/2011	01/05/2014	1,800,000	—	—	—	—	1,800,000	—
	11/05/2007	0.775	02/05/2012	01/05/2014	1,800,000	—	—	—	—	1,800,000	—
	11/05/2007	0.775	02/05/2013	01/05/2014	3,000,000	—	—	—	—	3,000,000	—
	04/07/2007	0.975	04/07/2008	03/07/2012	400,000	—	—	—	—	400,000	—
	04/07/2007	0.975	04/07/2009	03/07/2012	400,000	—	—	—	—	400,000	—
	02/10/2007	0.920	01/01/2008	31/12/2011	1,500,000	—	—	—	—	1,500,000	—
	02/10/2007	0.920	01/01/2009	31/12/2011	1,500,000	—	—	—	—	1,500,000	—
	13/11/2007	0.960	01/01/2008	31/12/2011	1,000,000	—	—	—	—	1,000,000	—
	13/11/2007	0.960	01/01/2009	31/12/2011	1,000,000	—	—	—	—	1,000,000	—
	25/08/2008	0.500	11/03/2009	10/03/2013	600,000	—	—	—	—	600,000	—
	25/08/2008	0.500	11/03/2010	10/03/2013	600,000	—	—	—	—	600,000	—
	25/08/2008	0.500	11/03/2011	10/03/2013	600,000	—	—	—	—	600,000	—
	25/08/2008	0.500	11/03/2012	10/03/2013	600,000	—	—	—	—	600,000	—
	25/08/2008	0.500	25/08/2009	24/08/2013	2,400,000	—	—	—	—	2,400,000	—
	25/08/2008	0.500	25/08/2010	24/08/2013	2,400,000	—	—	—	—	2,400,000	—
	25/08/2008	0.500	25/08/2011	24/08/2013	2,400,000	—	—	—	—	2,400,000	—
	25/08/2008	0.500	25/08/2012	24/08/2013	2,400,000	—	—	—	—	2,400,000	—
	09/04/2009	0.500	17/08/2009	16/08/2013	400,000	—	—	—	—	400,000	—
	09/04/2009	0.500	17/08/2010	16/08/2013	400,000	—	—	—	—	400,000	—
	09/04/2009	0.500	17/08/2011	16/08/2013	400,000	—	—	—	—	400,000	—
	09/04/2009	0.500	17/08/2012	16/08/2013	400,000	—	—	—	—	400,000	—
	15/06/2009	0.500	15/06/2010	14/06/2015	5,000,000	—	—	—	—	5,000,000	—
	15/06/2009	0.500	15/06/2011	14/06/2015	5,000,000	—	—	—	—	5,000,000	—
	17/08/2009	0.500	17/02/2010	16/08/2014	41,000,000	—	—	—	—	41,000,000	—
	17/08/2009	0.500	17/08/2010	16/08/2014	41,000,000	—	—	—	—	41,000,000	—

Report of the Directors

SHARE OPTION SCHEME *(Cont'd)*

	Date of grant	Exercise price per Share HK$	Exercise period from	until	No. of Shares under the options: outstanding at the beginning of the year	granted during the year	exercised during the year	cancelled during the year	lapsed during the year	outstanding at the end of the year	Closing price per Share at the date of grant of the options during the year HK$
(ii) Continuous contract employees	02/10/2009	0.500	01/09/2010	31/08/2014	1,450,000	—	—	—	—	1,450,000	—
	02/10/2009	0.500	01/09/2011	31/08/2014	1,450,000	—	—	—	—	1,450,000	—
	02/10/2009	0.500	01/09/2012	31/08/2014	1,450,000	—	—	—	—	1,450,000	—
	02/10/2009	0.500	01/09/2013	31/08/2014	1,450,000	—	—	—	—	1,450,000	—
	04/12/2009	0.500	04/06/2010	03/12/2012	5,000,000	—	—	—	—	5,000,000	—
	04/12/2009	0.500	04/12/2010	03/12/2012	5,000,000	—	—	—	—	5,000,000	—
	04/12/2009	0.500	04/06/2011	03/12/2012	5,000,000	—	—	—	—	5,000,000	—
	13/05/2011	0.216	13/05/2011	12/05/2013	—	66,000,000	(1,500,000)	—	(500,000)	64,000,000	0.216
(iii) Other participants	08/06/2006	0.305	08/06/2008	07/06/2011	4,000,000	—	—	—	(4,000,000)	—	—
	08/06/2006	0.305	08/06/2009	07/06/2011	4,000,000	—	—	—	(4,000,000)	—	—
	08/06/2006	0.305	08/06/2010	07/06/2011	4,000,000	—	—	—	(4,000,000)	—	—
	25/08/2008	0.500	25/08/2009	24/08/2013	150,000	—	—	—	—	150,000	—
	25/08/2008	0.500	25/08/2010	24/08/2013	150,000	—	—	—	—	150,000	—
	25/08/2008	0.500	25/08/2011	24/08/2013	150,000	—	—	—	—	150,000	—
	25/08/2008	0.500	25/08/2012	24/08/2013	150,000	—	—	—	—	150,000	—
	13/05/2011	0.216	13/05/2011	12/05/2013	—	89,200,000	—	—	—	89,200,000	0.216
	30/05/2011	0.250	30/05/2011	29/05/2013	—	296,000,000	—	—	—	296,000,000	0.248
Total:					371,800,000	487,700,000	(9,800,000)	(81,700,000)	(61,300,000)	706,700,000	

Notes:

1. The options are recognised as expenses in the accounts in accordance with Hong Kong Financial Reporting Standard 2. Other details of share options granted by the Company are set out in note 31 to the consolidated financial statements.

2. For the share options granted during the year, (i) the closing price per Share immediately before the date of grant of 13 May 2011 was HK$0.182; and (ii) the closing price per Share immediately before the date of grant of 30 May 2011 was HK$0.236.

3. For the share options exercised during the year, the weighted average closing price of Share immediately before the date on which the options for 9,800,000 Shares were exercised was HK$0.265.

DIRECTORS

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

Executive Directors:

Ms. LAU Ting
Mr. WU Jingwei
Ms. CHAN Tan Na, Donna (appointment effective from 16 February 2012)
Mr. LI Zi Kui (appointment effective from 10 August 2011)
Mr. LIAO Yuang-whang (resignation effective from 16 March 2012)
Mr. CHAN Shing (resignation effective from 16 February 2012)

Non-Executive Directors:

Mr. HOONG Cheong Thard

Independent Non-Executive Directors:

Mr. HUANG Shenglan
Mr. CHAN Ming Fai
Mr. CUI Shuming

Report of the Directors

DIRECTORS *(Cont'd)*

In accordance with bye-law 99 of the Bye-laws of the Company, Mr. WU Jingwei, Mr. HOONG Cheong Thard and Mr. HUANG Shenglan shall retire from office by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

In accordance with bye-law 102(B) of the Bye-laws of the Company, Ms. CHAN Tan Na, Donna and Mr. LI Zi Kui shall retire from office by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Biographical details of the Directors of the Company are set out on pages 10 to 12.

SENIOR MANAGEMENT

Biographical details of the senior management of the Group are set out on pages 12 to 13.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2011, the interests and short positions of the Directors and chief executive of the Company (including those interests and short positions which were taken or deemed to have interests and short positions under the provisions of the Securities and Futures Ordinance (the "SFO")) in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standards of dealing by directors of the listed issuer as referred to in Rule 5.46 of the Rules Governing the Listing of Securities on The Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules"), were as follows:

(1) Interests in Shares of the Company

	Number of shares				Approximate percentage of the Company's issued share capital
Name of Directors	Beneficial interests	Family interests	Corporate interests	Total	
LAU Ting	259,974,373(L)	389,286,426(L) *(Note 1)*	867,762,948(L) 23,093,192(S) *(Notes 2 & 3)*	1,517,023,747(L) 23,093,192(S) *(Note 3)*	20.47%(L) 0.31%(S)
CHAN Shing	389,286,426(L)	259,974,373(L) *(Note 4)*	867,762,948(L) 23,093,192(S) *(Notes 2 & 3)*	1,517,023,747(L) 23,093,192(S) *(Note 3)*	20.47%(L) 0.31%(S)
WU Jingwei	20,000,000(L)	—	—	20,000,000(L)	0.27%(L)
LIAO Yuang-whang	572,000(L)	—	—	572,000(L)	0.01%(L)
LI Zi Kui	6,500,000(L)	—	—	6,500,000(L)	0.09%(L)
HUANG Shenglan	4,000,000(L)	—	—	4,000,000(L)	0.05%(L)

Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES *(Cont'd)*

(1) Interests in Shares of the Company *(Cont'd)*

Notes:

1. These shares were owned by Mr. CHAN Shing, the spouse of Ms. LAU Ting.

2. 147,162,496 shares, includes abovementioned 23,093,192 shares, were held by Hang Sing Overseas Limited ("Hang Sing") which was owned as to 51% by Orient Strength Limited ("Orient Strength"), a company which was wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 137,735,546 shares were held by Strong Purpose Corporation ("Strong Purpose"), a company which was wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 580,932,594 shares were held by Glory Add Limited ("Glory Add") which was wholly owned by Favor King Limited, a company which was wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 1,932,312 shares were held by Burwill Holdings Limited of which Ms. LAU Ting and Mr. CHAN Shing were the controlling shareholders.

3. As the interests of each of Ms. LAU Ting and Mr. CHAN Shing were deemed to be the interests of each other, the figures referred to the same shares.

4. These shares were owned by Ms. LAU Ting.

5. The letter "L" denotes long position(s) and the letter "S" denotes short position(s).

(2) Interests in Underlying Shares

As at 31 December 2011, the interests of the Directors and chief executive of the Company in options for Shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standards of dealing by directors of the listed issuer as referred to in Rule 5.46 of the GEM Listing Rules, were as disclosed in the previous section headed "Share Option Scheme" of this report.

Save as otherwise disclosed above, as at 31 December 2011, none of the Directors or chief executive of the Company had, or were deemed under the SFO to have, any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) which were required to be recorded in the register kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standards of dealing by directors of listed issuer as referred to in Rule 5.46 of the GEM Listing Rules.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

As at 31 December 2011, according to the register required to be kept by the Company under Section 336 of the SFO, the following persons (other than the Directors and chief executive of the Company) had interests and short positions in the shares and underlying shares of the Company:

(1) Interests in Shares

	Number of shares					Approximate percentage interest in the Company's issued share capital
Name of Shareholder	Beneficial interests	Investment Manager	Corporate interests	Custodian	Total	
Atlantis Capital Holdings Limited	—	—	650,000,000(L)	—	650,000,000(L) *(Note 1)*	8.77%(L)
Liu Yang	—	—	650,000,000(L)	—	650,000,000(L) *(Note 1)*	8.77%(L)
Favor King Limited	—	—	582,864,906(L)	—	582,864,906(L) *(Note 2)*	7.86%(L)
JP Morgan Chase & Co.	584,000(L)	210,832,346(L)	—	300,000,000(L) 300,000,000(P)	511,416,346(L) 300,000,000(P) *(Note 3)*	6.90%(L) 4.05%(P)
Ward Ferry Management (BVI) Limited	—	426,828,000(L)	—	—	426,828,000(L) *(Note 4)*	5.76%(L)

Notes:

1. These shares represent the same block of interest held by Atlantis Capital Holdings Limited and Ms. Liu Yang. Atlantis Investment Management (Hong Kong) Limited interested in 650,000,000 shares among these shares. Atlantis Fund Management (Ireland) Limited and Atlantis Investment Management (London) Limited interested in 150,000,000 shares respectively among these shares. The above three companies were wholly-owned by Atlantis Capital Holdings Limited, which in turn was wholly-owned by Ms. Liu Yang.

2. 1,932,312 shares were held by Burwill Holdings Limited and 580,932,594 shares were held by Glory Add. These shares formed part of the interests of Ms. LAU Ting and Mr. CHAN Shing.

3. 300,000,000 shares, represented the lending pool shares, were held by JPMorgan Chase Bank, N.A. which in turn was wholly-owned by JPMorgan Chase & Co.. 210,832,346 shares, represented the long position shares, were held by JPMorgan Asset Management (UK) Limited which in turn was wholly-owned by JPMorgan Asset Management Holdings (UK) Limited, a company which was wholly-owned by JPMorgan Asset Management International Limited. And JPMorgan Asset Management International Limited was wholly-owned by JPMorgan Asset Management Holdings Inc., which in turn was wholly-owned by JPMorgan Chase & Co.. 584,000 shares, represented the long position shares, were held by J.P. Morgan Whitefriars Inc. which in turn was owned by J.P. Morgan Overseas Capital Corporation, a company which was wholly-owned by J.P. Morgan International Finance Limited. J.P. Morgan International Finance Limited was wholly-owned by Bank One International Holdings Corporation, which in turn was wholly-owned by J.P. Morgan International Inc.. And J.P. Morgan International Inc. was wholly-owned by JPMorgan Chase Bank, N.A., which in turn was wholly-owned by JPMorgan Chase & Co.

4. 160,052,000 shares were held by WF Asia Fund Limited, 67,058,000 shares were held by WF Asian Reconnaissance Fund Limited and 199,718,000 shares were held by WF Asian Smaller Companies Fund Limited. Ward Ferry Management (BVI) Limited was the investment manager of these funds or companies.

5. The letter "L" denotes long position(s) and the letter "P" denotes lending pool(s).

Report of the Directors

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES *(Cont'd)*

(2) Interests in Underlying Shares

As at 31 December 2011, International Game Technology had a derivative interest in 74,607,329 shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

Save as disclosed above, as at 31 December 2011, there was no person (other than the Directors and chief executive of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and/or who were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the option holdings disclosed above, at no time during the year was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in the financial statements, there was no contracts of significance (as defined in Rule 18.25 of the GEM Listing Rules) in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which any Directors of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SERVICE CONTRACTS WITH DIRECTORS

None of the Directors offering themselves for re-election at the forthcoming Annual General Meeting has an unexpired service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

FINANCIAL SUMMARY

A summary of results, assets and liabilities of the Group is set out on page 3.

EMPLOYEE RETIREMENT BENEFIT

Details of the retirement benefit schemes of the Group and the employee retirement benefit costs charged to the consolidated income statement for the year are set out in note 36.

COMPETING INTERESTS

The Directors believe that none of the Directors, the management shareholders of the Company (as defined in the GEM Listing Rules) and their respective associates had an interest, directly or indirectly, in a business which competes or may compete with the business of the Group.

Report of the Directors

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed amount of public float during the year and up to the date of this report as required under the GEM Listing Rules.

AUDITORS

HLB Hodgson Impey Cheng, the auditors of the Company, will retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming Annual General Meeting.

On behalf of the Board
LAU Ting
Chairperson

Hong Kong, 15 March 2012

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Directors believe that good corporate governance is an essential element in enhancing the confidence of shareholders, investors, employees, business partners and the community as a whole and also the performance of the Group. The Board will review the corporate governance structure and practices from time to time and shall make necessary arrangements to ensure business activities and decision-making processes are made in a proper and prudent manner.

