China LotSynergy

Annual Report 2006

China LotSynergy Holdings Limited
華彩控股有限公司
(Incorporated in Bermuda with limited liability)
Stock code: 8161

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This report, for which the directors (the "Directors") of China LotSynergy Holdings Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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CORPORATE INFORMATION

DIRECTORS

LAU Ting, *Chairman*
SUN Ho, *Deputy Chairman*
HOONG Cheong Thard, *Deputy Chairman*
WANG Taoguang, *Executive Director*
CHEN Aizheng, *Executive Director*
NG Man Fai, Matthew, *Executive Director*
HUANG Shenglan, *Independent Non-Executive Director*
CHAN Ming Fai, *Independent Non-Executive Director*
LI Xiaojun, *Independent Non-Executive Director*

CHIEF EXECUTIVE OFFICER

HOONG Cheong Thard

COMPANY SECRETARY

NG Lai Ping, Grace

QUALIFIED ACCOUNTANT

TAN Yung Kai, Richard

COMPLIANCE OFFICER

NG Man Fai, Matthew

AUTHORISED REPRESENTATIVES

NG Man Fai, Matthew
NG Lai Ping, Grace

AUDIT COMMITTEE

HUANG Shenglan
CHAN Ming Fai
LI Xiaojun

REMUNERATION COMMITTEE

HUANG Shenglan
CHAN Ming Fai
HOONG Cheong Thard

AUDITORS

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

LEGAL ADVISERS

Appleby Hunter Bailhache
Baker & McKenzie
Haiwen & Partners

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 3206, 32nd Floor
Office Tower
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1 Harbour Road
Wanchai, Hong Kong
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WEBSITE

www.chinalotsynergy.com

PRINCIPAL SHARE REGISTRARS

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

BRANCH SHARE REGISTRARS IN HONG KONG

Computershare Hong Kong Investor Services Limited
Shop Nos. 1712-1716, 17th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Standard Chartered Bank (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited
Deutshce Bank

FINANCIAL SUMMARY

A Summary of results and the assets and liabilities of China LotSynergy Holdings Limited and its subsidiaries (collectively the "Group") are as follows:–

RESULTS

	Year ended 31 December 2006 HK$'000	Nine-month Period ended 31 December 2005 HK$'000	Year ended 31 March 2005 HK$'000 As restated	Year ended 31 March 2004 HK$'000	Year ended 31 March 2003 HK$'000
Continuing operations:					
Turnover	**71,345**	–	–	1,022	3,257
Profit/(Loss) before income tax	**12,035**	(42,402)	(6,291)	(9,047)	(14,023)
Income tax	**(186)**	179	–	1,500	(1,358)
Profit/(Loss) for the year/period from continuing operations	**11,849**	(42,223)	(6,291)	(7,547)	(15,381)
Discontinued operations:					
Profit/(Loss) for the year/period from discontinued operations	**(14,748)**	(36)	(6,099)	4,342	5,500
Loss for the year/period	**(2,899)**	(42,259)	(12,390)	(3,205)	(9,881)
Attributable to:					
Equity holders of the Company	**(29,188)**	(42,146)	(11,680)	(3,206)	(6,842)
Minority interests	**26,289**	(113)	(710)	1	(3,039)
	(2,899)	(42,259)	(12,390)	(3,205)	(9,881)

FINANCIAL SUMMARY

ASSETS AND LIABILITIES

	As at 31 December		As at 31 March		
	2006	2005	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Non-current assets	**1,108,312**	4,626	3,059	3,604	6,736
Current assets	**388,292**	308,416	44,135	57,037	59,476
Total assets	**1,496,604**	313,042	47,194	60,641	66,212
Current liabilities	**(51,468)**	(7,928)	(1,993)	(3,614)	(6,461)
Non-current liabilities	**(9,400)**	–	(179)	(179)	(179)
Net assets	**1,435,736**	305,114	45,022	56,848	59,572
Capital and reserves:					
Share Capital	**17,726**	14,300	10,000	10,000	10,000
Reserves	**1,414,346**	332,757	35,024	34,742	34,490
Accumulated losses	**(87,346)**	(58,505)	(16,359)	(4,679)	(1,473)
Capital and reserves attributable to equity holders of the Company	**1,344,726**	288,552	28,665	40,063	43,017
Minority interests	**91,010**	16,562	16,357	16,785	16,555
Total equity	**1,435,736**	305,114	45,022	56,848	59,572

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

The Group is principally engaged in investment, project development, provision of technologies and equipment, as well as consultancy services in public welfare lottery business and related sectors.

Business Review

2006 marked the first year in which the Group completed its business transformation and commenced its operations in public welfare lottery business in China. During the year, the Group built up its operational infrastructure, terminated its metal business and realigned its resources to focus on the lottery related business. The Group recorded a turnover of approximately HK$71.3 million during its eight months' operations following the completion of the acquisition of its VLT ("Video Lottery Terminal") equipment manufacturing operations, with the fourth quarter's turnover representing a 43% growth over that of the previous quarter. Excluding the value of share options expensed, amortization of intangibles and the loss for the discontinued businesses, the Group recorded profit attributable to equity holders of the Company of approximately HK$11.8 million.

The Group completed its acquisition of 50% interest in Corich International Limited ("Corich") in April 2006 and had the control of the board of directors of Corich. Following the completion of the acquisition, Dongguan Corich Electronic Co., Ltd. ("Dongguan Corich"), a wholly-owned subsidiary of Corich, established a new production plant and a research and development centre. The principal operations of Dongguan Corich are the research, development, production, and supply of VLTs. It is an exclusive sole supplier of VLTs for the CLO halls ("「中福在線」銷售大廳") on a nationwide basis for a period of ten years.

The Group's VLT business has benefited from the rapid development of CLO ("「中福在線」") VLT operations across China. VLT operations have become the new growth engine for public welfare lottery sales following the completion of successful nationwide trial run. Total VLT sales amounted to RMB4,551 million in 2006, representing an almost sevenfold increase over 2005's total sales of RMB675 million, and accounted for approximately 9.2% of the national welfare lottery sales of approximately RMB49,567 million in 2006 (approximately 1.6% in 2005). As at the end of 2006, there were approximately 10,700 connected VLT terminals operating in 455 CLO halls in 257 municipal cities and 28 provincial cities throughout the country. Weekly national VLT sales increased from RMB44.2 million in the first week of 2006 to more than RMB163.2 million in the last week of the year. Average daily sales per connected VLT terminal increased 53% from RMB1,416 to RMB2,168 over the same period.

The Group's research and development centre initiated and completed the research and development work on a new generation of VLT terminals and this new product is expected to be launched in mid-2007. The second-generation VLT incorporates liquid crystal display touch-screen and user-friendly features, and is modern looking, meeting international standards for similar products.

Tabcorp International Hong Kong Limited ("TIHK"), a joint venture between the Group and Tabcorp Holdings Limited of Australia, continued to make progress in the KENO project in the PRC in 2006. Trial run of KENO system in CLO halls throughout the country is almost completed. In preparation for the nationwide roll out of KENO in commercial outlets and leisure and other entertainment centres, TIHK is currently working closely with China Welfare Lottery Issuance Center ("CWLC") in finalising the roll out implementation plan. The national roll out is expected to commence in the second quarter of 2007 and will initially focus on a number of coastal and economically developed provinces.

The Group is establishing a joint venture with Octavian International Limited and signed an agreement on 29 June 2006 to form Aceteam Investment Limited ("AIL"). There is no business operation within AIL at present. The company is currently exploring opportunities in equipment and technical support in the lottery and gaming segment in the Asian market.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK *(Cont'd)*

Business Outlook

Welfare lottery is a fast developing national business directed by the PRC authorities with the mission to help those in poverty, support disaster relief, and to provide welfare support to the public ("扶貧、救災、濟困、助孤"). Welfare lottery had contributed over RMB73,000 million to social security and welfare funds in its twenty years of operation since its launch in 1987 and had contributed significantly to the development of China welfare business. In 2006, total sales from welfare lottery amounted to approximately RMB49,567 million, and raised approximately RMB17,351 million in welfare funds.

In recent years, the Central Government has stated its desire to create a harmonious society. The country will continue to require a healthy growth of public welfare lottery to provide important contribution to support the welfare need of many people in China. The Group believes that high frequency games operated under the CLO ("「中福在線」") brand name as new welfare lottery product, will continue to grow rapidly in the future under the strict supervision of the Ministry of Finance and the Ministry of Civil Affairs. Together with the determination of the Chinese government to clamp down on illegal gambling, there are significant growth opportunities in China's welfare lottery business.

The Group expects that there will be substantial growth in its VLT business in 2007 and sales of KENO will also gain momentum following the national roll out in the second quarter of 2007. The Group is optimistic of the prospects of its businesses overall.

The Group will continue to focus on lottery-related businesses in China and will seek to explore new business opportunities within the segment. The Group is continuing the build-up of its technical team, closely monitoring any good acquisition targets and will add internal resources as appropriate for organic expansion. The Group will continue to make relevant investment to strengthen its infrastructure to support the development of lottery related business with the aim to provide long term and stable returns to our shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The discussion and analysis below is intended to enhance the reader's understanding of our business and operations. This is provided as a supplement to and should be read in conjunction with the consolidated financial statements set out in this annual report.

Selected Financial Information

	As at and for the year ended 31 December 2006 HK$'m	
Turnover		**71.3**
Cost of services:		
Business tax	**(3.6)**	
VLT depreciation	**(5.4)**	
Others	**(2.0)**	
		(11.0)
Gross profit		**60.3**
VLT business overheads		**(2.7)**
Contribution from VLT business		**57.6**
Corporate overheads:		
Staff costs	**(17.5)**	
Share-based compensation expenses	**(23.8)**	
Depreciation of office equipments and amortization of intangible assets	**(5.6)**	
Others	**(14.0)**	
Total corporate overheads		**(60.9)**
Other income and gains		**20.2**
		16.9
Share of profit less loss from associates		**(4.9)**
Profit before income tax		**12.0**
Income tax		**(0.2)**
Profit for the year from continuing operations		**11.8**
Loss for the year from discontinued operations		**(14.7)**
Loss for the year		**(2.9)**
Attributable to:		
Equity holders of the Company		**(29.2)**
Minority interests		**26.3**
		(2.9)
Investment in property, plant, and equipment		**67.3**
Cash flows from operating activities		**14.6**
Cash flows from financing activities		**578.5**
Total equity		**1,435.7**

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(Cont'd)*

The Group started consolidating the VLT operations following the completion of acquisition of 50% interest in Corich on 28 April 2006. Accordingly, only 8 months' operating results of VLT were consolidated into the Group's financial results for the year ended 31 December 2006. Since the results of 2005 represented that of the Group's former metal business which was terminated during the year, they were not presented here for comparison purposes.