In the opinion of the Directors, the Company has complied with all the applicable code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 of the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") for the financial year ended 31 December 2011, except for the deviations as disclosed in this report.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the required standard of dealings regarding securities transactions by directors set out in Rules 5.48 to 5.67 of the GEM Listing Rules as its code of conduct for dealings in securities of the Company by the Directors (the "Code of Conduct"). Having made specific enquiry of all Directors, all Directors confirmed that they had complied with the required standard of dealings set out in the Code of Conduct throughout the financial year ended 31 December 2011.

BOARD OF DIRECTORS

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

Executive Directors

Ms. LAU Ting
Mr. WU Jingwei
Ms. CHAN Tan Na, Donna (appointment effective from 16 February 2012)
Mr. LI Zi Kui (appointment effective from 10 August 2011)
Mr. LIAO Yuang-whang (resignation effective from 16 March 2012)
Mr. CHAN Shing (resignation effective from 16 February 2012)

Non-Executive Directors

Mr. HOONG Cheong Thard

Independent Non-Executive Directors

Mr. HUANG Shenglan
Mr. CHAN Ming Fai
Mr. CUI Shuming

As at the date of this report, the Board comprised nine Directors, five of whom are Executive Directors, one is a Non-executive Director and three of whom are Independent Non-executive Directors. Details of the backgrounds and qualifications of each Director are set out on the section headed "Biographies of Directors and Senior Management" of this annual report. The Company has arranged appropriate insurance cover in respect of legal actions against the Directors.

The Board is responsible for the overall strategic development of the Group. It also monitors the financial performance and the internal controls of the Group's business operations. Executive Directors are responsible for running the Group and executing the strategies adopted by the Board. The day-to-day running of the Company is delegated to the management with department heads responsible for different aspects of the business/functions.

Corporate Governance Report

BOARD OF DIRECTORS *(Cont'd)*

The Non-executive Directors (including the Independent Non-Executive Directors) serve the relevant function of bringing independent judgement on the development, performance and risk management of the Group through their contributions in board meetings.

The Board meets at least four times each year at approximately quarterly intervals to discuss the Group's business development, operation and financial performance. Notice of at least 14 days is given to all Directors for all regular board meetings to give all Directors an opportunity to attend. All regular board meetings adhere to a formal agenda in which a schedule of matters is addressed to the Board. All Directors have access to board papers and related materials, and are provided with adequate information which enables the Board to make an informed decision on the matters to be discussed and considered at the board meetings. Minutes of board meetings are kept by the Company Secretary and are open for inspection at any reasonable time on reasonable notice by any Director.

The Board considers that each Independent Non-Executive Director of the Company is independent in character and judgement. The Company has received from each Independent Non-executive Director a written confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules. To the best knowledge of the Directors, there is no financial, business and family relationship among the members of the Board except that Mr. CHAN Shing is the spouse of Ms. LAU Ting.

During the year, four regular board meetings were held. Details of the attendance of the Directors are as follows:

	Directors' Attendance
Executive Directors	
Ms. LAU Ting	4/4
Mr. WU Jingwei	4/4
Mr. LIAO Yuang-whang	4/4
Mr. LI Zi Kui	1/1
Mr. CHAN Shing	1/4
Non-Executive Directors	
Mr. HOONG Cheong Thard	4/4
Independent Non-Executive Directors	
Mr. HUANG Shenglan	3/4
Mr. CHAN Ming Fai	4/4
Mr. CUI Shuming	3/4

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Chairperson of the Company, Ms. LAU Ting, currently also assumes the role of the Chief Executive Officer. Although the Code provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual, the Board considers that given the nature of the Group's businesses which requires considerable market expertise, the vesting of the two roles provides the Group with stable and consistent leadership and allows for more effective planning and implementation of long term business strategies. The Board will continuously review the effectiveness of the structure to balance the power and authority of the Board and the management.

Corporate Governance Report

NON-EXECUTIVE DIRECTORS

Although more than half of the Non-executive Directors of the Company are not appointed for a specific term as is stipulated in Code provision A4.1, all of them are subject to retirement by rotation in accordance with the Bye-laws of the Company. The Board will ensure the retirement of each Director, other than the one who holds the office as Chairperson or Managing Director, by rotation at least once every three years. The Chairperson is not subject to retirement by rotation as is stipulated in Code provision A.4.2 as the Board considers that the continuity of office of the Chairperson provides the Group a strong and consistent leadership and is of great importance to the smooth operations of the Group. Mr. WU Jingwei, Ms. CHAN Tan Na, Donna, Mr. LI Zi Kui, Mr. HOONG Cheong Thard and Mr. HUANG Shenglan are subject to retirement by rotation at the forthcoming annual general meeting in accordance with the Company's Bye-laws.

REMUNERATION COMMITTEE

The Remuneration Committee was established on 10 August 2006 with specific written terms of reference which deal with its authority and duties. The terms of reference of the Remuneration Committee has been posted on the Company's website and is made available on request. The Remuneration Committee responsible for determining the policy for the remuneration of Directors and the senior management, and consider and review the terms of service contract of the Directors and the senior management. The Remuneration Committee currently comprises three members, Mr. HUANG Shenglan, Mr. CHAN Ming Fai and Ms. LAU Ting. The chairman of the Remuneration Committee is Mr. HUANG Shenglan.

In determining the emolument payable to Directors, the Remuneration Committee took into consideration factors such as time commitment and responsibilities of the Directors, abilities, performance and contribution of the Directors to the Group, the performance and profitability of the Group, the remuneration benchmark in the industry, the prevailing market/employment conditions and the desirability of performance-based remuneration.

The Remuneration Committee will meet at least once a year. Two meetings of the Remuneration Committee were held during the year ended 31 December 2011. Details of the attendance of the Remuneration Committee Meeting are as follows:

	Members' Attendance
Mr. HUANG Shenglan *(Chairman of Remuneration Committee)*	2/2
Mr. CHAN Ming Fai	2/2
Ms. LAU Ting	2/2

NOMINATION OF DIRECTORS

One of the responsibilities of the Board is to consider the suitability of a candidate to act as a director, and to approve and terminate the appointment of a director. The Chairman is mainly responsible for identifying suitable candidates for members of the Board when there is a vacancy or an additional director is considered necessary. The Chairman will propose the appointment of such candidates to the Board for consideration and the Board will review the qualifications of the relevant candidates for determining the suitability to the Group on the basis of his qualifications, experience and background.

Corporate Governance Report

NOMINATION OF DIRECTORS *(Cont'd)*

During the year, a board meeting was held in respect of the appointment of Mr. LI Zi Kui as an Executive Director of the Company. Details of the attendance of the Directors are as follows:

	Executive Directors
Directors' Attendance	
Ms. LAU Ting	1/1
Mr. WU Jingwei	1/1
Mr. LIAO Yuang-whang	1/1
Mr. CHAN Shing	0/1
Non-Executive Directors	
Mr. HOONG Cheong Thard	0/1
Independent Non-Executive Directors	
Mr. HUANG Shenglan	0/1
Mr. CHAN Ming Fai	0/1
Mr. CUI Shuming	0/1

The Board has established a Nomination Committee with written terms of reference on 15 March 2012. The members of the Nomination Committee shall comprise such Directors of the Company appointed by the Board. The Board has appointed Ms. LAU Ting, Mr. HUANG Shenglan and Mr. CHAN Ming Fai as members of the Nomination Committee, of which Ms. LAU Ting shall act as the chairperson.

AUDIT COMMITTEE

The Audit Committee was established in 2001 and currently comprises three members, Mr. HUANG Shenglan, Mr. CHAN Ming Fai and Mr. CUI Shuming. All of them are Independent Non-Executive Directors. The chairman of the Audit Committee is Mr. HUANG Shenglan. The Board considers that each Audit Committee member has broad commercial experience and there is a suitable mix of expertise in business, accounting and financial management in the Audit Committee.

The Audit Committee's functions include:

- to review and monitor financial reporting and the reporting judgement contained in them; and
- to review financial and internal controls, accounting policies and practices with management and external auditors.

Corporate Governance Report

AUDIT COMMITTEE *(Cont'd)*

The Audit Committee held four meetings during the year under review, one of which was attended by the external auditors, HLB Hodgson Impey Cheng. Details of the attendance of the meetings are as follows:

	Members' Attendance
Mr. HUANG Shenglan	3/4
Mr. CHAN Ming Fai	4/4
Mr. CUI Shuming	4/4

The Audit Committee has reviewed and discussed with the management the accounting principles and practices adopted by the Group and auditing, internal controls and financial reporting matters. The audited financial results of the Group for the financial year ended 31 December 2011 have been reviewed by the Audit Committee. The terms of reference of the Audit Committee has been posted on the Company's website and is made available on request.

AUDITORS' REMUNERATION

For the year ended 31 December 2011, the Group had engaged the Group's external auditors, HLB Hodgson Impey Cheng, to provide the following services and their respective fees charged are set out as below:

	Fee Charged for the year ended 31 December	
	2011	2010
	HK$	HK$
Types of Services		
Audit for the Group	**750,000**	693,000

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR ACCOUNTS

The Directors' responsibilities for the accounts and the responsibilities of the external auditors to the shareholders are set out on page 31.

INTERNAL CONTROL

The Board has overall responsibility for the system of internal controls of the Company and for reviewing its effectiveness. The Board is committed to implementing an effective and sound internal controls system to safeguard the interests of shareholders and the assets of the Group. The Board has delegated to the management the implementation of the system of internal controls and reviewing of all relevant financial, operational, compliance controls and risk management functions.

INVESTOR RELATIONS

The Company is committed to maintain an open and effective investor relations policy and to update investors on relevant information/developments in a timely manner, subject to relevant regulatory requirements. Briefings and meetings with institutional investors and analysts are conducted from time to time. The Company also replied the enquiries from shareholders timely. The Directors host the annual general meeting each year to meet the shareholders and answer their enquiries.

The corporate website of the Company provides an effective communication platform via which the public and investor community can enjoy fast, easy access to up-to-date information regarding the Group.

Independent Auditors' Report

國衛會計師事務所
Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

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

We have audited the consolidated financial statements of China LotSynergy Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 33 to 102, which comprise the consolidated and company balance sheets as at 31 December 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Companies Act of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Independent Auditors' Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

Hong Kong, 15 March 2012

Consolidated Income Statement

For the year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Turnover	5	528,136	282,577
Costs of sales and services		(96,460)	(62,237)
Gross profit		431,676	220,340
Other income and gains	6	14,367	16,465
General and administrative expenses		(130,666)	(110,046)
Share option expenses		(19,750)	(9,520)
Operating profit	7	295,627	117,239
Gain on redemption of convertible note		—	171,947
Imputed interest expense on redeemed convertible note	8	—	(20,748)
Gain on redemption of convertible note, net of imputed interest expense		—	151,199
Finance costs	8	(19,495)	(5,809)
Share of losses of jointly-controlled entities	17	(9,126)	(12,408)
Profit before income tax		267,006	250,221
Income tax	9	(48,703)	(33,477)
Profit for the year		218,303	216,744
Profit attributable to:			
Owners of the Company		66,485	152,254
Non-controlling interests		151,818	64,490
		218,303	216,744
Earnings per share attributable to owners of the Company during the year			
— basic	11	0.90 HK cents	2.06 HK cents
— diluted	11	0.89 HK cents	2.05 HK cents

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Profit for the year		**218,303**	216,744
Other comprehensive (expense)/income:			
Fair value (loss)/gain on available-for-sale financial assets	*19*	**(9,499)**	19,081
Reclassification adjustment on disposal of available-for-sale financial assets		**(7,149)**	—
Currency translation differences		**16,445**	12,824
Other comprehensive (expense)/income for the year, net of tax		**(203)**	31,905
Total comprehensive income for the year		**218,100**	248,649
Attributable to:			
Owners of the Company		**59,862**	181,584
Non-controlling interests		**158,238**	67,065
Total comprehensive income for the year		**218,100**	248,649

Consolidated Balance Sheet

At 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Non-current assets			
Property, plant and equipment	14	281,679	270,338
Intangible assets	15	396,132	351,544
Investments in jointly-controlled entities	17	103,739	108,154
Available-for-sale financial assets	19	28,862	68,910
Deferred income tax assets	29	4,622	180
Prepaid rentals		3,260	4,087
Total non-current assets		818,294	803,213
Current assets			
Inventories	20	29,907	19,250
Accounts receivable	21	177,160	103,042
Prepayments, deposits and other receivables		70,461	30,101
Amounts due from jointly-controlled entities	17	457	411
Amount due from a related company	22	21,564	21,564
Financial assets at fair value through profit or loss	23	—	92,258
Cash and bank balances	24	648,867	347,612
Total current assets		948,416	614,238
Total assets		1,766,710	1,417,451
Current liabilities			
Accounts payable	25	12,813	2,656
Accruals and other payables		40,901	11,824
Amount due to a jointly-controlled entity	17	4,811	24,594
Income tax payable		18,110	27,859
Financial liabilities at fair value through profit or loss	26	9,155	—
Bank borrowings	27	380,602	105,119
Convertible note	28	68,308	86,272
Total current liabilities		534,700	258,324
Net current assets		413,716	355,914
Total assets less current liabilities		1,232,010	1,159,127

Consolidated Balance Sheet *(Cont'd)*

At 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Non-current liabilities			
Convertible note	28	—	59,480
Deferred income tax liabilities	29	14,472	13,268
Total non-current liabilities		14,472	72,748
Net assets		1,217,538	1,086,379
Equity attributable to owners of the Company			
Share capital	30	18,530	18,505
Reserves	32	877,478	1,714,406
Retained profit/(accumulated losses)		109,896	(808,897)
		1,005,904	924,014
Non-controlling interests		211,634	162,365
Total equity		1,217,538	1,086,379

LAU TING
Director

LIAO YUANG-WHANG
Director

Balance Sheet

At 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Non-current assets			
Property, plant and equipment	14	98	194
Investments in subsidiaries	16	9	9
Total non-current assets		107	203
Current assets			
Prepayments, deposits and other receivables		1,112	2,439
Amounts due from subsidiaries	16	899,249	991,391
Cash and bank balances	24	1,143	264
Total current assets		901,504	994,094
Total assets		901,611	994,297
Current liabilities			
Accruals and other payables		511	240
Amounts due to subsidiaries	16	8	8
Convertible note	28	68,308	86,272
Total current liabilities		68,827	86,520
Net current assets		832,677	907,574
Total assets less current liabilities		832,784	907,777
Non-current liabilities			
Convertible note	28	—	59,480
Deferred income tax liabilities	29	486	3,382
Total non-current liabilities		486	62,862
Net assets		832,298	844,915
Equity attributable to owners of the Company			
Share capital	30	18,530	18,505
Reserves	32	809,823	1,639,947
Retained profit/(accumulated losses)	33	3,945	(813,537)
		832,298	844,915

LAU TING
Director

LIAO YUANG-WHANG
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Attributable to owners of the Company				
	Share capital HK$'000 *(Note 30)*	Reserves HK$'000 *(Note 32)*	Accumulated losses HK$'000	Non-controlling interests HK$'000	Total HK$'000
Balance at 1 January 2010	18,505	1,674,420	(876,657)	109,419	925,687
Comprehensive income					
Profit for the year	—	—	152,254	64,490	216,744
Other comprehensive income:					
Release of revaluation reserve upon depreciation of leasehold land and building	—	(140)	140	—	—
Fair value gain on available-for-sale financial assets	—	19,081	—	—	19,081
Currency translation differences	—	10,249	—	2,575	12,824
Total other comprehensive income, net of tax	—	29,190	140	2,575	31,905
Total comprehensive income	—	29,190	152,394	67,065	248,649
Total contributions by and distributions to owners of the Company recognised directly in equity					
Release of convertible note equity reserve upon redemption of convertible note	—	(20,080)	(98,785)	—	(118,865)
Recognition of equity component of convertible note	—	25,614	—	—	25,614
Deferred tax liability on recognition of equity component of convertible note	—	(4,226)	—	—	(4,226)
Share option scheme:					
— value of employee services	—	9,442	—	—	9,442
— value of other participants' services	—	78	—	—	78
— vested share options cancelled	—	(32)	32	—	—
Total contributions by and distributions to owners of the Company	—	10,796	(98,753)	—	(87,957)
Changes in ownership interests in subsidiaries that do not result in a loss of control	—	—	14,119	(14,119)	—
Total transactions with owners	—	10,796	(84,634)	(14,119)	(87,957)
Balance at 31 December 2010	18,505	1,714,406	(808,897)	162,365	1,086,379

Consolidated Statement of Changes in Equity *(Cont'd)*

For the year ended 31 December 2011

	Attributable to owners of the Company				
	Share capital HK$'000 *(Note 30)*	Reserves HK$'000 *(Note 32)*	(Accumulated losses)/ retained profit HK$'000	Non-controlling interests HK$'000	Total HK$'000
Balance at 1 January 2011	18,505	1,714,406	(808,897)	162,365	1,086,379
Comprehensive income					
Profit for the year	—	—	66,485	151,818	218,303
Other comprehensive (expense)/income:					
Release of revaluation reserve upon depreciation of leasehold land and building	—	(181)	181	—	—
Fair value loss on available-for-sale financial assets	—	(9,499)	—	—	(9,499)
Reclassification adjustment on disposal of available-for-sale financial assets	—	(7,149)	—	—	(7,149)
Currency translation differences	—	10,025	—	6,420	16,445
Total other comprehensive (expense)/income, net of tax	—	(6,804)	181	6,420	(203)
Total comprehensive (expense)/income	—	(6,804)	66,666	158,238	218,100
Total contributions by and distributions to owners of the Company recognised directly in equity					
Reduction of share premium	—	(813,537)	813,537	—	—
Release of convertible note equity reserve upon redemption of convertible note at maturity	—	(9,718)	9,718	—	—
Share option scheme:					
— value of employee services	—	6,381	—	—	6,381
— value of other participants' services	—	13,369	—	—	13,369
— share options exercised	25	2,253	—	—	2,278
— vested share options cancelled and lapsed	—	(28,872)	28,872	—	—
Dividends paid to non-controlling interests	—	—	—	(113,913)	(113,913)
Total contributions by and distributions to owners of the Company	25	(830,124)	852,127	(113,913)	(91,885)
Non-controlling interests arising on business combinations	—	—	—	4,944	4,944
Total transactions with owners	25	(830,124)	852,127	(108,969)	(86,941)
Balance at 31 December 2011	18,530	877,478	109,896	211,634	1,217,538

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Cash flows from operating activities			
Operating cash flows before changes in working capital	34	**347,573**	159,231
Changes in working capital	34	**(9,001)**	(90,457)
Cash generated from operation		**338,572**	68,774
Income tax paid		**(63,920)**	(17,446)
Income tax refunded		**—**	2,261
Net cash generated from operating activities		**274,652**	53,589
Cash flows from investing activities			
Purchase of property, plant and equipment		**(46,556)**	(37,488)
Acquisition of subsidiaries		**(6,963)**	—
Proceeds from disposal of property, plant and equipment		**102**	367
Purchase of intangible assets		**(22,397)**	(27,447)
Advance to a jointly-controlled entity		**(46)**	(174)
Proceeds from disposal of available-for-sale financial assets		**30,549**	—
Interest income from bank deposits		**4,454**	2,322
Proceed from short-term bank deposits with maturity more than three months		**33,136**	35,737
Purchase of short-term bank deposits with maturity more than three months		**(244,444)**	(33,136)
Increase in restricted bank deposits		**(49,383)**	—
Net cash used in investing activities		**(301,548)**	(59,819)
Cash flows from financing activities			
Redemption of convertible note		**(95,000)**	(308,750)
Interest paid		**(1,939)**	(693)
Proceeds from issue of shares		**2,278**	—
Repayment of bank borrowings		**(11,713)**	(4,881)
Proceeds from bank borrowings		**287,196**	35,000
Dividends paid to non-controlling interests		**(113,913)**	—
Net cash generated from/(used in) financing activities		**66,909**	(279,324)
Net increase/(decrease) in cash and cash equivalents		**40,013**	(285,554)
Cash and cash equivalents at beginning of the year		**314,476**	598,377
Effect of foreign exchange rate changes		**551**	1,653
Cash and cash equivalents at end of the year *(Note)*	24	**355,040**	314,476

Note: Cash and cash equivalents include cash in hand, deposits held at call with banks and financial institutions, other short-term highly liquid investments with original maturities of three months or less.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

1. GENERAL INFORMATION

China LotSynergy Holdings Limited (the "Company") was incorporated in Bermuda on 13 September 2000 as an exempted company with limited liability under the Companies Act of Bermuda.

The Company's shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company and its subsidiaries (together the "Group") are technology and service providers of lottery systems, terminal equipment, game products and operation in the lottery market in China. The principal businesses of the Group cover various lottery products ranging from video lottery, computer ticket game (CTG) and high frequency lottery, to new media lottery.

These consolidated financial statements are presented in Hong Kong dollars (HK$), unless otherwise stated. These consolidated financial statements were approved and authorised for issue by the board of directors of the Company (the "Board") on 15 March 2012.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and by the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared under the historical cost convention, as modified by available-for-sale financial assets, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

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

Changes in accounting policy and disclosures

(a) *New and amended standards adopted by the Group*

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2011 that would be expected to have a material impact on the Group.

- HKAS 24 (Revised), 'Related party disclosures' is effective for annual period beginning on or after January 2011. It introduces an exemption from all of the disclosure requirements of HKAS 24 for transactions among government related entities and the government. Those disclosures are replaced with a requirement to disclose:

  - The name of the government and the nature of their relationship;
  - The nature and amount of any individually significant transactions; and
  - The extent of any collectively-significant transactions qualitatively or quantitatively.

  It also clarifies and simplifies the definition of a related party.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.1 Basis of preparation *(Cont'd)*

Changes in accounting policy and disclosures *(Cont'd)*

(b) *New and amended standards have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted*

- HKFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. HKFRS 9 was issued in November 2009 and October 2010. It replaces the parts of HKAS 39 that relate to the classification and measurement of financial instruments. HKFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the HKAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess HKFRS 9's full impact and intends to adopt HKFRS 9 upon its effective date, which is for the accounting period beginning on or after 1 January 2015.

- HKFRS 10, 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group is yet to assess HKFRS 10's full impact and intends to adopt HKFRS 10 no later than the accounting period beginning on or after 1 January 2013.

- HKRS 11, 'Joint arrangements' replaces HKAS 31 'Interests in joint ventures' and HK(SIC)-Int 13 'Jointly controlled entities — non-monetary contributions by venturers'. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangement, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation. The Group is yet to assess HKFRS 11's full impact and intends to adopt HKFRS 11 no later than the accounting period beginning on or after 1 January 2013.

- HKFRS 12, 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group is yet to assess HKFRS 12's full impact and intends to adopt HKFRS 12 no later than the accounting period beginning on or after 1 January 2013.

- Consequential amendments were made to HKAS 27 'Consolidated and separate financial statements' and HKAS 28 'Investments in associates' as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group is yet to assess the full impact and intends to adopt the consequential amendments to HKAS 27 and HKAS 28 on later than the accounting period beginning on or after 1 January 2013.

- HKFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRSs. The Group is yet to assess HKFRS 13's full impact and intends to adopt HKFRS 13 no later than the accounting period beginning on or after 1 January 2013.

There are no other HKFRSs or HK(IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.2 Subsidiaries

2.2.1 Consolidation

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise from circumstances such as enhanced minority rights or contractual terms between shareholders, etc.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(a) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

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

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of any non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.2 Subsidiaries *(Cont'd)*

2.2.1 Consolidation (Cont'd)

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

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

(c) *Disposal of subsidiaries*

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or finance asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

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

2.3 Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of a jointly-controlled entity.

The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in a jointly-controlled entity equals or exceeds its interest in the jointly-controlled entity, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the jointly-controlled entity.

The Group determines at each reporting date whether there is any objective evidence that the investment in the jointly-controlled entity is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the jointly-controlled entity and its carrying value and recognises the amount adjacent to 'share of profit/(loss) of a jointly-controlled entity' in the income statement.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.3 Jointly-controlled entities *(Cont'd)*

Profits and losses resulting from upstream and downstream transactions between the Group and its jointly-controlled entity are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the jointly-controlled entities. Unrealised gains on transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's interest in the jointly-controlled entities. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of jointly-controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in jointly-controlled entities are recognised in the income statement.

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board that makes strategic decisions.

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars (HK$), which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale, are included in other comprehensive income.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.5 Foreign currency translation *(Cont'd)*

(c) Group companies

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

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in equity.

2.6 Property, plant and equipment

Land and buildings comprise mainly offices. Leasehold land classified as finance lease and all other property, plant and equipment is stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

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

Leasehold land classified as finance lease	Shorter of remaining lease term or useful life
Buildings	2.5%
Lottery terminals leased to third parties under operating leases	20%
Leasehold improvements	20% – 50% (over the period of leases)
Plant and equipment	10% – 20%
Computer equipment and software	20% – 33%
Office equipment and furniture	10% – 25%
Motor vehicles	10% – 25%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.6 Property, plant and equipment *(Cont'd)*

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement.

2.7 Intangible assets

(a) CLO Contract

The acquired CLO Contract (Note 15) has a finite useful life and is carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of the CLO Contract over the period of the contract.

(b) Goodwill

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of non-controlling interest in the acquiree.

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

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

(c) Development costs

Development costs are carried at cost less accumulated amortisation and any accumulated impairment losses.

Development costs represent all direct costs incurred by the Group in setting up systems and networks, including the cost of equipment, development cost and subcontracting expenditure. Such assets are recognised as intangible assets only if all of the following conditions are met:

- the technical feasibility of completing the asset so that it will be available for use or sale;
- the intention to complete the asset and use or sell it;
- the ability to use or sell the asset;
- how the asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the asset or the asset itself or, if it is to be used internally, the usefulness of the asset;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the asset; and
- the ability to measure reliably the expenditure attributable to the asset during its development.

Development costs that do not fulfill the above conditions are recognised as expenses in the period in which it is incurred. Development costs which are implemented for its intended use and fulfill the above conditions are amortised on a straight-line basis over their estimated useful lives.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.8 Impairment of non-financial assets

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

2.9 Financial assets

2.9.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets.

(c) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of within 12 months of the end of the reporting period.

2.9.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.9 Financial assets *(Cont'd)*

2.9.2 Recognition and measurement (Cont'd)

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the Group's right to receive payments is established.

2.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.11 Impairment of financial assets

(a) Assets carried at amortised cost

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

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

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.11 Impairment of financial assets *(Cont'd)*

(b) Assets classified as available for sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria refer to (a) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — is removed from equity and recognised in the profit or loss. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement.

2.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.13 Trade and other receivables

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

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.14 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks and financial institutions, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts (if any).

2.15 Share capital

Ordinary shares are classified as equity.

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

2.16 Trade payables

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.17 Borrowings

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

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

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

2.18 Borrowing costs

General and specific 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.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

2.19 Compound financial instruments

Compound financial instruments issued by the Group comprise convertible notes that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

2.20 Current and deferred income tax

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.20 Current and deferred income tax *(Cont'd)*

(a) Current income tax

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

(b) Deferred income tax

Inside basis differences

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

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

Outside basis differences

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and jointly-controlled entities, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(c) Offsetting

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

2.21 Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(b) Bonus plans

The expected cost of bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.21 Employee benefits *(Cont'd)*

(c) Retirement benefits

The Group operates a number of defined contribution plans. The Group's contributions to the defined contribution retirement schemes are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The assets of the scheme are held separately from those of the Group in independently administered funds.

(d) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to a termination when the entity has a detailed formal plan to terminate the employment of current employees without possibility of withdrawal. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

2.22 Share-based payments

(a) Equity-settled share-based payment transactions

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- Including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.22 Share-based payments *(Cont'd)*

(b) Share-based payment transactions among group entities

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

2.23 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.24 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns and value-added tax. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below.

(a) Income from provision of lottery terminals is accounted for in accordance with the terms of the relevant contracts.

(b) Income from provision of consultancy services is recognised when services are rendered.

(c) Income from sale of equipment is recognised when the Group has delivered products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

(d) Rental income is recognised on a straight-line basis over the period of the lease.

2.25 Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognised using the original effective interest rate.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.26 Dividend income

Dividend income is recognised when the right to receive payment is established.

2.27 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor), are charged to the income statement on a straight-line basis over the period of the lease.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by a central treasury department (Group Treasury) under policies approved by the Board. Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest-rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investing of excess liquidity.

(a) Market risk

(i) Foreign exchange risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. Approximately 99% (2010: 99%) of the Group's turnover and approximately 100% (2010: 100%) of costs are denominated in the operating units' functional currency. The Group manages the foreign exchange exposure arising from its normal course of business activities and investments in foreign operations by funding its local operations and investments through cash flow generated from business transactions locally. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure closely and will consider hedging significant foreign currency exposure should the need arise.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. FINANCIAL RISK MANAGEMENT *(Cont'd)*

3.1 Financial risk factors *(Cont'd)*

(a) Market risk (Cont'd)

(i) Foreign exchange risk (Cont'd)

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the Renminbi ("RMB") exchange rate, with all other variables held constant, of the Group's profit after tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity.

	Increase/ (decrease) in RMB %	Increase/ (decrease) in profit after income tax HK$'000	Increase/ (decrease) in equity HK$'000
2011			
If Hong Kong dollar weakens against RMB	**5**	**7,456**	**29,331**
If Hong Kong dollar strengthens against RMB	**(5)**	**(7,469)**	**(27,202)**

	Increase/ (decrease) in RMB %	Increase/ (decrease) in profit after income tax HK$'000	Increase/ (decrease) in equity HK$'000
2010			
If Hong Kong dollar weakens against RMB	5	3,318	12,483
If Hong Kong dollar strengthens against RMB	(5)	(3,315)	(11,301)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. FINANCIAL RISK MANAGEMENT *(Cont'd)*

3.1 Financial risk factors *(Cont'd)*

(a) Market risk *(Cont'd)*

(ii) Price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group is exposed to equity price risk arising from individual equity investments classified as available-for-sale (Note 19) and at fair value through profit or loss (Note 23) as at 31 December 2011.

The following table demonstrates the sensitivity to 5% increase/decrease in the fair values of the equity investments with all other variables held constant and after any impact on tax, based on their carrying amounts at the end of the reporting period.