The Group's turnover represented mainly income from provision and maintenance of VLTs pursuant to a contract between Dongguan Corich Electronic Co., Ltd. ("Dongguan Corich"), a wholly-owned subsidiary of Corich, and Beijing Lottery Online Technology Co. Ltd. The contract will ensure that Dongguan Corich will be the sole supplier of VLT to the PRC's welfare lottery system for a period of 10 years. Under the contract, the Group received a service fee of 2% of VLT sales (inclusive of a maintenance fee of 0.4%). In 2006, the Group recorded turnover of approximately HK$71.3 million during its 8 months' operations in public welfare lottery market in China, with the fourth quarter's turnover representing a 43% growth over that of the previous quarter.

Cost of provision and maintenance of VLT consisted mainly of VLT depreciation charges, transportation charges for delivery of VLTs to CLO halls, as well as charges for spare parts and maintenance work.

A charge of approximately HK$4.9 million in relation to amortization of intangible asset was incurred during the year. Intangible asset of approximately HK$60.4 million arose as a result of the acquisition of 50% interest in Corich, and the amount represented the fair value of the VLT provisioning contract between Dongguan Corich and CLO. The intangible asset is amortized over its remaining contract period of 9 years, with annual amortization charge of approximately HK$6.5 million.

Approximately HK$14.7 million loss from discontinued operations was recorded in 2006 as the Group terminated its former metal business.

The Group's investments in property, plant and equipment for the year ended 31 December 2006 amounted to approximately HK$67.3 million. The majority of the amount represented investments in VLTs.

During the year, the Group incurred expenses of approximately HK$23.8 million in relation to the grant of share options. As at 31 December 2006, the Group had outstanding options for 76.38 million ordinary shares of HK$0.01 each in the share capital of the Company, or approximately 4.3% of the issued share capital of the Company.

Share of profit less loss from associates represented mainly the development and start-up costs for the KENO project. The Group's share of the associates' profit less loss amounted to approximately HK$4.9 million for the year.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY, FINANCIAL RESOURCES, GEARING RATIO, CAPITAL STRUCTURE

The Group raised approximately HK$631.9 million in net proceeds from a placement of 180 million shares during the year, which was used in part to finance the acquisition of 50% interest in Corich. The Group also generated HK$14.6 million cash from its operating activities during the year.

As at 31 December 2006, the Group had an outstanding guarantee and indemnity for HK$20 million plus interest and other charges for treasury facilities provided by a bank. Such treasury facilities were for a maximum tenor of 18 months, with facility limits to be determined by the bank at its sole discretion and may vary from time to time by the bank. No treasury facilities were utilized as at 31 December 2006 (as at 31 December 2005: Nil).

The Group expects that the available financial resources will sufficiently fund our capital and operating requirements. The Group did not have any bank borrowings as at 31 December 2006 (as at 31 December 2005: Nil).

The Group's total equity amounted to approximately HK$1,435.7 million as at 31 December 2006 (as at 31 December 2005: HK$305.1 million). As at 31 December 2006, net current assets of the Group amounted to approximately HK$336.8 million (as at 31 December 2005: HK$300.5 million), including approximately HK$326.8 million in cash and deposits with banks and financial institution (as at 31 December 2005: HK$258.0 million).

The gearing ratio (defined as total liabilities over total assets) of the Group as at 31 December 2006 was approximately 4.1% (as at 31 December 2005: 2.5%).

MATERIAL ACQUISITIONS AND DISPOSALS OF INVESTMENTS & FUTURE PLANS FOR MATERIAL INVESTMENT

China LotSynergy Holdings Limited (the "Company"), China LotSynergy Group Limited ("CLG"), a wholly-owned subsidiary of the Company, Corich International Limited ("Corich"), and others entered into a subscription agreement on 9 January 2006, pursuant to which the Group would subscribe for 1 million shares of Corich, representing either approximately 33.3% or 50% (depending on whether the redemption rights under the agreement would be exercised) in the issued share capital of Corich as a result of the subscription, for a consideration of HK$980 million, to be satisfied as to HK$500 million by cash and as to HK$480 million by the allotment and issue of 200 million shares of the Company. An initial deposit of HK$10 million was paid on 20 December 2005 and a further deposit of HK$20 million was paid on 12 January 2006 in accordance with the agreement. On 4 April 2006, the Group completed the subscription by payment of the remaining cash consideration of HK$470 million and on 28 April 2006, the subscriber's redemption right was exercised by the Group, where the 200 million consideration shares were issued and allotted. After the exercise of the redemption right, the Group holds 50% interest in the total issued share capital of Corich.

EXPOSURE TO EXCHANGE RATES FLUCTUATION

All the Group's assets, liabilities and transactions are denominated either in Hong Kong dollar, Australian dollar or Renminbi. Foreign exchange risk arising from the normal course of operations is considered to be minimal. The Group did not enter into any foreign exchange forward contracts to hedge against exchange rates fluctuations.

MANAGEMENT DISCUSSION AND ANALYSIS

SEGMENT INFORMATION

Segment information is presented by way of the Group's primary segment reporting by business segment. In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. Details of segment information are set out in note 5 to the financial statements in this annual report.

PLEDGE OF ASSET

As at 31 December 2006, the Group did not pledge any of its assets to obtain banking facilities nor have any charge on its assets (as at 31 December 2005: Nil).

CONTINGENT LIABILITIES

As at 31 December 2006, the Group did not have any material contingent liabilities (as at 31 December 2005: Nil).

STAFF

As at 31 December 2006, the Group had 120 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 and medical insurance. 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.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Ms. LAU Ting, aged 50
Chairman

Ms. Lau is the Chairman of the Company and a founder of the Group. Ms. Lau is responsible for the business planning and overall development of the Group. She is also in charge of the financial planning, corporate finance, human resources, and strategic planning of the Group. She has over 15 years of experience in business development, merger and acquisition, property investment and financial management. Ms. Lau is also an executive director of Burwill Holdings Limited.

Mr. SUN Ho, aged 38
Deputy Chairman

Mr. Sun is a Deputy Chairman and an Executive Director of the Company. Mr. Sun has extensive experience in corporate financial management. Prior to re-joining the Group in August 2005, Mr. Sun was an executive director of Burwill Holdings Limited, where he was responsible for the corporate finance, merger and acquisition affairs, and PRC project investments activities, and worked for KPMG, an international accounting firm, where he was involved in the auditing and due diligence activities for the listing, merger and acquisition activities of international finance groups and multinational enterprises. Mr. Sun holds a bachelor's degree in Economics from the University of Sydney in Australia and a master's degree in Corporate Finance from the Hong Kong Polytechnic University. He is a member of the Australian Society of Certified Practising Accountants and the Hong Kong Institute of Certified Public Accountants and is a researcher of China Center for Lottery Studies, Peking University.

Mr. HOONG Cheong Thard, aged 38
Deputy Chairman and Chief Executive Officer

Mr. Hoong joined the Group in September 2006. Mr. Hoong is the Deputy Chairman, Executive Director and Chief Executive Officer of the Company. Mr. Hoong participates in the formulation and implementation of the Group's overall strategies for development and oversees the day-to-day operations of the Group. Mr. Hoong has over 12 years of experience in investment banking and has extensive experience in international capital markets and mergers and acquisitions. Prior to joining the Group, 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 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.

Mr. WANG Taoguang, aged 42
Executive Director

Mr. Wang joined the Group in June 2006 and is an Executive Director of the Company. He is a director of Corich International Limited, Dongguan Corich Electronics Co., Ltd. and 海南天意日盛電子設備租賃有限公司, all are subsidiaries of the Company. Mr. Wang has about 20 years' experience in the legal profession, finance, investment and business management. He holds a PhD in economics from Peking University, masters degrees from Bowling Green State University, United States and Peking University and a law degree from Peking University.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS *(Cont'd)*

Dr. CHEN Aizheng, aged 49
Executive Director

Dr. Chen joined the Group in June 2000 and is an Executive Director and the Chief Information Officer of the Company. Prior to joining the Group, he worked in the area of international trading and also as an investment consultant in Canada. He holds a BA degree and MA degree from Nanjing University, the PRC. He is also a graduate from Goettingen University, Germany with a Ph.D in Comparative linguistics and literature. Dr. Chen is the brother-in-law of Ms. Lau Ting.

Mr. NG Man Fai, Matthew, aged 39
Executive Director

Mr. Ng joined the Group in June 2000 and is an Executive Director, the Compliance Officer and the Financial Controller of the Company. He is responsible for the financial planning of the Group and the supervision of its accounting and financial activities. Mr. Ng had worked for international certified public accounting firms, financial institutions and listed companies in Hong Kong and had over 15 years' experience in the fields of auditing, finance and accounting. Mr. Ng holds a bachelor's degree in Business Administration from the University of East Asia in Macau and a master's degree in Accountancy from the Charles Sturt University in Australia. At present, he is a Certified Public Accountant (Practising) in Hong Kong, a fellow member of the Association of Chartered Certified Accountants and is a member of the Hong Kong Institute of Certified Public Accountants, the Taxation Institute of Hong Kong, the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in United Kingdom.

Mr. HUANG Shenglan, aged 55
Independent Non-Executive Director

Mr. Huang 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 Burwill Holdings Limited and Chongqing Road & Bridge Co. Ltd.

Mr. CHAN Ming Fai, aged 45
Independent Non-Executive Director

Mr. Chan joined the Group in May 2006 and is an Independent Non-Executive Director of the Company. He is currently 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 co-founded 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.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS *(Cont'd)*

Mr. LI Xiaojun, aged 31
Independent Non-Executive Director

Mr. Li joined the Group in September 2004 and is an Independent Non-Executive Director. Mr. Li is a practising lawyer in the Beijing PRC at Gaopeng & Partners, focusing his area of practice in corporate and capital market matters and has represented a number of domestic state-owned enterprises, private-owned enterprises and foreign invested companies in restructuring and reorganisation, mergers and acquisitions, and initial public offerings exercises. Mr. Li serves as legal counsel for the first Sino-foreign fund management company, where he has been engaged in the invention and development of investment funds, providing legal service for issuances of the first domestic Umbrella Fund, QDII Fund, Money Market Fund and other mutual funds. Mr. Li has also successfully participated in the project regarding disposition of bad assets of state-owned commercial bank. In addition, he has also been focusing his work on business strategy formulation and alliance for wholly foreign-owned commercial enterprises in China. Mr. Li has proven ability and experience in various areas in the legal profession. Mr. Li graduated from Zhongnan University of Economic and Law and is a member of All-China Lawyers Association and Beijing Bar Association.