	Increase/ (decrease) in profit after income tax HK$'000	**Increase/ (decrease) in equity HK$'000**
2011		
5% increase in equity price	—	**1,443**
5% decrease in equity price	—	**(1,443)**

	Increase/ (decrease) in profit after income tax HK$'000	Increase/ (decrease) in equity HK$'000
2010		
5% increase in equity price	4,613	8,058
5% decrease in equity price	(4,613)	(8,058)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. FINANCIAL RISK MANAGEMENT *(Cont'd)*

3.1 Financial risk factors *(Cont'd)*

(a) Market risk *(Cont'd)*

(iii) Cash flow and fair value interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate short-term bank deposits and borrowings arising from liability component of convertible note (Note 28). The Group has not hedged its exposure to fair value interest rate risk, as the management considers the risk is insignificant to the Group.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (Note 27). It is the Group's policy to keep its borrowing at floating rate of interests so as to minimise the fair value interest risk. The Group cash flow interest rate risk is mainly concentrated on the fluctuation of HIBOR and LIBOR arising from the Group's borrowings denominated in Hong Kong dollar and United States dollar.

The following table demonstrates the sensitivity to 5% increase/decrease in interest rates, with all other variables held constant, of the Group's profit after tax (through the impact on floating rate borrowings) and the Group's equity.

	Increase/ (decrease) in interest rate %	Increase/ (decrease) in profit after income tax HK$'000	Increase/ (decrease) in equity HK$'000
2011			
Hong Kong dollar	**5**	**(603)**	**(603)**
Hong Kong dollar	**(5)**	**603**	**603**

	Increase/ (decrease) in interest rate %	Increase/ (decrease) in profit after income tax HK$'000	Increase/ (decrease) in equity HK$'000
2010			
Hong Kong dollar	5	(63)	(63)
Hong Kong dollar	(5)	63	63

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. FINANCIAL RISK MANAGEMENT *(Cont'd)*

3.1 Financial risk factors *(Cont'd)*

(b) Credit risk

The Group reviews the recoverability of its financial assets periodically to ensure that potential credit risk of the counterparty is managed at an early stage and sufficient provision is made for possible defaults. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, amounts due from jointly-controlled entities and a related company, other receivables and investments, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. At the end of the reporting period, the Group had certain concentrations of credit risk as 86% (2010: 77%) and 90% (2010: 100%) of the Group's accounts receivable were due from the Group's largest customer and the five largest customers, respectively.

Further quantitative data in respect of the Group's exposure to credit risk arising from accounts receivable are disclosed in Note 21 to the consolidated financial statements.

(c) Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following table details the Group's remaining contractual maturity for its financial liabilities. 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. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights within one year after reporting date. The maturity analysis for other financial liabilities is prepared based on scheduled repayment dates.

The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. FINANCIAL RISK MANAGEMENT *(Cont'd)*

3.1 Financial risk factors *(Cont'd)*

(c) Liquidity risk (Cont'd)

	Carrying amount as per consolidated balance sheet HK$'000	Total contractual undiscounted cash flows HK$'000	On demand or within 1 year HK$'000	More than 1 year but less than 5 years HK$'000
2011				
Accounts payable	12,813	12,813	12,813	—
Accruals and other payables	34,329	34,329	34,329	—
Amount due to a jointly-controlled entity	4,811	4,811	4,811	—
Convertible note	68,308	71,250	71,250	—
Bank borrowings	380,602	396,752	396,752	—
	500,863	519,955	519,955	—

	Carrying amount as per consolidated balance sheet HK$'000	Total contractual undiscounted cash flows HK$'000	On demand or within 1 year HK$'000	More than 1 year but less than 5 years HK$'000
2010				
Accounts payable	2,656	2,656	2,656	—
Accruals and other payables	9,719	9,719	9,719	—
Amount due to a jointly-controlled entity	24,594	24,594	24,594	—
Convertible note	145,752	166,250	95,000	71,250
Bank borrowings	105,119	111,596	111,596	—
	287,840	314,815	243,565	71,250

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. FINANCIAL RISK MANAGEMENT *(Cont'd)*

3.1 Financial risk factors *(Cont'd)*

(c) Liquidity risk (Cont'd)

Bank loans with a repayment on demand clause are included in the "on demand or within 1 year" time band in the above maturity analysis. At 31 December 2011 and 31 December 2010, the aggregate undiscounted principal amounts of these bank loans amounted to HK$98,605,000 and HK$111,596,000 respectively. Taking into account the Group's financial position, the directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors believe that such bank loans will be repaid 4 years and 13 years after the end of the reporting period in accordance with the scheduled repayment dates set out in the loan agreements.

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as total debt divided by adjusted capital. Total debt comprises accounts payable, accruals and other payables, amount due to a jointly-controlled entity and bank borrowings as shown in the consolidated balance sheet. Adjusted capital comprises convertible note and all components of equity (including share capital, reserves, accumulated losses and non-controlling interests as shown in the consolidated balance sheet).

The debt-to-adjusted capital ratios at 31 December 2011 and 2010 are as follows:

	2011 **HK$'000**	2010 HK$'000
Total debt	**439,127**	144,193
Convertible note *(Note 28)*	**68,308**	145,752
Total equity	**1,217,538**	1,086,379
Adjusted capital	**1,285,846**	1,232,131
Debt-to-adjusted capital ratio	**34.2%**	11.7%

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. FINANCIAL RISK MANAGEMENT *(Cont'd)*

3.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2011.

	Level 1 HK$'000	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
Assets				
Available-for-sale financial assets				
— Unlisted equity investment	**—**	**28,862**	**—**	**28,862**
Liabilities				
Financial liabilities at fair value through profit or loss				
— Contingent consideration shares	**—**	**—**	**9,155**	**9,155**

The following table presents the Group's assets that are measured at fair value at 31 December 2010.

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Assets				
Available-for-sale financial assets				
— Unlisted equity investment	—	68,910	—	68,910
Financial assets at fair value through profit or loss				
— Unlisted equity investment	—	92,258	—	92,258
Total assets	—	161,168	—	161,168

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. FINANCIAL RISK MANAGEMENT *(Cont'd)*

3.3 Fair value estimation *(Cont'd)*

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.

- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

- For an option-based derivative, the fair value is estimated using option pricing model (for example, the Binominal Options pricing model).

Note that all the resulting fair value estimates are included in level 2 except for contingent consideration shares, early redemption option embedded in convertible note at fair value and redemption option held by a noteholder embedded in convertible note at fair value as explained below.

There were no significant transfers of financial assets between level 1 and level 2 fair value hierarchy classifications.

The following table presents the changes in level 3 instruments for the year ended 31 December 2011.

	Contingent consideration shares HK$'000
Opening balance	—
Acquisition of subsidiaries *(Note 37)*	11,515
Gains and losses recognised in profit or loss	(2,360)
Closing balance	9,155
Total gains or losses for the year included in profit or loss for assets and liabilities held at the end of the year	2,360

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. FINANCIAL RISK MANAGEMENT *(Cont'd)*

3.3 Fair value estimation *(Cont'd)*

The following table presents the changes in level 3 instruments for the year ended 31 December 2010.

	Early redemption option embedded in convertible note at fair value HK$'000	Redemption option held by a noteholder embedded in convertible note at fair value HK$'000	Total HK$'000
Opening balance	368,710	(284,282)	84,428
Eliminated upon redemption of convertible note	(368,710)	284,282	(84,428)
Closing balance	—	—	—
Total gains or losses for the year included in profit or loss for assets and liabilities held at the end of the year	—	—	—

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) The Group tests whether intangible assets have suffered any impairment in accordance with the accounting policy stated in Note 2.8. Determining whether intangible assets are impaired requires an estimate of the value-in-use of the asset. Estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from the assets and also choose a suitable discount rate in order to calculate the present value of those cash flows. Where the actual future cash flows are less than expected, a material impairment loss may arise.

(b) The Group's management determines the impairment of accounts receivable on a regular basis. This estimate is based on the credit history of its customers and current market conditions. Management reassesses the impairment of accounts receivable at the end of the reporting period.

(c) Financial instruments such as equity instruments are carried at the balance sheet at fair value. The best evidence of fair value is quoted prices in an active market. Where quoted prices are not available for a particular financial instrument, the Group uses valuation models or independent professional valuations to estimate the fair value. The use of methodologies, models and assumptions in valuing these financial instruments is subjective and requires varying degrees of judgement, which may result in significantly different fair values and results.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Cont'd)*

(d) In connection with the business combinations as set out in Note 37, contingent consideration shares are valued at fair value at the acquisition dates with the best estimates of the future outcome of the future events. When the contingent consideration shares meet the definition of a financial liability, it is subsequently re-measured to fair value at the end of each reporting period. The determination of the fair value is based on the expected adjustment on consideration shares to be issued. The key assumptions take into consideration the probability of meeting each profit target. In respect of the business combination transactions as disclosed in Note 37, the Group identified the issuance of consideration shares as financial liabilities at fair value through profit or loss with a total fair value of approximately HK$11,515,000 at the acquisition dates, re-measured to approximately HK$9,155,000 as at 31 December 2011 (Note 26).

5. TURNOVER AND SEGMENT INFORMATION

The Group is a technology and service provider of lottery systems, terminal equipment, game products and operation in the lottery market in China. The principal businesses of the Group cover various lottery products ranging from video lottery, computer ticket game (CTG) and high frequency lottery, to new media lottery. An analysis of the Group's turnover for the year is as follows:

	2011 **HK$'000**	2010 HK$'000
Turnover		
Income from provision of lottery terminals and lottery sale channels	**494,608**	268,372
Income from sales of equipment	**30,372**	12,198
Income from provision of consultancy services	**3,156**	2,007
	528,136	282,577

Segment information

The Group's revenue and contribution to profit were mainly derived from the provision of technology and service for lottery systems, terminal equipment, game products and operation in the lottery market in China, which is regarded as a single reportable segment in a manner consistent with the way in which information is reported internally to the Group's senior management for purposes of resource allocation and performance assessment. Accordingly, no segment analysis is presented other than entity-wide disclosures.

Geographical information

(a) Revenue from external customers

	2011 **HK$'000**	2010 HK$'000
People's Republic of China ("PRC")	**523,343**	282,008
Russia	**4,793**	569
	528,136	282,577

The revenue information above is based on the location of the customers.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

5. TURNOVER AND SEGMENT INFORMATION *(Cont'd)*

Geographical information *(Cont'd)*

(b) Non-current assets

	2011 HK$'000	2010 HK$'000
PRC	647,542	593,214
Hong Kong	137,268	140,909
	784,810	734,123

The non-current assets information above is based on the location of assets and excludes financial instruments and deferred tax assets.

Information about major customers

Revenue from major customers, each of whom amounted to 10% or more of the total revenue, is set out below:

	2011 HK$'000	2010 HK$'000
Customer A	64,114	51,407
Customer B	411,212	216,129

6. OTHER INCOME AND GAINS

	2011 HK$'000	2010 HK$'000
Fair value gain on financial assets at fair value through profit or loss (held for trading)	404	13,517
Fair value gain on financial liabilities at fair value through profit or loss	2,360	—
Reclassification adjustment on disposal of available-for-sale financial assets	7,149	—
Interest income from bank deposits	4,454	2,325
Gain on disposal of property, plant and equipment	—	367
Rental income	—	256
	14,367	16,465

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

7. OPERATING PROFIT

The Group's operating profit is arrived at after charging/(crediting):

	2011 HK$'000	2010 HK$'000
Costs of sales and services		
— Depreciation of lottery terminals	31,287	35,239
— Business tax	28,130	13,789
— Cost of inventories recognised as expense	14,474	5,819
— Repairs and maintenance	5,990	3,374
— Other costs of sales and services	16,579	4,016
	96,460	62,237
Loss on disposal of property, plant and equipment	358	—
Operating lease rentals in respect of land and buildings	7,698	6,206
Auditors' remuneration	750	693
Amortisation of intangible assets		
— CLO Contract *(included in general and administrative expenses) (Note 15)*	6,528	6,528
Depreciation of other items of property, plant and equipment	8,390	6,914
Foreign exchange differences, net	(14,302)	(5,498)

8. FINANCE COSTS

	2011 HK$'000	2010 HK$'000
Interest expense on bank borrowings wholly repayable within five years	1,939	693
Imputed interest expense on convertible note *(Note 28)*	17,556	25,864
	19,495	26,557
Less: Imputed interest expense on redeemed convertible note	—	(20,748)
	19,495	5,809

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

9. INCOME TAX

Hong Kong Profits Tax has been provided at the rate of 16.5% (2010: 16.5%) on the estimated assessable profit for the year. No provision for Hong Kong Profits Tax has been made for the year ended 31 December 2011 as the Group had tax losses brought forward to set off the estimated assessable profits. No provision for Hong Kong Profits Tax has been made for the year ended 31 December 2010 as the Group had no assessable profits arising in or derived from Hong Kong. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

	2011 HK$'000	2010 HK$'000
Current tax		
— PRC Enterprise Income Tax	**51,785**	37,677
— Adjustments in respect of prior years	**150**	341
Total current tax	**51,935**	38,018
Deferred tax *(Note 29)*		
— Origination and reversal of temporary differences	**(3,232)**	(4,541)
Income tax expense	**48,703**	33,477

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate applicable to profits of the consolidated entities as follows:

	2011 HK$'000	2010 HK$'000
Profit before income tax	**267,006**	250,221
Tax calculated at the applicable tax rate of 16.5%	**44,056**	41,286
Income not subject to tax	**(17,325)**	(27,883)
Expenses not deductible for tax purposes	**10,454**	18,906
Utilisation of previously unrecognised tax losses	**(445)**	(424)
Tax losses which no deferred income tax asset was recognised	**7,782**	546
Adjustments in respect of prior years	**150**	341
Withholding tax	**5,168**	—
Others	**(1,137)**	705
Tax charge	**48,703**	33,477

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

10. (LOSS)/PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The loss attributable to owners of the Company is dealt with in the financial statements of the Company to the extent of approximately HK$34,645,000 (2010: profit of approximately HK$85,379,000).

11. EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	2011	2010
Profit attributable to owners of the Company *(HK$'000)*	**66,485**	152,254
Weighted average number of ordinary shares in issue	**7,408,638,795**	7,402,164,000
Basic earnings per share	**0.90 HK cents**	2.06 HK cents

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

	2011	2010
Profit attributable to owners of the Company *(HK$'000)*	**66,485**	152,254
Weighted average number of ordinary shares in issue	**7,408,638,795**	7,402,164,000
Effect of dilutive potential ordinary shares:		
— Share options	**93,553**	7,726,425
— Contingent consideration shares	**26,422,317**	—
Weighted average number of ordinary shares for diluted earnings per share	**7,435,154,665**	7,409,890,425
Diluted earnings per share	**0.89 HK cents**	2.05 HK cents

The computation of diluted earnings per share has not assumed the conversion of convertible note since its exercise would result in an increase in earnings per share.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

12. STAFF COSTS

Staff costs (including directors' emoluments) comprise:

	2011 HK$'000	2010 HK$'000
Wages and salaries	67,500	54,827
Employee share option benefits	6,381	9,442
Social security costs	2,903	2,214
Pension costs — defined contribution plans	577	957
Other staff welfare	2,804	1,390
	80,165	68,830

13. COMPENSATION TO KEY MANAGEMENT PERSONNEL

	2011 HK$'000	2010 HK$'000
Short-term employee benefits	32,583	30,382
Post-employment benefits	336	336
Employee share option benefits	3,027	3,870
	35,946	34,588

(a) Directors' emoluments

The remuneration of every director of the Company for the year ended 31 December 2011 is set out below:

Name of director	Fees HK$'000	Salaries and allowance HK$'000	Benefits in kind HK$'000	Discretionary bonuses HK$'000	Employee share option benefits HK$'000	Employer's contributions to pension scheme HK$'000	Total HK$'000
Executive directors							
Ms. Lau Ting	—	6,500	2,378	2,600	—	300	11,778
Mr. Chan Shing	—	4,784	—	1,442	—	12	6,238
Mr. Wu Jingwei	—	3,949	—	2,365	1,236	12	7,562
Mr. Liao Yuang-whang	—	3,900	—	2,360	1,134	12	7,406
Mr. Li Zi Kui *(Note (i))*	—	570	—	—	220	—	790
Non-executive director							
Mr. Hoong Cheong Thard	253	—	—	325	233	—	811
Independent non-executive directors							
Mr. Huang Shenglan	380	—	—	102	68	—	550
Mr. Chan Ming Fai	279	—	—	75	68	—	422
Mr. Cui Shuming	253	—	—	68	68	—	389
	1,165	19,703	2,378	9,337	3,027	336	35,946

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

13. COMPENSATION TO KEY MANAGEMENT PERSONNEL *(Cont'd)*

(a) Directors' emoluments *(Cont'd)*

The remuneration of every director of the Company for the year ended 31 December 2010 is set out below:

Name of director	Fees HK$'000	Salaries and allowance HK$'000	Benefits in kind HK$'000	Discretionary bonuses HK$'000	Employee share option benefits HK$'000	Employer's contributions to pension scheme HK$'000	Total HK$'000
Executive directors							
Ms. Lau Ting	—	6,500	2,016	2,600	9	300	11,425
Mr. Chan Shing	—	4,784	—	74	9	12	4,879
Mr. Wu Jingwei	—	3,949	—	2,561	1,521	12	8,043
Mr. Liao Yuang-whang	—	3,855	—	2,560	1,884	12	8,311
Non-executive directors							
Mr. Paulus Johannes Cornelis Aloysius Karskens *(Note (ii))*	—	—	—	—	—	—	—
Mr. Hoong Cheong Thard	420	—	—	4	429	—	853
Independent non-executive directors							
Mr. Huang Shenglan	540	—	—	6	9	—	555
Mr. Chan Ming Fai	265	—	—	4	9	—	278
Mr. Cui Shuming	240	—	—	4	—	—	244
	1,465	19,088	2,016	7,813	3,870	336	34,588

Notes:

(i) Appointed on 10 August 2011

(ii) Resigned on 27 September 2010

(iii) None of directors of the Company waived or agreed to waive any emoluments during the years ended 31 December 2011 and 2010.

During the year ended 31 December 2011, 36,500,000 (2010: Nil) share options were granted to certain directors of the Company under the Company's share option scheme.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

13. COMPENSATION TO KEY MANAGEMENT PERSONNEL *(Cont'd)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group during the year ended 31 December 2011 included four (2010: four) directors of the Company, whose emoluments are set out above. The emoluments payable to the remaining one non-director, highest paid individual for the year ended 31 December 2011 are as follows:

	2011 HK$'000	2010 HK$'000
Basic salaries, other allowances and benefits in kind	**1,592**	1,300
Discretionary bonuses	**574**	20
Employee share option benefits	**346**	—
Employer's contributions to pension schemes	**73**	60
	2,585	1,380

(c) During the year ended 31 December 2011, no emoluments were paid by the Group to the directors of the Company and the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office (2010: Nil).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

14. PROPERTY, PLANT AND EQUIPMENT

	Group									
	Leasehold land held for own use under finance lease HK$'000	Buildings HK$'000	Lottery terminals leased to third parties under operating leases HK$'000	Lottery terminals under construction HK$'000	Leasehold improvements HK$'000	Plant and equipment HK$'000	Computer equipment and software HK$'000	Office equipment and furniture HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2010										
Cost	—	909	176,481	54,066	8,434	4,188	11,988	3,728	4,897	264,691
Accumulated depreciation	—	(25)	(118,725)	—	(3,252)	(1,436)	(6,574)	(2,355)	(1,754)	(134,121)
Net book amount	—	884	57,756	54,066	5,182	2,752	5,414	1,373	3,143	130,570
Year ended 31 December 2010										
Opening net book amount	—	884	57,756	54,066	5,182	2,752	5,414	1,373	3,143	130,570
Exchange differences	—	35	1,662	2,240	78	102	195	29	92	4,433
Additions	—	—	—	36,445	280	4	108	149	805	37,791
Transfers	—	—	69,583	(69,583)	—	—	—	—	—	—
Transfer from investment property	131,900	8,100	—	—	—	—	—	—	—	140,000
Depreciation	(1,549)	(162)	(35,239)	—	(2,035)	(621)	(1,365)	(506)	(979)	(42,456)
Closing net book amount	130,351	8,857	93,762	23,168	3,505	2,237	4,352	1,045	3,061	270,338
At 31 December 2010										
Cost	131,900	9,046	208,234	23,168	8,881	4,365	12,373	3,832	5,879	407,678
Accumulated depreciation	(1,549)	(189)	(114,472)	—	(5,376)	(2,128)	(8,021)	(2,787)	(2,818)	(137,340)
Net book amount	130,351	8,857	93,762	23,168	3,505	2,237	4,352	1,045	3,061	270,338
Year ended 31 December 2011										
Opening net book amount	130,351	8,857	93,762	23,168	3,505	2,237	4,352	1,045	3,061	270,338
Exchange differences	—	37	3,375	949	43	84	154	27	99	4,768
Additions	—	—	—	37,839	888	6,466	610	114	894	46,811
Transfers	—	—	7,463	(7,546)	—	—	83	—	—	—
Acquisition of subsidiaries	—	—	—	—	—	—	154	—	—	154
Disposals	—	—	—	—	—	—	(225)	(4)	(231)	(460)
Depreciation	(2,656)	(248)	(31,287)	—	(2,168)	(586)	(1,514)	(411)	(1,062)	(39,932)
Closing net book amount	127,695	8,646	73,313	54,410	2,268	8,201	3,614	771	2,761	281,679
At 31 December 2011										
Cost	131,900	9,088	224,694	54,410	9,963	11,019	13,228	3,966	6,487	464,755
Accumulated depreciation	(4,205)	(442)	(151,381)	—	(7,695)	(2,818)	(9,614)	(3,195)	(3,726)	(183,076)
Net book amount	127,695	8,646	73,313	54,410	2,268	8,201	3,614	771	2,761	281,679

Notes:

(i) Depreciation of lottery terminals leased to third parties under operating leases of approximately HK$31,287,000 (2010: HK$35,239,000) has been charged in costs of sales and services. Depreciation of approximately HK$255,000 (2010: HK$303,000) has been capitalised in lottery terminals under construction. Depreciation of other items of property, plant and equipment of approximately HK$8,390,000 (2010: HK$6,914,000) has been charged in general and administrative expenses.

(ii) The Group's leasehold land held for own use with a carrying amount of approximately HK$127,695,000 (2010: HK$130,351,000) is held on long-term lease in Hong Kong.

Notes to the Consolidated Financial Statements

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14. PROPERTY, PLANT AND EQUIPMENT *(Cont'd)*

	Company			
	Leasehold improvements HK$'000	Computer equipment and software HK$'000	Office equipment and furniture HK$'000	Total HK$'000
At 1 January 2010				
Cost	260	120	576	956
Accumulated depreciation	(69)	(87)	(415)	(571)
Net book amount	191	33	161	385
Year ended 31 December 2010				
Opening net book amount	191	33	161	385
Depreciation	(52)	(24)	(115)	(191)
Closing net book amount	139	9	46	194
At 31 December 2010				
Cost	260	120	576	956
Accumulated depreciation	(121)	(111)	(530)	(762)
Net book amount	139	9	46	194
Year ended 31 December 2011				
Opening net book amount	**139**	**9**	**46**	**194**
Depreciation	**(52)**	**(7)**	**(37)**	**(96)**
Closing net book amount	**87**	**2**	**9**	**98**
At 31 December 2011				
Cost	**260**	**120**	**576**	**956**
Accumulated depreciation	**(173)**	**(118)**	**(567)**	**(858)**
Net book amount	**87**	**2**	**9**	**98**

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15. INTANGIBLE ASSETS

	Group			
	Goodwill HK$'000	CLO Contract HK$'000	Development costs HK$'000	Total HK$'000
At 1 January 2010				
Cost	1,149,447	60,382	—	1,209,829
Accumulated amortisation and impairment	(854,725)	(24,479)	—	(879,204)
Net book amount	294,722	35,903	—	330,625
Year ended 31 December 2010				
Opening net book amount	294,722	35,903	—	330,625
Additions	—	—	27,447	27,447
Amortisation charge *(Note (i))*	—	(6,528)	—	(6,528)
Closing net book amount	294,722	29,375	27,447	351,544
At 31 December 2010				
Cost	1,149,447	60,382	27,447	1,237,276
Accumulated amortisation and impairment	(854,725)	(31,007)	—	(885,732)
Net book amount	294,722	29,375	27,447	351,544
Year ended 31 December 2011				
Opening net book amount	**294,722**	**29,375**	**27,447**	**351,544**
Exchange difference	**—**	**—**	**793**	**793**
Additions	**—**	**—**	**22,397**	**22,397**
Acquisition of subsidiaries	**27,926**	**—**	**—**	**27,926**
Amortisation charge *(Note (i))*	**—**	**(6,528)**	**—**	**(6,528)**
Closing net book amount	**322,648**	**22,847**	**50,637**	**396,132**
At 31 December 2011				
Cost	**1,177,373**	**60,382**	**50,637**	**1,288,392**
Accumulated amortisation and impairment	**(854,725)**	**(37,535)**	**—**	**(892,260)**
Net book amount	**322,648**	**22,847**	**50,637**	**396,132**

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15. INTANGIBLE ASSETS *(Cont'd)*

Notes:

(i) Amortisation of the CLO Contract of approximately HK$6,528,000 for the year ended 31 December 2011 is included in general and administrative expenses (2010: HK$6,528,000).

(ii) Development costs include all direct costs incurred in the setting up and development of systems and networks. The development costs for systems and networks are not yet implemented for intended use.

(iii) Impairment tests of goodwill

Goodwill is allocated to the Group's cash generating units ("CGU") as follows:

	2011 HK$'000	2010 HK$'000
Provision of video lottery terminals ("VLT")	**95,319**	95,319
Provision of traditional computer lottery system and equipment	**199,403**	199,403
Provision of internet information services	**—**	—
Provision of sales platform for high frequency lottery games	**15,730**	—
Provision of new media sales and marketing platform in telecom value-added business chain	**12,196**	—
	322,648	294,722

The recoverable amounts of the CGU are determined based on a value-in-use calculation.

(a) *Provision of VLT*

The Company through its subsidiary, 東莞天意電子有限公司 ("東莞天意") is principally engaged in the provision of VLT. On 29 June 2005, 東莞天意 entered into a contract ("CLO Contract") with Beijing Lottery Online Technology Co., Ltd. ("CLO"), pursuant to which 東莞天意 provides CLO with VLT on an exclusive basis in the PRC. In consideration for the provision of VLT by 東莞天意, CLO has agreed to pay to 東莞天意 a service fee of 2% (inclusive of a maintenance fee of 0.4%) of the total revenue generated from the VLT sales system of CLO in the PRC. The CLO Contract shall operate for a period of 10 years.

Since February 2008, China Lottery Online video lottery, which is distributed nationally in the PRC, made major adjustments to its game offerings, operating hours, payout ratio, etc. Being the exclusive provider of terminal equipment for China Lottery Online video lottery, the Group's business performance relating to the provision of VLT was adversely affected. An impairment of goodwill of HK$840,000,000 was charged to the consolidated income statement for the year ended 31 December 2008.

After the enhancement measures which lasted about one year and a half, approval was obtained from government regulatory authorities for the launch of four new games from July 2009. The Group's VLT business was recovered strongly after the launch of new games.

The recoverable amount of goodwill allocated to the CGU of provision of VLT at 31 December 2011 has been reassessed and no impairment has been recognised in respect of goodwill for the year ended 31 December 2011 (2010: Nil).

The value-in-use calculation uses pre-tax cash flow projections based on financial budgets approved by management covering the remaining term of the CLO contract of 3 years from the end of the reporting period. The key assumptions used for the cash flow projections include the average number of VLT connected and the daily turnover of each VLT during each of the forecasting periods, which are determined by management based on past performance and its expectation of market development. All cash flows are discounted at a discount rate of 13.17% (2010: 14.65%), which reflects the specific risks relating to this CGU.

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15. INTANGIBLE ASSETS *(Cont'd)*

Notes: (Cont'd)

(iii) Impairment tests of goodwill *(Cont'd)*

(b) Provision of traditional computer lottery system and equipment

The value-in-use calculation uses pre-tax cash flow projections based on financial budgets approved by management covering a 5-year period. The key assumptions used for the cash flow projections include the budgeted turnover and expenses during each of the forecasting periods, which are determined by management based on past performance and its expectation of market development. All cash flows are discounted at a discount rate of 13.17% (2010: 14.65%), which reflects the specific risks relating to this CGU. No impairment loss has been recognised in respect of goodwill for the year ended 31 December 2011 as the recoverable amount exceeded the carrying amount (2010: Nil).

(c) Provision of internet information services

On 10 March 2008, the Group entered into a series of agreements to acquire control of 北京網人互聯科技有限公司 ("網人互聯"). The related goodwill arising from the aforesaid transactions amounted to approximately HK$14,725,000. The recoverable amount of goodwill allocated to the CGU of the provision of internet information services at 31 December 2008 has been reassessed and an impairment of goodwill of HK$14,725,000 was charged to the consolidated income statement.

(d) Provision of sales platform for high frequency lottery games

The value-in-use calculation uses pre-tax cash flow projections based on financial budgets approved by management covering a 5-year period. The key assumptions used for the cash flow projections include the budgeted turnover and expenses during each of the forecasting periods, which are determined by management based on past performance and its expectation of market development. All cash flows are discounted at a discount rate of 13.92%, which reflects the specific risks relating to this CGU. No impairment loss has been recognised in respect of goodwill for the year ended 31 December 2011 as the recoverable amount exceeded the carrying amount.

(e) Provision of new media sales and marketing platform in telecom value-added business chain

The value-in-use calculation uses pre-tax cash flow projections based on financial budgets approved by management covering a 5-year period. The key assumptions used for the cash flow projections include the budgeted turnover and expenses during each of the forecasting periods, which are determined by management based on past performance and its expectation of market development. All cash flows are discounted at a discount rate of 14.56%, which reflects the specific risks relating to this CGU. No impairment loss has been recognised in respect of goodwill for the year ended 31 December 2011 as the recoverable amount exceeded the carrying amount.

(iv) Impairment test of development costs

The recoverable amount of development costs is based on a value-in-use calculation. The value-in-use calculation uses pre-tax cash flow projections approved by management covering a 5-year period. The key assumptions used for the cash flow projections include the budgeted revenue and expenses during each of the forecasting periods, which are determined by management based on past performance and its expectation of market development. All cash flows are discounted at a discount rate of 13.17% (2010: 14.65%). No impairment loss has been recognised in respect of development costs for the year ended 31 December 2011 as the recoverable amount exceeded the carrying amount (2010: Nil).

16. INVESTMENTS IN AND AMOUNTS DUE FROM/TO SUBSIDIARIES

	Company	
	2011 **HK$'000**	2010 HK$'000
Unlisted shares, at cost	**9**	9

The amounts due from/to subsidiaries as shown on the Company's balance sheet are unsecured and repayable on demand. Except for an amount due from a subsidiary of approximately HK$67,232,000 (2010: Nil) which is interest bearing at 7% per annum, the remaining amounts due from/to subsidiaries are interest-free.

Notes to the Consolidated Financial Statements

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16. INVESTMENTS IN AND AMOUNTS DUE FROM/TO SUBSIDIARIES *(Cont'd)*

The following is a list of the principal subsidiaries at 31 December 2011:

Name	Place of incorporation/ establishment, kind of legal entity *(Note (xvii))*	Particulars of issued share capital/ registered capital	Interest held	Principal activities
Held directly:				
China LotSynergy Limited	British Virgin Islands, Limited liability company	United States dollars ("US$")100	100%	Investment holding
Flynn Technology Limited	British Virgin Islands, Limited liability company	US$1,000	100%	Investment holding
Onwealth Holdings Limited	British Virgin Islands, Limited liability company	US$1	100%	Investment holding
Held indirectly:				
Century Worldwide Limited	Hong Kong, Limited liability company	HK$1	75%	Investment holding
Champ Mark Investments Limited ("CMIL")	British Virgin Islands, Limited liability company	3,600 issued shares of no par value	100%	Investment holding
Champ Technology Limited ("CTL")	Hong Kong, Limited liability company	HK$1	100%	Investment holding
China LotSynergy Limited	Hong Kong, Limited liability company	US$500,000	100%	Investment holding and provision of management service
China LotSynergy Asset Management Limited	Hong Kong, Limited liability company	US$2	100%	Treasury management
China LotSynergy Development Limited	Hong Kong, Limited liability company	HK$1	100%	Investment holding
China LotSynergy Group Limited ("CLG")	Hong Kong, Limited liability company	HK$1	100%	Investment holding
Corich International Limited ("Corich")	British Virgin Islands, Limited liability company	US$2,000,000	50% *(Note (xviii))*	Investment holding
East Grand Enterprises Limited	Hong Kong, Limited liability company	HK$1	50% *(Note (xviii))*	Investment holding
Globe Team Limited	Hong Kong, Limited liability company	HK$1	75%	Investment holding
Goldwide Limited	Hong Kong, Limited liability company	HK$1	100%	Investment holding
Lottnal Holdings Limited ("LHL")	Hong Kong, Limited liability company	US$350,000	80%	Investment holding

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For the year ended 31 December 2011

16. INVESTMENTS IN AND AMOUNTS DUE FROM/TO SUBSIDIARIES *(Cont'd)*

Name	Place of incorporation/ establishment, kind of legal entity *(Note (xvii))*	Particulars of issued share capital/ registered capital	Interest held	Principal activities
Held indirectly: (Cont'd)				
Plan Wise Limited	British Virgin Islands, Limited liability company	US$100	75%	Investment holding
Sheen Light Limited	British Virgin Islands, Limited liability company	US$100	75%	Investment holding
Upmax Investments Limited	British Virgin Islands, Limited liability company	US$1	100%	Investment holding
Willstrong Investments Limited	British Virgin Islands, Limited liability company	US$1	80%	Provision of lottery system and equipment
東莞天意 *(Note (i))*	PRC, Wholly foreign owned enterprise	HK$8,000,000	50% *(Note (xviii))*	Provision of VLT
北京靈彩科技有限公司("北京靈彩") *(Note (ii))*	PRC, Wholly foreign owned enterprise	HK$1,200,000	50% *(Note (xviii))*	Research and development of lottery system and equipment in the PRC
廣州洛圖終端技術有限公司 (Guangzhou Lottnal Terminal Company Limited) ("GZL") *(Note (iii))*	PRC, Wholly foreign owned enterprise	RMB10,168,550	80%	Research and development and manufacturing of lottery ticket scanners and terminal equipment in the PRC and overseas
廣州市三環永新科技有限公司 (Guangzhou San Huan Yong Xin Technology Company Limited) ("GZSH") *(Note (iv))*	PRC, Sino-foreign equity joint venture enterprise	RMB10,000,000	80%	Provision of lottery system and equipment in the PRC
華彩之家科技發展（北京）有限公司("華彩之家") *(Note (v))*	PRC, Wholly foreign owned enterprise	HK$10,000,000	75%	Research and development of lottery system and equipment in the PRC
華彩世紀科技發展（北京）有限公司("華彩世紀") *(Note (vi))*	PRC, Wholly foreign owned enterprise	HK$10,000,000	75%	Research and development of lottery system and equipment in the PRC
網人互聯 *(Note (vii))*	PRC, Limited liability company	RMB50,000,000	75%	Provision of internet information services

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16. INVESTMENTS IN AND AMOUNTS DUE FROM/TO SUBSIDIARIES *(Cont'd)*

Name	Place of incorporation/ establishment, kind of legal entity *(Note (xvii))*	Particulars of issued share capital/ registered capital	Interest held	Principal activities
Held indirectly: (Cont'd)				
北京華彩贏通科技有限公司 ("華彩贏通") *(Note (viii))*	PRC, Limited liability company	RMB50,000,000	75%	Research and development of lottery system and equipment in the PRC
北京贏彩通科技有限公司 ("贏彩通") *(Note (ix))*	PRC, Limited liability company	RMB5,000,000	75%	Research and development of lottery system and equipment in the PRC
成都華彩贏通科技有限公司 ("成都華彩") *(Note (x))*	PRC, Limited liability company	RMB1,000,000	75%	Research and development of lottery system and equipment in the PRC
重慶拓扣網絡科技有限公司 *("重慶拓扣") (Note (xi))*	PRC, Limited liability company	RMB1,665,000	52.5%	Research and development and operation of sales platform for high frequency lottery in the PRC
廣州頂尚信息科技有限公司 ("廣州頂尚") *(Note (xii))*	PRC, Limited liability company	RMB10,000,000	52.5%	Provision of new media sales and marketing platform in telecom value-added business china in the PRC
廣州市射頻通訊咨詢有限公司 ("廣州射頻") *(Note (xiii))*	PRC, Limited liability company	RMB1,000,000	52.5%	Provision of new media sales and marketing platform in telecom value-added business china in the PRC
廣州千訊信息科技有限公司 ("廣州千訊") *(Note (xiv))*	PRC, Limited liability company	RMB1,000,000	52.5%	Provision of new media sales and marketing platform in telecom value-added business china in the PRC
廣州市天轅信息科技有限公司 ("廣州天轅") *(Note (xv))*	PRC, Limited liability company	RMB3,000,000	52.5%	Provision of new media sales and marketing platform in telecom value-added business china in the PRC
廣州博富電子科技有限公司 ("廣州博富") *(Note (xvi))*	PRC, Limited liability company	RMB1,000,000	52.5%	Provision of new media sales and marketing platform in telecom value-added business china in the PRC

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

16. INVESTMENTS IN AND AMOUNTS DUE FROM/TO SUBSIDIARIES *(Cont'd)*

Notes:

(i) 東莞天意 is a wholly foreign owned enterprise established in the PRC to be operated for a period of 15 years up to 2018.

(ii) 北京靈彩 is a wholly foreign owned enterprise established in the PRC to be operated for a period of 50 years up to 2057.

(iii) GZL is a wholly foreign owned enterprise established in the PRC to be operated for a period of 20 years up to 2020.

(iv) GZSH is a Sino-foreign equity joint venture established in the PRC to be operated for a period of 20 years up to 2027.

(v) 華彩之家 is a wholly foreign owned enterprise established in the PRC to be operated for a period of 50 years up to 2057.

(vi) 華彩世紀 is a wholly foreign owned enterprise established in the PRC to be operated for a period of 50 years up to 2057.

(vii) 網人互聯 is a limited liability company established in the PRC to be operated for a period of 20 years up to 2023. The equity interest is held by individual nominees on behalf of the Group.

(viii) 華彩贏通 is a limited liability company established in the PRC to be operated for a period of 20 years up to 2028. The equity interest is held by individual nominees on behalf of the Group.

(ix) 贏彩通 is a limited liability company established in the PRC to be operated for a period of 20 years up to 2030. The equity interest is held by individual nominees on behalf of the Group.

(x) 成都華彩 is a limited liability company established in the PRC to be operated for an infinite period. The equity interest is held by individual nominees on behalf of the Group.

(xi) 重慶拓扣 is a limited liability company established in the PRC to be operated for an infinite period. The equity interest is held by individual nominees on behalf of the Group.

(xii) 廣州頂尚 is a limited liability company established in the PRC to be operated for an infinite period. The equity interest is held by individual nominees on behalf of the Group.

(xiii) 廣州射頻 is a limited liability company established in the PRC to be operated for an infinite period. The equity interest is held by individual nominees on behalf of the Group.

(xiv) 廣州千訊 is a limited liability company established in the PRC to be operated for an infinite period. The equity interest is held by individual nominees on behalf of the Group.

(xv) 廣州天轅 is a limited liability company established in the PRC to be operated for an infinite period. The equity interest is held by individual nominees on behalf of the Group.

(xvi) 廣州博富 is a limited liability company established in the PRC to be operated for an infinite period. The equity interest is held by individual nominees on behalf of the Group.

(xvii) The subsidiaries operate principally in their respective places of incorporation/establishment.

(xviii) The Company has the power to control the composition of the respective boards of directors and govern the financial and operating policies of these companies. Accordingly, these companies are considered as subsidiaries.

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

17. INVESTMENTS IN AND AMOUNTS DUE FROM/TO JOINTLY-CONTROLLED ENTITIES

	Group	
	2011	2010
	HK$'000	HK$'000
At 1 January	**108,154**	116,738
Share of losses	**(9,126)**	(12,408)
Exchange difference	**4,711**	3,824
At 31 December	**103,739**	108,154

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17. INVESTMENTS IN AND AMOUNTS DUE FROM/TO JOINTLY-CONTROLLED ENTITIES *(Cont'd)*

Particulars of the jointly-controlled entities of the Group are as follows:

Name	Particulars of issued shares held	Place of incorporation	Interest held	Principal activities
CLS-GTECH Company Limited	15,000,000 ordinary shares of US$0.85633 each	British Virgin Islands	50%	Development of nationwide unified platform for lottery operation in the PRC
IGT Synergy Holding Limited *(Note (i))*	46,254,000 ordinary share of HK$1 each	Cayman Islands	50%	Investment holding
Asiatic Group Limited *(Note (ii))*	1,228,500 ordinary shares of HK$1 each	Cayman Islands	50%	Investment holding

The amounts due from/to the jointly-controlled entities are unsecured, interest-free and repayable on demand.

The following table illustrates the summarised financial information of the Group's jointly-controlled entities as extracted from unaudited management accounts.

	2011 HK$'000	2010 HK$'000
Share of the jointly-controlled entities' assets and liabilities:		
Non-current assets	**27,991**	20,835
Current assets	**77,611**	79,205
Current liabilities	**(15,230)**	(5,253)
Net assets	**90,372**	94,787
Share of the jointly-controlled entities' results:		
Revenue	**2,935**	1,793
Total expenses	**(12,061)**	(14,201)
Results	**(9,126)**	(12,408)

Notes:

(i) At 31 December 2011, the Group was committed to contribute to the capital of IGT Synergy Holding Limited in the amount of approximately US$7,070,000 (equivalent to approximately HK$55,146,000) (2010: US$7,070,000, equivalent to approximately HK$55,146,000).

(ii) At 31 December 2011, the Group was committed to contribute to the capital of Asiatic Group Limited in the amount of approximately US$1,343,000 (equivalent to approximately HK$10,472,000) (2010: US$1,343,000, equivalent to approximately HK$10,472,000).

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18. FINANCIAL INSTRUMENTS BY CATEGORY

	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
2011			
Financial assets as per consolidated balance sheet			
Available-for-sale financial assets	—	28,862	28,862
Accounts receivable	177,160	—	177,160
Deposits and other receivables	42,441	—	42,441
Amounts due from jointly-controlled entities	457	—	457
Amount due from a related company	21,564	—	21,564
Cash and bank balances	648,867	—	648,867
	890,489	28,862	919,351

	Financial liabilities at amortised cost HK$'000	Financial liabilities at fair value through profit or loss HK$'000	Total HK$'000
2011			
Financial liabilities as per consolidated balance sheet			
Accounts payable	12,813	—	12,813
Accruals and other payables	34,329	—	34,329
Amount due to a jointly-controlled entity	4,811	—	4,811
Financial liabilities at fair value through profit or loss	—	9,155	9,155
Convertible note	68,308	—	68,308
Bank borrowings	380,602	—	380,602
	500,863	9,155	510,018

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18. FINANCIAL INSTRUMENTS BY CATEGORY *(Cont'd)*

	Loans and receivables HK$'000	Financial assets at fair value through profit or loss (held for trading) HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
2010				
Financial assets as per consolidated balance sheet				
Available-for-sale financial assets	—	—	68,910	68,910
Accounts receivable	103,042	—	—	103,042
Deposits and other receivables	18,569	—	—	18,569
Amount due from a jointly-controlled entity	411	—	—	411
Amount due from a related company	21,564	—	—	21,564
Financial assets at fair value through profit or loss	—	92,258	—	92,258
Cash and bank balances	347,612	—	—	347,612
	491,198	92,258	68,910	652,366

	Financial liabilities at amortised cost HK$'000
2010	
Financial liabilities as per consolidated balance sheet	
Accounts payable	2,656
Accruals and other payables	9,719
Amount due to a jointly-controlled entity	24,594
Convertible note	145,752
Bank borrowings	105,119
	287,840

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19. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group	
	2011	2010
	HK$'000	HK$'000
At 1 January	**68,910**	49,829
Net (loss)/gain transferred to equity *(Note 32)*	**(9,499)**	19,081
Disposal	**(30,549)**	—
At 31 December	**28,862**	68,910

Available-for-sale financial assets including the following:

	Group	
	2011	2010
	HK$'000	HK$'000
Unlisted equity investment, at fair value	**28,862**	68,910

The fair value of the unlisted equity investment is determined by reference to quoted price from relevant financial institution.

Available-for-sale financial asset is denominated in US$.