SENIOR MANAGEMENT

Ms. NG Lai Ping, Grace, aged 37

Ms. Ng is the Company Secretary of the Company, responsible for the Group's company secretarial affairs and compliance matters. Prior to joining the Group in May 2000, she worked for an international accounting firm and for listed companies with extensive experience in company secretarial work for private and listed companies. Ms. Ng is a member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom.

Mr. TAN Yung Kai, Richard, aged 35

Mr. Tan is the Qualified Accountant of the Company, responsible for the overall financial accounting of the Company. He has over 10 years of experience in the audit and the accounting fields. Prior to joining the Group in July 2000, he worked for Deloitte Touche Tohmatsu, an international accounting firm involved in the various auditing and due diligence activities. He holds a Bachelor 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.

REPORT OF THE DIRECTORS

The Directors are presenting to the shareholders their report together with the audited financial statements of China LotSynergy Holdings Limited (the "Company") and its subsidiaries (collectively known as the "Group") for the year ended 31 December 2006.

FINANCIAL RESULTS

Details of the Group's results for the year ended 31 December 2006 are set out in the consolidated income statement on page 36.

The respective state of affairs of the Group and the Company as at 31 December 2006 are set out in the balance sheets on pages 37 and 38.

The Group's cash flows are set out in the consolidated cash flow statement on page 41.

PRINCIPAL ACTIVITIES AND SEGMENT INFORMATION

The principal activity of the Company is investment holding.

The Group is principally engaged in investment, project development, provision of technologies and equipment as well as consultancy services in public welfare lottery business and related sectors.

Analysis of the Group's turnover and operating results by business and geographical segments for the year ended 31 December 2006 are set out in note 5 to the financial statements on pages 59 and 60.

DIVIDEND

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 2006 (for the nine-month period ended 31 December 2005: Nil).

MAJOR SUPPLIERS AND CUSTOMERS

The Group's five largest customers accounted for about 100% of its turnover for the year. In addition, the largest customer of the Group accounted for about 100% of the Group's turnover.

The aggregate cost of service attributable to the five largest suppliers of the Group during the year were less than 30% of the cost of service of the Group.

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.

REPORT OF THE DIRECTORS

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment during the year are set out in note 15 to the financial statements on pages 69 and 70.

SUBSIDIARIES

The particulars of the Company's principal subsidiaries as at 31 December 2006 are set out in note 16 to the financial statements on pages 71 to 73.

SHARE CAPITAL

Details of movements in share capital during the year are set out in note 27 to the financial statements on pages 77 and 78.

RESERVES

Details of movements in reserves during the year are set out in note 29 to the financial statements on pages 82 and 83.

DISTRIBUTABLE RESERVES

As at 31 December 2006, there was no distributable reserve to shareholders in accordance with the Companies Act of 1981 of Bermuda (As at 31 December 2005: 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 THE BOARD OF DIRECTORS, AUDIT COMMITTEE AND REMUNERATION COMMITTEE

Mr. KING Roger retired from his office as an Independent Non-Executive Director of the Company and, ipso facto, a member of the Audit Committee of the Company, with effect from 24 April 2006 at the conclusion of 2006 annual general meeting of the Company.

Mr. CHAN Ming Fai was appointed as an Independent Non-Executive Director and a member of Audit Committee of the Company on 12 May 2006.

Mr. WANG Taoguang was appointed as an Executive Director of the Company on 28 June 2006.

Mr. HOONG Cheong Thard was appointed as a Deputy Chairman, the Managing Director and an Executive Director of the Company on 12 September 2006.

With effect from 14 March 2007, the Remuneration Committee of the Company comprised Mr. HUANG Shenglan, Mr. CHAN Ming Fai and Mr. HOONG Cheong Thard.

REPORT OF THE DIRECTORS

CHANGE OF CHIEF EXECUTIVE OFFICER

Mr. SUN Ho resigned from the position of Chief Executive Officer of the Company on 14 March 2007 and remains as a Deputy Chairman and an Executive Director of the Company, and Mr. HOONG Cheong Thard, the Deputy Chairman and Managing Director of the Company, was appointed as the Deputy Chairman and Chief Executive Officer with effect from 14 March 2007.

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

During the year ended 31 December 2006, the Company repurchased a total of 37,538,000 shares in the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the general mandates granted by the shareholders at the annual general meetings held on 29 September 2005 and 24 April 2006, details of which were as follows:–

Month/Year	Number of shares repurchased	Price per share Lowest	Price per share Highest	Total consideration (before expense)
		HK$	*HK$*	*HK$*
02/2006	8,168,000	2.475	2.950	23,510,600
05/2006	29,370,000	0.870	1.630	29,884,300

All shares repurchased were cancelled and accordingly the Company's issued share capital was reduced by the nominal value of these shares. The repurchases were effected for the benefit of the shareholders as a whole by enhancing the net assets and earnings per share of the Company.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2006.

SHARE OPTION SCHEME

As at 31 December 2006, there were options for 76,380,000 ordinary shares of HK$0.01 each in the share capital of the Company (the "Share(s)") 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, including any executive or non-executive director of the Group or its holding company or subsidiary.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME *(Cont'd)*

(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 21,800,000 shares, representing approximately 1.23% of the issued share capital of the Company as of that date.

(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 2006:

	Date of grant	Exercise price per Share HK$	Exercise period from	Exercise period until	No. of Shares under the options held as at 1/1/2006	exercised during the year	lasped during the year	granted during the year *(Note 2)*	held as at 31/12/2006	Approximate percentage interest in the Company's issued share capital
(i) Name of Substantial Shareholder										
CHAN Shing	01/09/2005	1.96	31/10/2005	30/10/2007	500,000	–	–	–	500,000	0.028%
	01/09/2005	1.96	31/10/2006	30/10/2007	500,000	–	–	–	500,000	0.028%
	08/06/2006	1.22	08/06/2007	07/06/2011	–	–	–	150,000	150,000	0.008%
	08/06/2006	1.22	08/06/2008	07/06/2011	–	–	–	150,000	150,000	0.008%
	08/06/2006	1.22	08/06/2009	07/06/2011	–	–	–	150,000	150,000	0.008%
	08/06/2006	1.22	08/06/2010	07/06/2011	–	–	–	150,000	150,000	0.008%
(ii) Name of Director										
LAU Ting	01/09/2005	1.96	31/10/2005	30/10/2007	500,000	–	–	–	500,000	0.028%
	01/09/2005	1.96	31/10/2006	30/10/2007	500,000	–	–	–	500,000	0.028%
	08/06/2006	1.22	08/06/2007	07/06/2011	–	–	–	150,000	150,000	0.008%
	08/06/2006	1.22	08/06/2008	07/06/2011	–	–	–	150,000	150,000	0.008%
	08/06/2006	1.22	08/06/2009	07/06/2011	–	–	–	150,000	150,000	0.008%
	08/06/2006	1.22	08/06/2010	07/06/2011	–	–	–	150,000	150,000	0.008%
SUN Ho	01/09/2005	1.96	31/10/2005	30/10/2007	6,900,000	–	–	–	6,900,000	0.389%
	01/09/2005	1.96	31/10/2006	30/10/2007	6,900,000	–	–	–	6,900,000	0.389%
	08/06/2006	1.22	08/06/2007	07/06/2011	–	–	–	950,000	950,000	0.054%
	08/06/2006	1.22	08/06/2008	07/06/2011	–	–	–	950,000	950,000	0.054%
	08/06/2006	1.22	08/06/2009	07/06/2011	–	–	–	950,000	950,000	0.054%
	08/06/2006	1.22	08/06/2010	07/06/2011	–	–	–	950,000	950,000	0.054%
HOONG Cheong Thard	30/06/2006	1.14	16/08/2007	29/06/2016	–	–	–	4,400,000	4,400,000	0.248%
	30/06/2006	1.14	16/08/2008	29/06/2016	–	–	–	4,400,000	4,400,000	0.248%
	30/06/2006	1.14	16/08/2009	29/06/2016	–	–	–	4,400,000	4,400,000	0.248%
	30/06/2006	1.14	16/08/2010	29/06/2016	–	–	–	4,400,000	4,400,000	0.248%
CHEN Aizheng	01/09/2005	1.96	31/10/2005	30/10/2007	4,500,000	–	–	–	4,500,000	0.254%
	01/09/2005	1.96	31/10/2006	30/10/2007	4,500,000	–	–	–	4,500,000	0.254%
	08/06/2006	1.22	08/06/2007	07/06/2011	–	–	–	2,000,000	2,000,000	0.113%
	08/06/2006	1.22	08/06/2008	07/06/2011	–	–	–	2,000,000	2,000,000	0.113%
	08/06/2006	1.22	08/06/2009	07/06/2011	–	–	–	2,000,000	2,000,000	0.113%
	08/06/2006	1.22	08/06/2010	07/06/2011	–	–	–	2,000,000	2,000,000	0.113%
NG Man Fai, Matthew	08/06/2006	1.22	08/06/2007	07/06/2011	–	–	–	150,000	150,000	0.008%
	08/06/2006	1.22	08/06/2008	07/06/2011	–	–	–	150,000	150,000	0.008%
	08/06/2006	1.22	08/06/2009	07/06/2011	–	–	–	150,000	150,000	0.008%
	08/06/2006	1.22	08/06/2010	07/06/2011	–	–	–	150,000	150,000	0.008%
HUANG Shenglan	01/09/2005	1.96	31/10/2005	30/10/2007	500,000	–	–	–	500,000	0.028%
	01/09/2005	1.96	31/10/2006	30/10/2007	500,000	–	–	–	500,000	0.028%
	08/06/2006	1.22	08/06/2007	07/06/2011	–	–	–	150,000	150,000	0.008%
	08/06/2006	1.22	08/06/2008	07/06/2011	–	–	–	150,000	150,000	0.008%
	08/06/2006	1.22	08/06/2009	07/06/2011	–	–	–	150,000	150,000	0.008%
	08/06/2006	1.22	08/06/2010	07/06/2011	–	–	–	150,000	150,000	0.008%

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME *(Cont'd)*

	Date of grant	Exercise price per Share *HK$*	Exercise period from	Exercise period until	No. of Shares under the options: held as at 1/1/2006	exercised during the year	lasped during the year	granted during the year *(Note 2)*	held as at 31/12/2006	Approximate percentage interest in the Company's issued share capital
(ii) Name of Director *(Cont'd)*										
CHAN Ming Fai	08/06/2006	1.22	08/06/2007	07/06/2011	–	–	–	150,000	150,000	0.008%
	08/06/2006	1.22	08/06/2008	07/06/2011	–	–	–	150,000	150,000	0.008%
	08/06/2006	1.22	08/06/2009	07/06/2011	–	–	–	150,000	150,000	0.008%
	08/06/2006	1.22	08/06/2010	07/06/2011	–	–	–	150,000	150,000	0.008%
LI Xiaojun	01/09/2005	1.96	31/10/2005	30/10/2007	250,000	–	–	–	250,000	0.014%
	01/09/2005	1.96	31/10/2006	30/10/2007	250,000	–	–	–	250,000	0.014%
	08/06/2006	1.22	08/06/2007	07/06/2011	–	–	–	150,000	150,000	0.008%
	08/06/2006	1.22	08/06/2008	07/06/2011	–	–	–	150,000	150,000	0.008%
	08/06/2006	1.22	08/06/2009	07/06/2011	–	–	–	150,000	150,000	0.008%
	08/06/2006	1.22	08/06/2010	07/06/2011	–	–	–	150,000	150,000	0.008%
KING Roger *(Note 3)*	01/09/2005	1.96	31/10/2005	30/10/2007	250,000	–	(250,000)	–	–	0%
	01/09/2005	1.96	31/10/2006	30/10/2007	250,000	–	(250,000)	–	–	0%
(iii) Continuous contract employees	01/09/2005	1.96	31/10/2005	30/10/2007	600,000	–	–	–	600,000	0.034%
	01/09/2005	1.96	31/10/2006	30/10/2007	600,000	–	–	–	600,000	0.034%
	15/12/2005	2.70	15/12/2006	14/12/2008	1,500,000	–	–	–	1,500,000	0.085%
	08/06/2006	1.22	08/06/2007	07/06/2011	–	–	–	1,850,000	1,850,000	0.104%
	08/06/2006	1.22	08/06/2008	07/06/2011	–	–	–	1,850,000	1,850,000	0.104%
	08/06/2006	1.22	08/06/2009	07/06/2011	–	–	–	1,850,000	1,850,000	0.104%
	08/06/2006	1.22	08/06/2010	07/06/2011	–	–	–	1,850,000	1,850,000	0.104%
(iv) Other participants	01/09/2005	1.96	31/10/2005	30/10/2007	1,550,000	(120,000)	–	–	1,430,000	0.081%
						(Note 4)	–	–		
	01/09/2005	1.96	31/10/2006	30/10/2007	1,550,000		–		1,550,000	0.087%
	08/06/2006	1.22	08/06/2007	07/06/2011	–	–	–	1,000,000	1,000,000	0.056%
	08/06/2006	1.22	08/06/2008	07/06/2011	–	–	–	1,000,000	1,000,000	0.056%
	08/06/2006	1.22	08/06/2009	07/06/2011	–	–	–	1,000,000	1,000,000	0.056%
	08/06/2006	1.22	08/06/2010	07/06/2011	–	–	–	1,000,000	1,000,000	0.056%
Total:					**32,600,000**	**(120,000)**	**(500,000)**	**44,400,000**	**76,380,000**	

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 28 to the financial statements.

2. For the share options granted during the year, (i) the closing price per Share immediately before the date of grant of 8 June 2006 was HK$1.22; and (ii) the closing price per Share immediately before the date of grant of 30 June 2006 was HK$1.14.

3. Mr. KING Roger retired as an Independent Non-Executive Director of the Company on 24 April 2006. The option was lapsed on 24 July 2006.

4. (i) The weighted average closing price per Share immediately before the date on which the option for 100,000 Shares was exercised was HK$3.875; and (ii) the weighted average closing price per Share immediately before the date on which the option for 20,000 Shares was exercised was HK$3.75.

REPORT OF THE DIRECTORS

DIRECTORS

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

Executive Directors:

Ms. LAU Ting	
Mr. SUN Ho	
Mr. HOONG Cheong Thard	– appointed on 12 September 2006
Mr. WANG Taoguang	– appointed on 28 June 2006
Mr. CHEN Aizheng	
Mr. NG Man Fai, Matthew	

Independent Non-Executive Directors:

Mr. HUANG Shenglan	
Mr. CHAN Ming Fai	– appointed on 12 May 2006
Mr. LI Xiaojun	
Mr. KING Roger	– retired on 24 April 2006

In accordance with bye-laws 99 and 102 of the Bye-laws of the Company, Mr. HOONG Cheong Thard, Mr. WANG Taoguang, Mr. NG Man Fai, Matthew, Mr. CHAN Ming Fai and Mr. LI Xiaojun 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 11 to 13.

SENIOR MANAGEMENT

Biographical details of the senior management of the Group are set out on page 13.

REPORT OF THE DIRECTORS

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

As at 31 December 2006, 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

(A) The Company

	Number of Shares				Approximate percentage interest in the Company's
Name of Director	**Personal interests**	**Family interests**	**Corporate interests**	**Total**	**issued share capital**
LAU Ting	51,288,803	72,951,773 *(Note 1)*	407,404,308 *(Note 2)*	531,644,884 *(Note 3)*	29.99%
SUN Ho	3,070,000	30,000	–	3,100,000	0.17%
CHEN Aizheng	2,490,000	156,000	–	2,646,000	0.15%
NG Man Fai, Matthew	660,000	–	–	660,000	0.04%

Notes:

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

2. 11,320,192 Shares were held by Hang Sing Overseas Limited ("Hang Sing") which is owned as to 51% by Orient Strength Limited ("Orient Strength"), a company which is wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 10,595,042 Shares were held by Strong Purpose Corporation ("Strong Purpose"), a company which is wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 385,489,074 Shares were held by Burwill Holdings Limited ("Burwill"), which is owned as to 21.94% by Hang Sing, as to 20.53% by Strong Purpose, as to 2.11% by Ms. LAU Ting and as to 1.26% by Mr. CHAN Shing.

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

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 *(Cont'd)*

(B) Associated Corporation – Burwill Holdings Limited

Name of Director	Personal interests	Number of ordinary shares Family interests	Corporate interests	Total	Approximate percentage interest in the issued share capital of Burwill
LAU Ting	21,776,072	13,035,472 *(Note 1)*	438,304,701 *(Note 2)*	473,116,245 *(Note 3)*	45.84%
SUN Ho	200,000	–	–	200,000	0.02%

Notes:

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

2. 226,403,853 shares were held by Hang Sing which is owned as to 51% by Orient Strength, a company which is wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 211,900,848 shares were held by Strong Purpose, a company which is wholly-owned by Ms. LAU Ting and Mr. CHAN Shing.

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

(2) Interests in Underlying Shares

As at 31 December 2006, 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 2006, 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 2006, according to the register required to be kept by the Company under Section 336 of the SFO (the "Register"), 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 of the Company

Name of shareholder	Personal interests	Number of Shares Family interests	Corporate interests	Total	Approximate percentage interest in the Company's issued share capital
CHAN Shing	72,951,773	51,288,803 *(Note 1)*	407,404,308 *(Note 2)*	531,644,884 *(Note 3)*	29.99%
Burwill	–	–	385,489,074	385,489,074 *(Notes 2, 4&10)*	21.75%
LIM Loong Keng *(Note 5)*	–	–	186,000,000	186,000,000	10.49%
Toward Plan Investments Limited *(Note 5)*	–	–	186,000,000	186,000,000	10.49%
Legg Mason Inc *(Note 6)*	–	–	137,010,000	137,010,000	7.73%
YU Man Yiu, Park	50,188,500	–	70,000,860 *(Note 7)*	120,189,360	6.78%
Lloyds TSB Group Plc *(Note 8)*	–	–	117,204,000	117,204,000	6.61%
Prudential Plc *(Note 9)*	–	–	95,594,000	95,594,000	5.39%

REPORT OF THE DIRECTORS

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

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

Notes:

1. These Shares were owned by Ms. LAU Ting, the spouse of Mr. CHAN Shing and a Director of the Company.

2. 11,320,192 Shares were held by Hang Sing which is owned as to 51% by Orient Strength, a company which is wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 10,595,042 Shares were held by Strong Purpose, a company which is wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 385,489,074 Shares were held by Burwill, which is owned as to 21.94% by Hang Sing, as to 20.53% by Strong Purpose, as to 2.11% by Ms. LAU Ting and as to 1.26% by Mr. CHAN Shing.

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

4. These Shares formed part of the interests of Mr. CHAN Shing and Ms. LAU Ting.

5. 186,000,000 Shares were held by Toward Plan Investments Limited which is wholly-owned by Mr. LIM Loong Keng.

6. These Shares were held by Legg Mason Asset Management (Asia) Pte Ltd, a company which is wholly-owned by LM International Holding LP ("LM International"). LM International is wholly-owned by Legg Mason International Holdings II, LLC, a company which is wholly-owned by Legg Mason Inc.

7. 860 Shares were held by Good Talent Trading Limited which is owned as to 35% by Mr. YU Man Yiu, Park and 70,000,000 shares were held by Centrix Investments Limited, a company which is wholly-owned by Mr. YU Man Yiu, Park.

8. These Shares were held by Scottish Widows Plc, a company which is wholly-owned by Lloyds TSB Group Plc.

9. These Shares were held by Prudential Asset Management (Hong Kong) Limited, a company which is wholly-owned by Prudential Corporation Holdings Limited. Prudential Corporation Holdings Limited is wholly-owned by Prudential Holdings Limited, a company which is wholly-owned by Prudential Plc.

10. The Shares held by Burwill as disclosed herein represents the aggregate of (i) 383,831,074 Shares as recorded in the Register and (ii) the acquisitions of additional 1,658,000 Shares as notified and confirmed by Burwill.