20. INVENTORIES

	Group	
	2011	2010
	HK$'000	HK$'000
Raw materials	**17,466**	7,431
Work in progress	**103**	444
Finished goods	**13,813**	12,789
	31,382	20,664
Provision	**(1,475)**	(1,414)
	29,907	19,250

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For the year ended 31 December 2011

21. ACCOUNTS RECEIVABLE

Income from provision of lottery terminals and lottery sale channels is billed on a monthly basis and is due 15 to 30 days after month-end. Income from sales of equipment is billed upon the delivery of products and with credit periods ranging from 30 to 180 days. Income from provision of maintenance services is billed on a monthly or yearly basis and is due 30 days after the invoice date. At 31 December 2011, the ageing analysis of the accounts receivable is as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Less than 3 months	**78,208**	84,839
Over 3 months but less than 1 year	**69,866**	16,312
Over 1 year	**29,086**	1,891
	177,160	103,042

Of the total accounts receivable outstanding at 31 December 2011, total amount of approximately HK$77,739,000 (2010: HK$68,325,000) has been subsequently collected up to the date of approval of these financial statements. None of the Group's accounts receivable at the end of the reporting period were impaired. As of 31 December 2011, accounts receivables of approximately HK$126,439,000 (2010: HK$67,600,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these accounts receivables is as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Less than 3 months	**34,880**	50,240
Over 3 months but less than 1 year	**56,421**	17,073
Over 1 year	**35,138**	287
	126,439	67,600

The carrying amounts of the Group's accounts receivable are denominated in the following currencies:

	Group	
	2011	2010
	HK$'000	HK$'000
HK$	**—**	21
RMB	**177,160**	103,021
	177,160	103,042

The maximum exposure to credit risk at the reporting date is the fair value of accounts receivable. The Group does not hold any collateral as security.

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22. AMOUNT DUE FROM A RELATED COMPANY

The balance represents an amount due from a subsidiary of Burwill Holdings Limited, a company in which Ms. Lau Ting and Mr. Chan Shing, the directors of the Company have beneficial interests. The amount due is unsecured, interest-free and repayable on demand. The maximum amount outstanding during the year was approximately HK$21,564,000 (2010: HK$23,315,000).

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2011	2010
	HK$'000	HK$'000
Unlisted equity investment	**—**	92,258

The fair value of the unlisted equity investment was determined by reference to quoted price from relevant financial institution.

24. CASH AND BANK BALANCES

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at bank and in hand	**263,571**	209,681	**1,143**	264
Short-term bank deposits	**385,296**	137,931	**—**	—
Maximum exposure to credit risk	**648,867**	347,612	**1,143**	264
Less: Short-term bank deposits with maturity more than three months	**(244,444)**	(33,136)	**—**	—
Restricted bank deposits	**(49,383)**	—	**—**	—
Cash and cash equivalents	**355,040**	314,476	**1,143**	264

At 31 December 2011, the Group had cash and bank balances of approximately HK$498,830,000 (2010: HK$221,144,000) which are denominated in RMB. The remittance of these funds out of the PRC is subject to the exchange control restrictions imposed by the PRC government.

At 31 December 2011, short-term bank deposits of approximately HK$244,444,000 (2010: Nil) and restricted bank deposits of approximately HK$49,383,000 (2010: Nil) are pledged to bank to secure bank borrowings and banking facilities granted to the Group.

The bank balances are deposited with creditworthy banks with no recent history of default.

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25. ACCOUNTS PAYABLE

At 31 December 2011, the ageing analysis of the accounts payable is as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Less than 3 months	**12,004**	2,267
Over 3 months but less than 1 year	**649**	360
Over 1 year	**160**	29
	12,813	2,656

The carrying amounts of the Group's accounts payable are denominated in RMB.

26. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2011	2010
	HK$'000	HK$'000
Contingent consideration shares in relation to the acquisition of subsidiaries	**9,155**	—

27. BANK BORROWINGS

	Group	
	2011	2010
	HK$'000	HK$'000
Current		
Portion of term loans from bank due for repayment within 1 year	**298,949**	11,702
Portion of term loans from bank due for repayment after 1 year which contain a repayment on demand clause	**81,653**	93,417
	380,602	105,119

At 31 December 2011, the Group's bank borrowings were due for repayment as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Portion of term loans due for repayment within 1 year	**298,949**	11,702
Term loans due for repayment after 1 year *(Note)*		
After 1 year but within 2 years	**11,800**	11,748
After 2 years but within 5 years	**28,099**	34,948
After 5 years	**41,754**	46,721
	81,653	93,417
	380,602	105,119

Note: The amounts due are based on the scheduled repayment dates set out in the loan agreements and ignore the effect of any repayment on demand clause.

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27. BANK BORROWINGS *(Cont'd)*

The bank borrowings carried interest at rates ranging from 0.99% to 6.56% per annum (2010: 0.99% to 1.63% per annum).

The carrying amounts of bank borrowings are denominated in the following currencies:

	Group	
	2011	2010
	HK$'000	HK$'000
HK$	**93,407**	105,119
US$	**225,467**	—
RMB	**61,728**	—
	380,602	105,119

At 31 December 2011, the bank borrowings and banking facilities were secured by (i) leasehold land and building of the Group amounted to approximately HK$135,475,000 (2010: HK$138,333,000), (ii) standby letter of credit issued by China Construction Bank Corporation Limited, Guangdong Branch for an aggregate amount of US$29,800,000 (2010: Nil), (iii) accounts receivable of approximately HK$152,367,000 (2010: Nil) and (iv) bank deposits amounting to approximately HK$293,827,000 (2010: Nil).

28. CONVERTIBLE NOTE

	Group and Company	
	2011	2010
	HK$'000	HK$'000
Principal amount of convertible note issued (net of issue costs)	**71,250**	166,250
Equity component (net of issue costs)	**(13,977)**	(25,614)
Liability component on initial recognition (net of issue costs)	**57,273**	140,636
Imputed interest	**11,035**	5,116
Liability component	**68,308**	145,752
Analysis for reporting purpose as:		
Current liabilities	**68,308**	86,272
Non-current liabilities	**—**	59,480
	68,308	145,752

The movement of liability component of the convertible note for the year is set out below:

	2011	2010
	HK$'000	HK$'000
At 1 January	**145,752**	588,780
Issued during the year	**—**	140,636
Interest charge	**17,556**	25,864
Redeemed during the year	**(95,000)**	(609,528)
At 31 December	**68,308**	145,752

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28. CONVERTIBLE NOTE *(Cont'd)*

Note:

On 31 May 2007, the Company issued an unsecured 8-year maturity zero coupon convertible note with principal amount of HK$550,000,000. The note is convertible into ordinary shares of HK$0.0025 each (adjusted after share subdivision took place in 2007) of the Company at an initial conversion price of HK$0.955 per ordinary share (adjusted after share subdivision took place in 2007) (subject to adjustment) on any business day during the period on and after 31 May 2010 up to 16 May 2015. The note is redeemable by the Company on or at any time after 31 May 2012 and prior to 31 May 2015 at a gross yield of 4% per annum to the noteholder, calculated on a semiannual basis. Moreover, the noteholder may require the Company to redeem all or some of the note held by the noteholder on 31 May 2012 at 121.89944% of the principal amount. Unless previously converted, purchased or cancelled in accordance with the conditions of the note, the Company shall redeem the note on the maturity date on 31 May 2015 at 137.27857% of the principal amount.

The convertible note contains four components comprising early redemption option held by the Company, redemption option held by the noteholder, liability component and equity conversion component. The liability component is unsecured and stated at amortised cost with an effective interest rate of 4.7% per annum. The equity conversion component of the convertible note is included in reserves as "convertible note equity reserve".

The fair values of embedded derivative financial instruments in respect of early redemption option held by the Company and redemption option held by a noteholder at inception and at the end of each reporting period are determined based on independent professional valuations which incorporate an option pricing model.

On 20 September 2010, the Company and the noteholder entered into a supplemental deed ("Supplemental Deed") to amend certain terms and conditions of the convertible note. Pursuant to the Supplemental Deed, the Company has the right to redeem all and not some of the convertible note including all accrued interest at any time prior to the maturity date of the convertible note at the redemption price of HK$475,000,000. On 27 September 2010, the Company redeemed the convertible note by way of making a cash payment of HK$308,750,000 and issue of a new zero coupon convertible note ("New Convertible Note") with a principal amount of HK$166,250,000 to the noteholder.

The New Convertible Note is convertible into ordinary shares of HK$0.0025 each of the Company at an initial conversion price of HK$0.955 per ordinary share (subject to adjustment) on any business day during the period commencing on the date of issue of the New Convertible Note until the close of business on the 15th day prior to 12 May 2012 ("Maturity Date"). If the New Convertible Note has not been converted, the Company shall redeem the New Convertible Note on the first business day falling on or after the first anniversary of the date of the New Convertible Note at HK$95,000,000 and on Maturity Date at HK$71,250,000.

The New Convertible Note contains two components, liability and equity elements. The equity element is presented in equity heading "convertible note equity reserve". The effective interest rate of the liability component is 14% per annum.

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29. DEFERRED INCOME TAX

The gross movement on the deferred income tax account is as follows:

Deferred tax liabilities:

	Group						Company
	Intangible assets HK$'000	Convertible note HK$'000	Fair value gain on property HK$'000	Accelerated tax depreciation HK$'000	Withholding tax on dividend income HK$'000	Total HK$'000	Convertible note HK$'000
At 1 January 2010	8,160	3,381	5,666	—	—	17,207	3,381
Charged directly to equity	—	1,245	—	—	—	1,245	1,245
Credited to the income statement	(612)	(1,244)	(3,300)	(28)	—	(5,184)	(1,244)
Transfer	—	—	(2,366)	2,366	—	—	—
At 31 December 2010	7,548	3,382	—	2,338	—	13,268	3,382
(Credited)/charged to the income statement	(1,020)	(2,896)	—	(48)	5,168	1,204	(2,896)
At 31 December 2011	6,528	486	—	2,290	5,168	14,472	486

Deferred tax assets:

	Group		
	Decelerated tax depreciation HK$'000	Tax losses HK$'000	Total HK$'000
At 1 January 2010	803	—	803
Charged to the income statement	(643)	—	(643)
Exchange differences	20	—	20
At 31 December 2010	180	—	180
(Charged)/credited to the income statement	(86)	4,522	4,436
Exchange differences	6	—	6
At 31 December 2011	100	4,522	4,622

At 31 December 2011, deferred tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax asset in respect of tax losses amounting to HK$87,391,000 (2010: HK$11,879,000) that can be carried forward to offset against future taxable profits.

At 31 December 2011, deferred tax liabilities has not been recognised in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to approximately HK$462,290,000 (2010: HK$194,885,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

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For the year ended 31 December 2011

30. SHARE CAPITAL

	Authorised ordinary shares	
	Number of shares	HK$'000
At 1 January 2010, 31 December 2010 and 31 December 2011	16,000,000,000	40,000

	Issued and fully paid ordinary shares	
	Number of shares	HK$'000
At 1 January 2010 and 31 December 2010	7,402,164,000	18,505
Share options exercised *(Note)*	9,800,000	25
At 31 December 2011	7,411,964,000	18,530

Note: Share options were exercised by optionholders during the year ended 31 December 2011 to subscribe for a total of 9,800,000 shares of HK$0.0025 each by payment of subscription monies of approximately HK$2,278,000, of which approximately HK$25,000 was credited to share capital and the balance of approximately HK$2,253,000 was credited to the share premium account.

31. SHARE OPTION SCHEME

At the annual general meeting of the Company held on 30 July 2002, the shareholders of the Company approved the adoption of a share option scheme (the "Option Scheme") in compliance with the amended Chapter 23 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

Under the Option Scheme, the Company may grant options to employees (including executive directors) of the Group and other participants to subscribe for shares in the Company, subject to a maximum of 30% of the issued share capital of the Company from time to time excluding for this purpose shares issued on exercise of options. The subscription price will be determined by the Board and will not be less than the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheets on the date of the grant of the option, which must be a business day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of the grant of the option; and (iii) the nominal value of the shares. A nominal consideration at HK$1 is payable for each grant. Share options can be exercised within a period of not exceeding 10 years commencing on the date of grant or such later date as the Board may determine and expiring on the last day of the period.

Notes to the Consolidated Financial Statements

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31. SHARE OPTION SCHEME *(Cont'd)*

Movements in number of share options outstanding and their related weighted average exercise prices are as follows:

	2011 Average exercise price (HK$ per share)	2011 Options (thousands)	2010 Average exercise price (HK$ per share)	2010 Options (thousands)
At 1 January	**0.53**	**371,800**	0.53	376,300
Granted	**0.24**	**487,700**	—	—
Cancelled	**0.82**	**(81,700)**	0.50	(4,500)
Exercised	**0.23**	**(9,800)**	—	—
Expired	**0.30**	**(61,300)**	—	—
At 31 December	**0.32**	**706,700**	0.53	371,800

Out of the 706,700,000 (2010: 371,800,000) outstanding options, 678,850,000 options (2010: 305,050,000) were exercisable. Options exercised in 2011 resulted in 9,800,000 (2010: Nil) shares being issued at a weighted average price of HK$0.23 each (2010: Nil). The related weighted average share price at the time of exercise was HK$0.265 (2010: Nil) per share.

Share options outstanding at the end of the year have the following expiry date and exercise prices:

Expiry date	Exercise price (HK$ per share)	Options (thousands) 2011	Options (thousands) 2010
7 June 2011	0.305	—	62,600
17 September 2011	0.904	—	6,000
31 December 2011	0.445	—	8,000
31 December 2011	0.920	**3,000**	3,000
31 December 2011	0.960	**2,000**	26,000
3 July 2012	0.975	**800**	800
11 September 2012	0.500	**18,000**	18,000
17 September 2012	0.960	—	24,000
3 December 2012	0.500	**15,000**	15,000
10 March 2013	0.500	**2,400**	2,400
12 May 2013	0.216	**183,200**	—
29 May 2013	0.250	**296,000**	—
16 August 2013	0.500	**1,600**	1,600
24 August 2013	0.500	**18,200**	26,200
31 December 2013	0.975	**800**	5,600
1 May 2014	0.775	**12,000**	12,000
16 August 2014	0.500	**82,000**	82,000
31 August 2014	0.500	**26,500**	33,400
14 June 2015	0.500	**10,000**	10,000
29 June 2016	0.285	**35,200**	35,200
		706,700	371,800

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

31. SHARE OPTION SCHEME *(Cont'd)*

The vesting period of the options is from the date of the grant until the commencement of the exercisable period.

The fair value of the options granted during the year ended 31 December 2011 was estimated as at the date of grant using the Binominal Options pricing model with the following assumptions:

(i) Risk-free interest rate — the yield of 0.5 year Exchange Fund Notes;

(ii) Expected volatility of share price — annualised standard deviations of continuously compounded rates of return on the Company. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome;

(iii) Expected life of share options — 0.5 year;

(iv) Expected dividend yield — 2%; and

(v) No other feature of the options granted was incorporated into the measurement of fair value.

According to Binominal Options pricing model, the fair value of the options granted during the year ended 31 December 2011 was approximately HK$16,838,000 (2010: Nil) of which the Group recognised a share option expense of approximately HK$16,838,000 (2010: Nil) for the year ended 31 December 2011.

At 31 December 2011, the Company had 706,700,000 (2010: 371,800,000) options outstanding under the Option Scheme. The exercise in full of the remaining options would, under the present capital structure of the Company, result in the issuance of 706,700,000 (2010: 371,800,000) additional ordinary shares of the Company and additional share capital of approximately HK$1,767,000 (2010: HK$930,000) and share premium of approximately HK$224,226,000 (2010: HK$197,780,000) (before issue expenses).