(2) Interests in Underlying Shares

As at 31 December 2006, the interests of the substantial shareholders (other than 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 336 of the SFO were as disclosed in the previous section headed "Share Option Scheme" of this report.

Save as disclosed above, as at 31 December 2006, 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 10% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

REPORT OF THE DIRECTORS

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

Each of the Executive Directors of the Company has entered into a service contract with the Company with no specific term of office, or an initial term of two to three years (subject to individual contract) from the date of appointment and will continue thereafter, until terminated by not less than one to six months (subject to individual contract) notice in writing served by either party on the other. The term of office of each Independent Non-Executive Director is the period up to his retirement by rotation in accordance with the Bye-laws of the Company.

Save as disclosed above, 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.

MAJOR TRANSACTION – SUBSCRIPTION OF INTEREST IN PROVIDER OF VIDEO LOTTERY TERMINALS

On 9 January 2006, China LotSynergy Group Limited ("CLG"), a wholly-owned subsidiary of the Company, Corich International Limited ("Corich"), the Company and others entered into a subscription agreement, pursuant to which the Group would subscribe for 1,000,000 shares of Corich (the "Subscription"), representing either approximately 33.3% or 50% (depending on whether the redemption rights under the agreement would be exercised) in the issued share capital of Corich as a result of the Subscription, for a consideration of HK$980 million, to be satisfied as to HK$500 million by cash and as to HK$480 million by the allotment and issue of 200,000,000 shares of the Company (the "Consideration Shares").

The Subscription constituted a major transaction for the Company under the GEM Listing Rules. The Subscription as well as the allotment and issue of the Consideration Shares was approved pursuant to the ordinary resolution passed by the shareholders at the special general meeting held on 21 March 2006 and completion of the transaction was conditional upon the fulfillment or waiver of certain conditions precedent, details of which were set out in the Company's circular dated 1 March 2006.

On 4 April 2006, CLG completed the Subscription for 1,000,000 shares of Corich and on 28 April 2006, CLG exercised its redemption right to request Corich to redeem all (but not part) of the preference shares of Corich in issue, where the Company had allotted and issued the Consideration Shares. Upon the exercise of the redemption right, CLG holds 50% of the total issued share capital of Corich, which has been accounted for as a subsidiary of the Group.

REPORT OF THE DIRECTORS

PLACING OF SHARES

Pursuant to the subscription agreements dated 17 January 2006, the Company issued and allotted a total of 180,000,000 new shares of the Company at a subscription price of HK$3.675 per subscription share to the subscribers on 27 January 2006, following the completion of the placing agreements for the placing of 180,000,000 existing shares to more than six placees at a placing price of HK$3.675 per placing share. The closing price per share on 16 January 2006 (being the last trading day prior to the entering into of the placing agreements) as quoted on the Stock Exchange was HK$3.80 and the net price of the issue to the Company was HK$3.51 per share. The Company raised a net proceeds of approximately HK$631.9 million through the placing and the subscription and the fund was used: (i) as to approximately HK$470 million to pay the balance of the cash consideration under the subscription agreement amongst CLG, Corich, the Company and others dated 9 January 2006; and (ii) for the Company's general working capital.

The above subscription shares were issued pursuant to the general mandate to allot, issue and deal with shares granted to the Directors of the Company by resolution of the shareholders passed at the annual general meeting of the Company held on 29 September 2005.

ISSUE OF SHARES

(1) The Company issued a total of 120,000 new shares of the Company upon the exercise of share options by the optionholders in January 2006.

(2) Pursuant to the subscription agreement dated 9 January 2006 entered into between CLG, Corich, the Company and others, the Company issued and allotted a total of 200,000,000 new shares of the Company on 28 April 2006 as part of the consideration for the subscription of interest in Corich, following the exercise by CLG of its subscriber's redemption right on 28 April 2006 to request Corich to redeem all (but not part) of the preference shares of Corich in issue. The above consideration shares were issued pursuant to the specific mandate given to the Directors of the Company by resolution of the shareholders passed at the special general meeting of the Company held on 21 March 2006.

JOINT VENTURE WITH OCTAVIAN

On 29 June 2006, China LotSynergy Investment Limited ("CLS"), a wholly-owned subsidiary of the Company, Octavian International Limited ("Octavian") and Aceteam Investment Limited entered into a joint venture agreement ("JV Agreement") with the view to jointly develop lottery related businesses in the PRC and internationally. Pursuant to the JV Agreement, CLS and Octavian agreed to establish a joint venture company namely Aceteam Investment Limited, in which 60% of the shareholding be owned by CLS and 40% of the shareholding be owned by Octavian. The total paid-up capital committed by both parties amounts to HK$46,800,000.

REPORT OF THE DIRECTORS

CONTINUING CONNECTED TRANSACTION

During the year ended 31 December 2006, ChinaSteel.com Corporation Limited ("ChinaSteel"), a subsidiary of the Company, had placed a deposit for a principal amount of RMB16,000,000 (approximately HK$16,000,000) (the "Deposit") (2005: RMB16,000,000 (approximately HK$15,385,000)) with Minmetals Finance Company Limited (五礦集團財務有限責任公司) ("Minmetals Finance"), which is an associate of a substantial shareholder of the Group's subsidiary. Minmetals Finance is a registered financial institution in the PRC. Its scope of business is to, among other things, provide deposit taking services to other members of its group. The Deposit is kept as a saving deposit with Minmetals Finance at the prevailing interest rate of the People's Bank of China. For the year ended 31 December 2006, interest received from Minmetals Finance in respect of the Deposit amounted to approximately RMB175,000 (approximately HK$172,000) (For the nine-month period ended 31 December 2005: RMB360,000 (approximately HK$346,000)).

The Independent Non-Executive Directors had reviewed the above continuing connected transaction and confirmed that the transaction was made in the usual and ordinary course of businesses of the Group and on normal commercial terms, and that the above continuing connected transaction was made in accordance with the relevant agreement governing the transaction on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditors of the Company had also reviewed the above continuing connected transaction and confirmed in writing to the Directors stating that they had:

(a) read minutes of the Board of Directors' meeting for approval of the continuing connected transaction;

(b) reviewed the deposit agreement entered into between ChinaSteel and Minmetals Finance and noted that the continuing connected transaction was carried out in accordance with the terms of the agreement governing such transaction; and

(c) obtained independent confirmation provided by ChinaSteel which showed a balance as at 31 December 2006 of approximately RMB16,175,000, which according to the Group's accounting records, comprised the principal amount of the Deposit of RMB16,000,000 and accrued interest thereon of approximately RMB175,000, and noted that the principal amount of the Deposit had not exceeded the cap of RMB16,000,000 as disclosed in the announcement of the Company dated 13 April 2006.

FINANCIAL SUMMARY

A summary of results, assets and liabilities of the Group is set out on pages 3 and 4.

EMPLOYEE RETIREMENT BENEFIT

Details of the retirement benefit schemes of the Group and the employee retirement benefit costs charged to the consolidated profit and loss account for the year are set out in note 34 to the financial statements on pages 86 and 87.

REPORT OF THE DIRECTORS

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.

AUDIT COMMITTEE

The Company has established an Audit Committee which comprises the three Independent Non-Executive Directors of the Company, Mr. HUANG Shenglan, Mr. CHAN Ming Fai and Mr. LI Xiaojun. 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 statements of the Group for the year ended 31 December 2006 have been reviewed by the Audit Committee.

AUDITORS

HLB Hodgson Impey Cheng, who was appointed as auditors of the Company in 2004, 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
Chairman

Hong Kong, 26 March 2007

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 of Directors of the Company (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 2006, 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 have complied with the required standard of dealings set out in the Code of Conduct throughout the financial year ended 31 December 2006.

BOARD OF DIRECTORS

The Directors of the Company during the financial year ended 31 December 2006 were:

Executive Directors
Ms. Lau Ting *(Chairman)*
Mr. Sun Ho *(Deputy Chairman & Chief Executive Officer)*
Mr. Hoong Cheong Thard *(Deputy Chairman & Managing Director) (appointed on 12 September 2006)*
Mr. Wang Taoguang *(appointed on 28 June 2006)*
Mr. Chen Aizheng
Mr. Ng Man Fai, Matthew

Independent Non-Executive Directors
Mr. Huang Shenglan
Mr. King Roger *(retired from the office on 24 April 2006)*
Mr. Chan Ming Fai *(appointed on 12 May 2006)*
Mr. Li Xiaojun

Mr. Sun Ho, the Deputy Chairman of the Company, resigned from the position of the Chief Executive Officer with effect from 14 March 2007 and Mr. Hoong Cheong Thard is appointed at the Deputy Chairman and Chief Executive Officer of the Company with effect from 14 March 2007.

As at the date of this report, the Board comprised nine Directors, six of whom are Executive Directors and three of whom are Independent Non-Executive Directors. Details of 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.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(Cont'd)*

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.

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 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.

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 enable 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.

To the best knowledge of the Directors, there is no financial, business and family relationship among the members of the Board except for the in-law relationship between Ms. Lau Ting and Mr. Chen Aizheng.

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 *(Chairman)*	4/4
Mr. Sun Ho *(Deputy Chairman)*	3/4
Mr. Hoong Cheong Thard *(Deputy Chairman)*	1/1
Mr. Wang Taoguang	0/2
Mr. Chen Aizheng	2/4
Mr. Ng Man Fai, Matthew	4/4
Independent Non-Executive Directors	
Mr. Huang Shenglan	4/4
Mr. King Roger	0/1
Mr. Chan Ming Fai	2/2
Mr. Li Xiaojun	0/4

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Chairman of the Board and the Chief Executive Officer are held separately by two individuals to ensure their respective independence, accountability and responsibilities. During the financial year ended 31 December 2006, the Chairman, Ms. Lau Ting, was responsible for overseeing the function of the Board and formulating overall strategies of and organizing the implementation structure for the Company, and the Chief Executive Officer, Mr. Sun Ho, was responsible for managing the Group's overall business operations.