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32. RESERVES

	Group							
	Share premium HK$'000	Convertible note HK$'000	Capital reserve HK$'000 *(Note (b))*	Currency translation reserve HK$'000	Share-based compensation reserve HK$'000	Revaluation reserve HK$'000	Available-for-sale investments HK$'000	Total HK$'000
Balance at 1 January 2010	1,546,166	20,080	15,158	31,317	46,696	11,974	3,029	1,674,420
Share option scheme:								
— value of employee services	—	—	—	—	9,442	—	—	9,442
— value of other participants' services	—	—	—	—	78	—	—	78
— vested share options cancelled	—	—	—	—	(32)	—	—	(32)
Release of convertible note equity reserve upon redemption of convertible note	—	(20,080)	—	—	—	—	—	(20,080)
Recognition of equity component of convertible note	—	25,614	—	—	—	—	—	25,614
Deferred tax liability on recognition of equity component of convertible note	—	(4,226)	—	—	—	—	—	(4,226)
Release of revaluation reserve upon depreciation of leasehold land and building	—	—	—	—	—	(140)	—	(140)
Fair value gain on available-for-sale financial assets *(Note 19)*	—	—	—	—	—	—	19,081	19,081
Currency translation differences								
— overseas subsidiaries	—	—	—	6,425	—	—	—	6,425
— overseas jointly-controlled entities	—	—	—	3,824	—	—	—	3,824
Balance at 31 December 2010	1,546,166	21,388	15,158	41,566	56,184	11,834	22,110	1,714,406
Reduction of share premium *(Note (d))*	(813,537)	—	—	—	—	—	—	(813,537)
Share option scheme:								
— value of employee services	—	—	—	—	6,381	—	—	6,381
— value of other participants' services	—	—	—	—	13,369	—	—	13,369
— share options exercised	2,855	—	—	—	(602)	—	—	2,253
— vested share options cancelled and lapsed	—	—	—	—	(28,872)	—	—	(28,872)
Release of convertible note equity reserve upon redemption of convertible note at maturity	—	(9,718)	—	—	—	—	—	(9,718)
Release of revaluation reserve upon depreciation of leasehold land and building	—	—	—	—	—	(181)	—	(181)
Fair value loss on available-for-sale financial assets *(Note 19)*	—	—	—	—	—	—	(9,499)	(9,499)
Reclassification adjustment on disposal of available-for-sale financial assets	—	—	—	—	—	—	(7,149)	(7,149)
Currency translation differences								
— overseas subsidiaries	—	—	—	5,314	—	—	—	5,314
— overseas jointly-controlled entities	—	—	—	4,711	—	—	—	4,711
Balance at 31 December 2011	735,484	11,670	15,158	51,591	46,460	11,653	5,462	877,478

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

32. RESERVES *(Cont'd)*

	Company				
	Share premium HK$'000	Convertible note HK$'000	Contributed surplus HK$'000 *(Note (c))*	Share-based compensation reserve HK$'000	Total HK$'000
Balance at 1 January 2010	1,546,166	20,080	16,209	46,696	1,629,151
Share option scheme:					
— value of employee services	—	—	—	9,442	9,442
— value of other participants' services	—	—	—	78	78
— vested share options cancelled	—	—	—	(32)	(32)
Release of convertible note equity reserve upon redemption of convertible note	—	(20,080)	—	—	(20,080)
Recognition of equity component of convertible note	—	25,614	—	—	25,614
Deferred tax liability on recognition of equity component of convertible note	—	(4,226)	—	—	(4,226)
Balance at 31 December 2010	1,546,166	21,388	16,209	56,184	1,639,947
Reduction of share premium *(Note (d))*	(813,537)	—	—	—	(813,537)
Share option scheme:					
— value of employee services	—	—	—	6,381	6,381
— value of other participants' services	—	—	—	13,369	13,369
— share options exercised	2,855	—	—	(602)	2,253
— vested share options cancelled and lapsed	—	—	—	(28,872)	(28,872)
Release of convertible note equity reserve upon redemption of convertible note at maturity	—	(9,718)	—	—	(9,718)
Balance at 31 December 2011	735,484	11,670	16,209	46,460	809,823

Notes:

(a) On 6 September 2001, the Company became the holding company of the other companies comprising the Group pursuant to a group reorganisation (the "Reorganisation") at the time of listing of the Company's shares on GEM.

(b) Capital reserve represents the difference between the nominal value of the ordinary shares issued by the Company and the share capital of a subsidiary acquired through an exchange of shares pursuant to the Reorganisation.

(c) Contributed surplus represents the difference between the nominal value of the ordinary shares issued by the Company and the net asset value of a subsidiary acquired through an exchange of shares pursuant to the Reorganisation.

(d) At the annual general meeting of the Company held on 26 May 2011, a special resolution approving the reduction of share premium account of the Company by approximately HK$813,537,000 from approximately HK$1,546,166,000 to approximately HK$732,629,000, and the application of such sum to eliminate the accumulated losses of the Company of approximately HK$813,537,000 at 31 December 2010, was passed by the shareholders and the reduction of share premium took effect on 26 May 2011 accordingly.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

33. RETAINED PROFIT/(ACCUMULATED LOSSES)

	Company	
	2011	2010
	HK$'000	HK$'000
At 1 January	**(813,537)**	(800,163)
Reduction of share premium	**813,537**	—
Release of convertible note equity reserve upon redemption of convertible note	**9,718**	(98,785)
Vested share options cancelled and lapsed	**28,872**	32
(Loss)/profit for the year	**(34,645)**	85,379
At 31 December	**3,945**	(813,537)

34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOW

Reconciliation of profit before income tax to cash generated from operations:

	2011	2010
	HK$'000	HK$'000
Cash flows from operating activities		
Profit before income tax	**267,006**	250,221
Adjustments for:		
Depreciation	**39,677**	42,153
Gain on redemption of convertible note	**—**	(171,947)
Amortisation of intangible assets	**6,528**	6,528
Loss/(gain) on disposal of property, plant and equipment	**358**	(367)
Share option expenses	**19,750**	9,520
Fair value gain on financial assets at fair value through profit or loss	**(404)**	(13,517)
Fair value gain on financial liabilities at fair value through profit or loss	**(2,360)**	—
Reclassification adjustment on disposal of available-for-sale financial assets	**(7,149)**	—
Interest income from bank deposits	**(4,454)**	(2,325)
Finance costs	**19,495**	26,557
Share of losses of jointly-controlled entities	**9,126**	12,408
Operating cash flows before changes in working capital	**347,573**	159,231
Changes in working capital:		
— Prepaid rentals	**827**	961
— Inventories	**(9,617)**	(1,494)
— Accounts receivable	**(55,426)**	(76,601)
— Prepayments, deposits and other receivables	**(34,881)**	1,855
— Amount due from a related company	**—**	49
— Financial assets at fair value through profit or loss	**92,662**	—
— Accounts payable	**9,830**	(11,782)
— Accruals and other payables	**7,387**	(1,864)
— Amount due to a jointly-controlled entity	**(19,783)**	(1,581)
	(9,001)	(90,457)
Cash generated from operation	**338,572**	68,774

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

35. OPERATING LEASE COMMITMENTS

At 31 December 2011, the Group had aggregate future minimum lease payments under non-cancellable operating leases in respect of rented premises as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
No later than 1 year	**9,765**	4,620
Later than 1 year and no later than 5 years	**11,006**	407
	20,771	5,027

The Company did not have significant operating lease commitments at 31 December 2011 (2010: Nil).

36. EMPLOYEE RETIREMENT BENEFITS

The Group has arranged for its Hong Kong employees to participate in a defined contribution retirement scheme (the "Original Scheme"), which is managed by independently administered funds. The Group's monthly contributions are based on 5% of employees' monthly salaries. The employees are entitled to receive 100% of the Group's contribution and the accrued interest thereon upon retirement or leaving the Group after completing ten years of service or at a reduced scale of 30% to 90% after completing three to nine years of services.

For the Group's Hong Kong employees employed after 1 December 2000, the Group has arranged for these employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, each of the Group and its employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation, subject to a maximum of HK$1,000 per month per employee.

As stipulated by rules and regulations in the PRC, the Group contributes to state-sponsored retirement plans for its employees in the PRC. The Group contributes to the retirement plans at rates ranging from approximately 8% to 19% of the basic salaries of its employees, and has no further obligations for the actual payment of pensions or post-retirement benefits. The state-sponsored retirement plans are responsible for the entire pension obligations payable to retired employees.

During the year, the aggregate amount of the Group's contributions to the aforementioned schemes was approximately HK$577,000 (2010: HK$957,000), with no (2010: Nil) deduction of forfeited contributions. At 31 December 2011, there was no material forfeited contribution available to reduce the Group's employer contribution payable in future periods.

The Group had no contribution payable at 31 December 2011 (2010: HK$80,000).

Notes to the Consolidated Financial Statements

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37. BUSINESS COMBINATIONS

(a) On 13 April 2011, the Group acquired 70% of the equity interests in 重慶拓扣 for a consideration of RMB21,000,000 (subject to adjustments). 重慶拓扣 is a lottery sales service provider engaged in the research and development and operation of a sales platform for high frequency lottery games in China. As a result of the acquisition, the Group is expected to strengthen its status in the space of lottery sales via new channels. The goodwill of HK$15,730,000 arising from the acquisition is attributable to the anticipated profitability and future development of 重慶拓扣 in the operation of a sales platform for high frequency lottery games and the anticipated future operating synergy form the business combination.

The following table summarises the consideration paid for 重慶拓扣, the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date.

	HK$'000
Consideration	
At 13 April 2011	
— Cash	13,079
— Contingent consideration shares	7,179
Total consideration transferred	20,258
Recognised amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment *(Note 14)*	154
Accounts receivables	1,145
Prepayments, deposits and other receivables	2,137
Cash and bank balances	4,259
Accruals and other payables	(743)
Income tax payable	(484)
Total identifiable net assets	6,468
Non-controlling interest	(1,940)
Goodwill *(Note 15)*	15,730
	20,258
Net cash outflow on acquisition of 重慶拓扣	
Cash consideration paid	(13,079)
Cash and cash equivalents acquired	4,259
	(8,820)

Notes to the Consolidated Financial Statements

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37. BUSINESS COMBINATIONS *(Cont'd)*

(a) *(Cont'd)*

Acquisition-related costs of HK$25,000 have been charged to general and administrative expenses in the consolidated income statement for the year ended 31 December 2011.

As part of the equity interests transfer agreement, contingent consideration is payable, which is dependent on the amount of profit after tax of 重慶拓扣 for the year ended 31 December 2011. The consideration is to be satisfied by the allotment and issue of up to 27,612,666 ordinary shares of the Company with par value of HK$0.0025 each in total at an issue price of HK$0.45 each.

The fair value of the contingent consideration shares was based on the published price available at the date of acquisition amounted to HK$0.26.

As at 31 December 2011, there was an increase of approximately HK$3,617,000 recognised in the income statement for the contingent consideration arrangement.

The fair value and gross contractual amounts of accounts receivable and other receivables as at the date of acquisition amounted to HK$1,145,000 and HK$2,043,000, respectively.

The revenue included in the consolidated income statement since 13 April 2011 contributed by 重慶拓扣 was approximately HK$9,827,000. 重慶拓扣 also contributed profit of approximately HK$5,162,000 over the same period.

Had 重慶拓扣 been consolidated from 1 January 2011, the consolidated income statement would show revenue of approximately HK$530,373,000 and profit of approximately HK$219,501,000.

(b) On 7 December 2011, the Group acquired 70% of the equity interests in 廣州頂尚 and its subsidiaries ("Guangzhou Dingshang Group") for a consideration of RMB28,000,000 (subject to adjustments). Guangzhou Dingshang Group is a group of innovative technology companies engaged in mobile internet value-added business and dedicated to provide premium services to their customers. It offers a wide variety of content and services covering new, entertainment, finance, streaming media and online games through its own products and platform. As a result of the acquisition, the Group is expected to strengthen its capabilities in technical service provision and product marketing. The goodwill of HK$12,196,000 arising from the acquisition is attributable to the anticipated profitability and future development of Guangzhou Dingshang Group in the operation of sales and marketing platform in the telecom value-added business chain and the anticipated future operating synergy form the business combination.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

37. BUSINESS COMBINATIONS *(Cont'd)*

(b) *(Cont'd)*

The following table summarises the consideration paid for Guangzhou Dingshang Group, the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date.

	HK$'000
Consideration	
At 7 December 2011	
— Cash	14,868
— Contingent consideration shares	4,336
Total consideration transferred	19,204
Recognised amounts of identifiable assets acquired and liabilities assumed	
Accounts receivables	11,630
Prepayments, deposits and other receivables	1,946
Cash and bank balances	1,857
Accruals and other payables	(5,195)
Income tax payable	(226)
Total identifiable net assets	10,012
Non-controlling interest	(3,004)
Goodwill *(Note 15)*	12,196
	19,204
Net cash inflow on acquisition of Guangzhou Dingshang Group	
Cash consideration paid	—
Cash and cash equivalents acquired	1,857
	1,857

Acquisition-related costs of HK$25,000 have been charged to general and administrative expenses in the consolidated income statement for the year ended 31 December 2011.

As part of the equity interests transfer agreement, contingent consideration is payable, which is dependent on the amount of profit before tax of Guangzhou Dingshang Group for the years ended 31 December 2011 and 2012. The consideration is to be satisfied by the allotment and issue of up to 43,360,000 ordinary shares of the Company with par value of HK$0.0025 each in total at an issue price of HK$0.45 each.

The fair value of the contingent consideration shares was based on the published price available at the date of acquisition amounted to HK$0.1.

As at 31 December 2011, there was a decrease of approximately HK$1,257,000 recognised in the income statement for the contingent consideration arrangement.

Notes to the Consolidated Financial Statements

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37. BUSINESS COMBINATIONS *(Cont'd)*

(b) *(Cont'd)*

The fair value and gross contractual amounts of accounts receivable and other receivables as at the date of acquisition amounted to HK$11,630,000 and HK$1,920,000, respectively.

The revenue included in the consolidated income statement since 7 December 2011 contributed by Guangzhou Dingshang Group was approximately HK$5,705,000. Guangzhou Dingshang Group also contributed profit of approximately HK$635,000 over the same period.

Had Guangzhou Dingshang Group been consolidated from 1 January 2011, the consolidated income statement would show revenue of approximately HK$565,118,000 and profit of approximately HK$225,952,000.

38. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in these financial statements, the Group had the following material related party transactions for the year ended 31 December 2011:

Nature of transactions	2011 HK$'000	2010 HK$'000
Rental income from a related company *(Note)*	—	256
Sales of equipment to a jointly-controlled entity	15,627	1,611

Note: The related company is a subsidiary of Burwill Holdings Limited, a company in which Ms. Lau Ting and Mr. Chan Shing, the directors of the Company have beneficial interests.

At 31 December 2011 and 2010, the Company has provided an unlimited guarantee to secure bank loans granted to a subsidiary. In the opinion of the directors, no material liabilities will arise from the above guarantee which arose in the ordinary course of business and the fair value of the guarantee granted by the Company is immaterial.

39. EVENT AFTER THE REPORTING PERIOD

On 5 March 2012, Wide Perfect Limited ("Wide Perfect"), a wholly owned subsidiary of the Company, entered into an agreement with third parties for an assignment of a property located in Hong Kong. The consideration for the acquisition of the property to be paid by Wide Perfect is HK$42,464,000.