CORPORATE GOVERNANCE REPORT

NON-EXECUTIVE DIRECTORS

The Non-Executive Directors of the Company are not appointed for a specific term as is stipulated in Code provision A4.1, but are subject to retirement by rotation in accordance with the Bye-laws of the Company (the "Bye-laws"). The Directors have not been required by the Bye-laws to retire by rotation at least once every three years. However, in accordance with Bye-law 99 of the Bye-laws, at each annual general meeting of the Company one-third of the Directors for the time being or, if their number is not a multiple of three, the number nearest to one-third, shall retire from office by rotation save any Director holding office as Chairman or Managing Director. The Board will ensure the retirement of each Director, other than the one who holds the office as Chairman or Managing Director, by rotation at least once every three years in order to comply with Code provisions. The Chairman will not be subject to retirement by rotation as is stipulated in Code provision A4.2, as the Board considered that the continuity of office of the Chairman provides the Group a strong and consistent leadership and is of great importance to the smooth operations of the Group. Mr. Hoong Cheong Thard, Mr. Wang Taoguang, Mr. Ng Man Fai, Matthew, Mr. Chan Ming Fai and Mr. Li Xiaojun 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. As at the date of this report, the Remuneration Committee comprises three members, Mr. Huang Shenglen, Mr. Chan Ming Fai and Mr. Hoong Cheong Thard. The Remuneration Committee will meet at least once a year to determine 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.

Prior to the setting up of the Remuneration Committee during the year, a committee comprising the Chairman, the Chief Executive Officer and the Head of Personnel Department (the "Committee") had been responsible for determining and reviewing the Group's overall remuneration policy and structure for the remuneration of the Directors, but no Director would be involved in deciding his own remuneration.

In determining the emolument payable to Directors, the Committee took into consideration factors such as time commitment and responsibilities of the Directors, 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.

During the year, one Committee meeting was held. Details of the attendance of the Directors in the Committee meeting are as follows:

	Directors' Attendance
Ms. Lau Ting *(Chairman)*	1/1
Mr. Sun Ho *(Deputy Chairman)*	1/1

CORPORATE GOVERNANCE REPORT

NOMINATION OF DIRECTORS

The Board is responsible for considering the suitability of a candidate to act as a director, and approving and terminating the appointment of a director. During the year under review, the Company had not established a nomination committee with specific written terms of reference which deal clearly with its authority and duties. 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.

During the year, three meetings of the Board regarding the nominations of Mr. Chan Ming Fai as Independent Non-Executive Director, Mr. Wang Taoguang as Executive Director and Mr. Hoong Cheong Thard as a Deputy Chairman and the Managing Director of the Company were held. Details of the attendance of the meeting are as follows:

	Directors' Attendance
Ms. Lau Ting *(Chairman)*	3/3
Mr. Sun Ho *(Deputy Chairman)*	3/3
Mr. Hoong Cheong Thard *(Deputy Chairman)*	0/0
Mr. Wang Taoguang	0/1
Mr. Chen Aizheng	1/3
Mr. Ng Man Fai, Matthew	3/3
Mr. Huang Shenglan	0/3
Mr. Roger King	0/0
Mr. Chan Ming Fai	0/2
Mr. Li Xiaojun	0/3

AUDITORS' REMUNERATION

For the year ended 31 December 2006, 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 2006 HK$	for the nine-month period ended 31 December 2005 HK$
Types of Services		
Audit for the Group	**350,000**	250,000
Non-audit services		
– Advisory services	**–**	5,000
– Professional services on acting as reporting accountants	**109,000**	40,000

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE

The Audit Committee was established in 2001 and provides the Board with advice and recommendations. Mr. Roger King retired from the office of an Independent Non-Executive Director of the Company and, ipso facto, a member of the Audit Committee on 24 April 2006 and Mr. Chan Ming Fai was appointed as an Independent Non-Executive Director of the Company and a member of the Audit Committee with effect from 12 May 2006.

The Audit Committee currently comprises three members, Mr. Huang Shenglan, Mr. Chan Ming Fai and Mr. Li Xiaojun. 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, legal, accounting and financial management in the Audit Committee.

The Audit Committee's functions includes:

- 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, internal and external auditors.

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

	Members' Attendance
Mr. Huang Shenglan	4/4
Mr. King Roger	1/1
Mr. Chan Ming Fai	2/2
Mr. Li Xiaojun	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 statements of the Group for the financial year ended 31 December 2006 have been reviewed by the Audit Committee.

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 34.

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.

INVESTORS RELATIONS

The Company is committed to maintain an open and effective investors 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 has provided 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

HLB 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
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 36 to 90, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements 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. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements 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 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 2006 and of the Group's loss 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, 26 March 2007

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2006

	Note	Year ended 31 December 2006 HK$'000	Period ended 31 December 2005 HK$'000 As restated
Continuing operations:			
Turnover	5	**71,345**	–
Cost of services		**(11,026)**	–
Gross profit		**60,319**	–
General and administrative expenses		**(63,493)**	(46,676)
Other income and gains	6	**20,152**	4,274
Operating profit/(loss) from continuing operations		**16,978**	(42,402)
Share of profit less loss of associates	17	**(4,943)**	–
Profit/(Loss) before income tax		**12,035**	(42,402)
Income tax	9	**(186)**	179
Profit/(Loss) for the year/period from continuing operations		**11,849**	(42,223)
Discontinued operations:			
Loss for the year/period from discontinued operations	7	**(14,748)**	(36)
Loss for the year/period		**(2,899)**	(42,259)
Attributable to:			
Equity holders of the Company		**(29,188)**	(42,146)
Minority interests		**26,289**	(113)
		(2,899)	(42,259)
Loss per share for loss from continuing operations attributable to the equity holders of the Company during the year/period			
– basic and diluted	11	**0.84 HK cent**	3.22 HK cent
Loss per share for loss from discontinued operations attributable to the equity holders of the Company during the year/period			
– basic and diluted	11	**0.86 HK cent**	Negligible

BALANCE SHEETS

As at 31 December 2006

	Note	Group **As at 31 December 2006 HK$'000**	Group As at 31 December 2005 HK$'000	Company **As at 31 December 2006 HK$'000**	Company As at 31 December 2005 HK$'000
Non-current assets					
Intangible assets	14	**990,805**	1,754	–	–
Property, plant and equipment	15	**63,491**	2,480	**825**	284
Investments in subsidiaries	16	–	–	**13,909**	13,909
Investment in an associate	17	**54,016**	2	–	–
Available-for-sale financial assets	18	–	390	–	–
Total non-current assets		**1,108,312**	4,626	**14,734**	14,193
Current assets					
Accounts receivable	19	**24,138**	–	–	–
Prepayments, deposits and other receivables	20	**16,109**	34,253	**8,401**	3,282
Amounts due from subsidiaries	16	–	–	**1,319,673**	282,309
Amount due from an associate	17	–	10	–	–
Amounts due from related companies	21	**21,250**	16,111	–	–
Deposit with a financial institution	22	**16,175**	15,385	–	–
Cash and bank balances	23	**310,620**	242,657	**94**	1,621
Total current assets		**388,292**	308,416	**1,328,168**	287,212
Total assets		**1,496,604**	313,042	**1,342,902**	301,405
Current liabilities					
Accounts payable	24	**2,680**	–	–	–
Accruals and other payables	25	**9,042**	7,235	**163**	6,907
Amount due to an associate	17	**29,637**	–	–	–
Amounts due to related companies	26	**9,080**	197	–	–
Amount due to a director	26	**347**	–	–	–
Income tax payable		**682**	496	–	–
Total current liabilities		**51,468**	7,928	**163**	6,907
Net current assets		**336,824**	300,488	**1,328,005**	280,305
Total assets less current liabilities		**1,445,136**	305,114	**1,342,739**	294,498
Non-current liabilities					
Deferred income tax liabilities	31	**9,400**	–	–	–
Net assets		**1,435,736**	305,114	**1,342,739**	294,498

BALANCE SHEETS *(Cont'd)*

As at 31 December 2006

		Group		Company	
		As at 31 December 2006	As at 31 December 2005	**As at 31 December 2006**	As at 31 December 2005
	Note	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Capital and reserves					
Share capital	*27*	**17,726**	14,300	**17,726**	14,300
Reserves	*29*	**1,414,346**	332,757	**1,412,359**	333,807
Accumulated losses	*30*	**(87,346)**	(58,505)	**(87,346)**	(53,609)
Capital and reserves attributable to equity holders of the Company		**1,344,726**	288,552	**1,342,739**	294,498
Minority interests		**91,010**	16,562	–	–
Total equity		**1,435,736**	305,114	**1,342,739**	294,498

LAU TING
Chairman

NG MAN FAI, MATTHEW
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2006

	Attributable to equity holders of the Company				
	Share capital HK$'000 *(Note 27)*	**Reserves** HK$'000 *(Note 29)*	**Accumulated losses** HK$'000	**Minority interests** HK$'000	**Total** HK$'000
Balance as at 1 April 2005	10,000	35,024	(16,359)	16,357	45,022
Currency translation differences	–	–	–	318	318
Net income recognised directly in equity	–	–	–	318	318
Loss for the period	–	–	(42,146)	(113)	(42,259)
Total recognised income/(expense) for the period	–	–	(42,146)	205	(41,941)
Share option scheme:					
– value of employee services	–	22,820	–	–	22,820
– value of other participants' services	–	3,459	–	–	3,459
Issue of shares	4,300	297,600	–	–	301,900
Share issue expenses	–	(26,146)	–	–	(26,146)
	4,300	297,733	–	–	302,033
Balance as at 31 December 2005	14,300	332,757	(58,505)	16,562	305,114

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(Cont'd)*

For the year ended 31 December 2006

	Attributable to equity holders of the Company				
	Share capital HK$'000 *(Note 27)*	**Reserves** HK$'000 *(Note 29)*	**Accumulated losses** HK$'000	**Minority interests** HK$'000	**Total** HK$'000
Balance as at 1 January 2006	14,300	332,757	(58,505)	16,562	305,114
Currency translation differences	–	3,037	–	2,071	5,108
Net income recognised directly in equity	–	3,037	–	2,071	5,108
Profit/(Loss) for the year	–	–	(29,188)	26,289	(2,899)
Total recognised income/(expense) for the year	–	3,037	(29,188)	28,360	2,209
Repurchase of shares	(375)	(53,273)	–	–	(53,648)
Share option scheme:					
– value of employee services	–	19,600	–	–	19,600
– value of other participants' services	–	4,223	–	–	4,223
– issue of shares under share option scheme	1	234	–	–	235
– vested share options lapsed	–	(347)	347	–	–
Issue of shares under subscription agreements	1,800	659,700	–	–	661,500
Issue of shares arising on business combination	2,000	478,000	–	–	480,000
Share issue expenses	–	(29,585)	–	–	(29,585)
Minority interests arising on business combination	–	–	–	46,088	46,088
	3,426	1,078,552	347	46,088	1,128,413
Balance as at 31 December 2006	**17,726**	**1,414,346**	**(87,346)**	**91,010**	**1,435,736**

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2006

	Note	Year ended 31 December 2006 HK$'000	Period ended 31 December 2005 HK$'000
Cash flows from operating activities			
Net cash generated from/(used in) operating activities	32	**14,573**	(32,601)
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	35	**1,839**	–
Purchase of property, plant and equipment		**(28,792)**	(2,052)
Purchase of financial assets at fair value through profit or loss		**(28,087)**	–
Proceeds from sale of domain names and trademarks		**100**	–
Proceeds from sale of property, plant and equipment		**–**	144
Proceeds from sale of available-for-sale financial assets		**390**	–
Proceeds from sale of financial assets at fair value through profit or loss		**32,960**	–
Payments in connection with subscription of interest in Corich International Limited ("Corich")	35	**(490,000)**	(10,000)
Capital contributed to an associate		**(29,710)**	(2)
Advance to an associate		**(41)**	(10)
Interest income from bank deposits		**15,279**	4,274
Net cash used in investing activities		**(526,062)**	(7,646)
Cash flows from financing activities			
Repurchase of shares		**(53,648)**	–
Proceeds from issue of shares		**661,735**	301,900
Share issue expenses		**(29,585)**	(26,146)
Net cash generated from financing activities		**578,502**	275,754
Net increase in cash and cash equivalents		**67,013**	235,507
Cash and cash equivalents at beginning of the year/period		**242,657**	7,122
Effect of foreign exchange rate changes		**950**	28
Cash and cash equivalents at end of the year/period		**310,620**	242,657
Analysis of balances of cash and cash equivalents			
Cash and bank balances		**310,620**	242,657

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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") is principally engaged in investment, project development and the provision of technologies and equipment and consultancy services in public welfare lottery business and related sectors.

On 18 November 2005, the Company announced that the financial year end date of the Company was changed from 31 March to 31 December commencing from the financial year 2005. Accordingly, the financial statements for the current period cover the 12-month period from 1 January 2006 to 31 December 2006. The corresponding amounts shown for the consolidated income statement, consolidated statement of changes in equity, consolidated cash flow statement and related notes cover the 9-month period from 1 April 2005 to 31 December 2005 and therefore may not be comparable with the amounts shown for the current period.

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 on 26 March 2007.

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 periods 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. 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 the revaluation of 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.1 Basis of preparation *(Cont'd)*

(a) Standards, amendments and interpretations effective in 2006 but not relevant for the Group's operations

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's operations:

- HKAS 19 (Amendment) – Actuarial Gains and Losses, Group Plans and Disclosures;
- HKAS 21 (Amendment) – Net Investment in a Foreign Operation;
- HKAS 39 (Amendment) – Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- HKAS 39 (Amendment) – The Fair Value Option;
- HKAS 39 and HKFRS 4 (Amendments) – Financial Guarantee Contracts;
- HKFRS 6, Exploration for and Evaluation of Mineral Resources;
- HKFRS-Int 4, Determining whether an Arrangement contains a Lease;
- HKFRS-Int 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and
- HK(IFRIC)-Int 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment (effective for annual periods beginning on or after 1 December 2005).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.1 Basis of preparation *(Cont'd)*

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 May 2006 or later periods but that the Group has not early adopted:

- HKFRS 7, Financial Instruments: Disclosures and HKAS 1 (Amendment), Presentation of Financial Statements – Capital Disclosures (effective for annual periods beginning on or after 1 January 2007). HKFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. The amendment to HKAS 1 requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. The Group will apply HKFRS 7 and the amendment to HKAS 1 from 1 January 2007;

- HK(IFRIC)-Int 8, Scope of HKFRS 2 (effective for annual periods beginning on or after 1 May 2006). HK(IFRIC)-Int 8 requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of HKFRS 2. The Group will apply HK(IFRIC)-Int 8 from 1 January 2007, but it is not expected to have a significant impact on the Group's financial statements;

- HK(IFRIC)-Int 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). HK(IFRIC)-Int 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply HK(IFRIC)-Int 10 from 1 January 2007, but it is not expected to have a significant impact on the Group's financial statements; and

- HK(IFRIC)-Int 11, HKFRS 2, Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007). HK(IFRIC)-Int 11 provides guidance on classifying share-based payment transactions involving an entity's own equity instruments or the equity instruments of the parent. The Group will apply HK(IFRIC)-Int 11 from 1 January 2007, but it is not expected to have a significant impact on the Group's financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.1 Basis of preparation *(Cont'd)*

(c) Interpretations to existing standards that are not yet effective and not relevant to the Group's operations

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 May 2006 or later periods but are not relevant to the Group's operations:

- HK(IFRIC)-Int 7, Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies (effective for annual periods beginning on or after 1 March 2006). HK(IFRIC)-Int 7 provides guidance on how to apply the requirements of HKAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflationary in the prior period. As none of the group entities have a currency of a hyperinflationary economy as its functional currency, HK(IFRIC)-Int 7 is not relevant to the Group's operations; and

- HK(IFRIC)-Int 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006). HK(IFRIC)-Int 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. As none of the group entities have changed the terms of their contracts, HK(IFRIC)-Int 9 is not relevant to the Group's operations.

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December.

(a) Subsidiaries

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.2 Consolidation *(Cont'd)*

(a) Subsidiaries *(Cont'd)*

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by the Company on the basis of dividends received and receivable.

(b) Transactions and minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the consolidated income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

(c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.2 Consolidation *(Cont'd)*

(c) Associates *(Cont'd)*

The Group's share of its associate's post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses in associates are recognised in the consolidated income statement.

In the Company's balance sheet, the investments in associates are stated at cost less provision for impairment losses. The results of associates are accounted for by the Company on the basis of dividend received and receivable.

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.4 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, which is the Company's functional and presentation currency.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.4 Foreign currency translation *(Cont'd)*

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. 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 or 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 the carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation difference 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 the available-for-sale reserve in equity.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary 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 dates of the transactions); and

- all resulting exchange differences are recognised as a separate component of equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.4 Foreign currency translation *(Cont'd)*

(c) Group companies *(Cont'd)*

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

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.

2.5 Intangible assets

(a) CLO Contract

The acquired CLO Contract (Notes 14 and 35) has a finite useful life and is carried at cost less accumulated amortisation. 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 represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates and is tested annually for impairment as part of the overall balance. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(c) Domain names and trademarks

Acquisition costs of domain names and legal costs related to the registration of trademarks are capitalised and amortised on a straight-line basis over their estimated useful lives of twenty years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.5 Intangible assets *(Cont'd)*

(d) Portal development costs

Costs directly associated with the development of internal-use portals, which include the external direct cost of materials and services consumed in developing or obtaining portals, are capitalised. The capitalisation of such costs ceases no later than the point at which the portals are substantially completed and ready for their intended purpose. Portal development costs are amortised on a straight-line basis over a period of three years, which represents the estimated useful lives of the portals.

Research and other portal maintenance costs are expensed as incurred.

2.6 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation. 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 in the income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated, using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Video lottery terminals ("VLT") leased to third parties under operating leases	20%
Leasehold improvements	10% – 50% (over the period of leases)
Plant and equipment	10% – 20%
Computer equipment and software	20% – 25%
Office equipment and furniture	10% – 25%
Motor vehicles	10%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.7 Impairment of investments in subsidiaries, associates and non-financial assets

Assets that have an indefinite useful life or have not yet available for 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). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity financial assets, and available-for-sale financial assets. The classification depends on the purposes 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 classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(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 maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheet.

(c) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available for sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the balance sheet date; these are classified as current assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.8 Financial assets *(Cont'd)*

(d) 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 management intends to dispose of the investment within 12 months of the balance sheet date.

Regular 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 carried at amortised cost using the effective interest method.

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 within other gains, 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 securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss; translation differences on non-monetary securities are recognised in equity. Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in equity.

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 as gains and losses from investment securities.

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.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.8 Financial assets *(Cont'd)*

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities 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 the income statement) is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

2.9 Trade and other receivables

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. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited to the income statement.

2.10 Cash and cash equivalents

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, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheets.

2.11 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.

2.12 Trade payables

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

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

2.13 Deferred income tax

Deferred income tax is provided in full, 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 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 balance sheet date 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 to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except 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.

2.14 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 balance sheet date.

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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.14 Employee benefits *(Cont'd)*

(d) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. 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 over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the Company revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

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.

(e) 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 either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

2.15 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.16 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown, net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

(a) Income from provision of VLT is accounted for in accordance with the terms of the CLO Contract (Note 35).

The CLO Contract is an agreement whereby the Group (as the lessor) conveys to the lessee in return for payments the right to use the VLT for an agreed period of time. As the significant portion of the risks and rewards of ownership are retained by the Group, the CLO Contract is accounted for as an operating lease. As the CLO Contract does not specify minimum lease payments, the income from provision of VLT has been accounted for in accordance with the terms of the CLO Contract and recognised as contingent-based rentals receivable under operating lease. There were no future minimum lease payments receivable under non-cancellable operating leases as at 31 December 2006.

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

(c) Income from sale of merchandise is recognised when a group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(d) Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

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

2.17 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk, credit risk, and liquidity risk. Management of the Group periodically reviews financial risk management policies to minimise the Group's exposure to financial risks.

(a) Market risk

Majority of the Group's transactions take place in the PRC and denominated in RMB, which is not a freely convertible 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 is not exposed to significant price risk.

As the Group has no significant interest-bearing assets and liabilities, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

(b) Credit risk

As at 31 December 2006, the Group has significant concentration of credit risk as a result of few number of counterparties. If the relationship with these parties changes, it could materially and adversely affect the Group's results.

The Group reviews the recoverability of its 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.

(c) Liquidity risk

Majority of the Group's operational and capital transactions are self-funded with minimal external borrowings. Accordingly, the Group considers its exposure to interest rate risk is minimal.

Management of the Group adheres to a policy of financial prudence in relation to the treasury management function and regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

3.2 Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The carrying values less impairment provision of trade and other receivables and payables are a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

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 discussed below.

(a) The Group tests whether intangible assets have suffered any impairment in accordance with the accounting policy stated in Note 2.7. 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 balance sheet date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. TURNOVER AND SEGMENT INFORMATION

The Group is principally engaged in investment, project development and the provision of technologies and equipment and consultancy services in public welfare lottery business and related sectors. An analysis of the Group's turnover for the year from continuing operations is as follows:

	Year ended 31 December 2006 HK$'000	Period ended 31 December 2005 HK$'000 As restated
Turnover		
Income from provision of VLT	**71,295**	–
Income from provision of consultancy services	**50**	–
	71,345	–

Segment information

Segment information is presented by way of the Group's primary segment reporting by business segment. In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

(a) Primary reporting format – business segments

For the year ended 31 December 2006, over 90% of the Group's revenues were derived from the Group's continuing operations representing investment, project development and the provision of technologies and equipment and consultancy services in public welfare lottery business and related sectors. For the period ended 31 December 2005, over 90% of the Group's revenues were derived from the Group's discontinued operations representing the operations of metal exchange portals for metal trading and ancillary value-chain services, metal trading, provision of consultancy and logistics services and application software development services, which were ceased on 1 June 2006. Further details of the discontinued operations are disclosed in Note 7. Accordingly, no further business segment information is presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(b) Secondary reporting format – geographical segments

For the year ended 31 December 2006 and the period ended 31 December 2005, over 90% of the Group's revenues were derived from customers based in the People's Republic of China ("PRC"). An analysis of the Group's assets and capital expenditure by geographical segments is as follows:

Carrying amounts of segment assets

	As at 31 December 2006 HK$'000	As at 31 December 2005 HK$'000
PRC	**1,143,421**	19,463
Hong Kong	**294,374**	288,744
Korea	**4,793**	4,833
	1,442,588	313,040
Investment in an associate	**54,016**	2
	1,496,604	313,042

Capital expenditure

	Year ended 31 December 2006 HK$'000	Period ended 31 December 2005 HK$'000
PRC	**1,060,890**	–
Hong Kong	**720**	2,052
	1,061,610	2,052

6. OTHER INCOME AND GAINS

	Year ended 31 December 2006 HK$'000	Period ended 31 December 2005 HK$'000
Interest income from bank deposits	**15,279**	4,274
Fair value gains on financial assets at fair value through profit or loss	**4,873**	–
	20,152	4,274

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. DISCONTINUED OPERATIONS

The Group ceased the operations of metal exchange portals for metal trading and ancillary value-chain services, metal trading, provision of consultancy and logistics services and application software development services on 1 June 2006. An analysis of the results of the discontinued operations is as follows:

	Year ended 31 December 2006 HK$'000	Period ended 31 December 2005 HK$'000
Revenue	**7,335**	12,040
Expenses	**(22,083)**	(12,076)
Loss before income tax from discontinued operations	**(14,748)**	(36)
Income tax	–	–
Loss for the year/period from discontinued operations	**(14,748)**	(36)

The net cash flows attributable to the discontinued operations are as follows:

	Year ended 31 December 2006 HK$'000	Period ended 31 December 2005 HK$'000
Operating activities	**(13,094)**	134
Investing activities	–	–
Financing activities	–	–
Total cash flows	**(13,094)**	134

8. EXPENSES BY NATURE

	Year ended 31 December 2006 HK$'000	Period ended 31 December 2005 HK$'000
Loss on disposal of property, plant and equipment	–	81
Loss on disposal of domain names and trademarks	**1,576**	–
Operating lease rentals in respect of land and buildings	**2,481**	693
Auditors' remuneration	**350**	250
Amortisation of intangible assets		
– CLO Contract *(Note 14)*	**4,896**	–
– Domain names and trademarks *(Note 14)*	**78**	88
Foreign exchange differences, net	**(1,103)**	(17)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. INCOME TAX

The amount of income tax charged/(credited) to the consolidated income statement represents:

	Year ended 31 December 2006 HK$'000	Period ended 31 December 2005 HK$'000
Current income tax		
– Hong Kong profits tax	**186**	–
Deferred income tax *(Note 31)*	**–**	(179)
	186	(179)

The tax on the Group's profit/(loss) before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities of 17.5% (Period ended 31 December 2005: 17.5%) as follows:

	Year ended 31 December 2006 HK$'000	Period ended 31 December 2005 HK$'000
Profit/(Loss) before income tax		
From continuing operations	**12,035**	(42,402)
From discontinued operations	**(14,748)**	(36)
	(2,713)	(42,438)
Tax calculated at Hong Kong profits tax rate of 17.5%	**(475)**	(7,427)
Income not subject to tax	**(15,806)**	(2,794)
Expenses not deductible for tax purposes	**16,467**	10,221
Others	**–**	(179)
Tax charge/(credit)	**186**	(179)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. INCOME TAX *(Cont'd)*

Overseas income tax

The Company was incorporated in Bermuda as an exempted company with limited liability under the Companies Act of Bermuda and accordingly is exempted from income tax in Bermuda until 2016. The Company's subsidiaries established in the British Virgin Islands were incorporated under the International Business Companies Act of the British Virgin Islands and accordingly are exempted from the payment of British Virgin Islands income taxes.

SteelnMetal.com Limited, an equity joint venture established and operating in Korea, is subject to Korean corporation income tax at a rate of 15% on the first 100 million Korean WON taxable income and 27% on the remaining amount. No Korean corporation income tax has been provided as SteelnMetal.com Limited incurred taxation loss for the year ended 31 December 2006 and the period ended 31 December 2005.

Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 17.5% (Period ended 31 December 2005: 17.5%) on the estimated assessable profit arising in Hong Kong for the year. No provision for Hong Kong profits tax has been made for the period ended 31 December 2005 as the Group had no assessable profits arising in or derived from Hong Kong for that period.

PRC enterprise income tax

北京威銘商網資訊技術有限公司 ("北京威銘"), a Sino-foreign equity joint venture established and operating in the PRC, is subject to PRC enterprise income tax. As 北京威銘 is qualified as a "high technology enterprise" in the PRC, it is allowed to apply for exemption from PRC enterprise income tax for three years starting from the first year of profitable operations after offsetting prior year losses, followed by a 50% reduction for the next three years. No PRC enterprise income tax has been provided as 北京威銘 incurred a taxation loss for the year ended 31 December 2006 and the period ended 31 December 2005.

上海漢絡馬口鐵貿易有限公司 ("上海漢絡"), a wholly foreign owned enterprise established and operating in the PRC, is subject to PRC enterprise income tax at a rate of 15%. No PRC enterprise income tax has been provided as 上海漢絡 incurred a taxation loss for the year ended 31 December 2006 and the period ended 31 December 2005.

東莞天意電子有限公司 ("東莞天意"), a wholly foreign owned enterprise established and operating in the PRC, is subject to PRC enterprise income tax at a rate of 24%. No PRC enterprise income tax has been provided as 東莞天意 is exempted from PRC enterprise income tax for two years starting from 2006, followed by a 50% reduction for the next three years.

海南天意日盛電子設備租賃有限公司 ("海南天意"), a wholly foreign owned enterprise established and operating in the PRC, is subject to PRC enterprise income tax at a rate of 15%. No PRC enterprise income tax has been provided as 海南天意 incurred a taxation loss for the year ended 31 December 2006.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of approximately HK$34,084,000 (Period ended 31 December 2005: HK$36,700,000).

11. LOSS PER SHARE

(a) Basic loss per share

Basic loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	Year ended 31 December 2006 HK$'000	Period ended 31 December 2005 HK$'000
Loss from continuing operations attributable to equity holders of the Company *(HK$'000)*	**14,440**	42,110
Loss from discontinued operations attributable to equity holders of the Company *(HK$'000)*	**14,748**	36
Loss attributable to equity holders of the Company *(HK$'000)*	**29,188**	42,146
Weighted average number of ordinary shares in issue for the purpose of calculating basic loss per share	**1,720,905,452**	1,307,818,182
Basic loss per share		
– Continuing operations	**0.84 HK cents**	3.22 HK cents
– Discontinued operations	**0.86 HK cents**	Negligible
	1.70 HK cents	3.22 HK cents

(b) Diluted loss per share

The computation of diluted loss per share has not assumed the exercise of options outstanding during the periods because their exercise would reduce the loss per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. STAFF COSTS

Staff costs (including directors' emoluments) comprise:

	Year ended 31 December 2006 HK$'000	Period ended 31 December 2005 HK$'000
Wages and salaries	**31,232**	10,174
Employee share option benefits	**19,600**	22,820
Social security costs	**27**	20
Pension costs – defined contribution plans	**716**	140
Other staff welfare	**249**	9
	51,824	33,163

13. COMPENSATION TO KEY MANAGEMENT PERSONNEL

	Year ended 31 December 2006 HK$'000	Period ended 31 December 2005 HK$'000
Short-term employee benefits	**24,499**	8,354
Post-employment benefits	**299**	90
Employee share option benefits	**16,273**	21,778
	41,071	30,222

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(a) Directors' emoluments

The remuneration of every director of the Company for the year ended 31 December 2006 is set out below:

Name of director	Fees	Salaries, allowance and benefits in kind	Discretionary bonuses	Employee share option benefits	Employer's contributions to pension scheme	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive directors						
Ms. Lau Ting	–	**2,080**	**7,020**	**529**	**90**	**9,719**
Mr. Sun Ho	–	**4,515**	**7,664**	**6,126**	**181**	**18,486**
Mr. Hoong Cheong Thard *(Note i)*	–	**1,285**	–	**2,979**	**4**	**4,268**
Mr. Wang Taoguang *(Note ii)*	–	**122**	–	–	–	**122**
Mr. Chen Aizheng	–	**788**	**32**	**5,450**	**12**	**6,282**
Mr. Ng Man Fai, Matthew	–	**420**	**29**	**158**	**12**	**619**
Independent non-executive directors						
Mr. Huang Shenglan	**240**	–	–	**529**	–	**769**
Mr. Chan Ming Fai *(Note iii)*	**146**	–	–	**158**	–	**304**
Mr. Li Xiaojun	**120**	–	–	**344**	–	**464**
Mr. Roger King *(Note iv)*	**38**	–	–	–	–	**38**
	544	**9,210**	**14,745**	**16,273**	**299**	**41,071**

The remuneration of every director of the Company for the period ended 31 December 2005 is set out below:

Name of director	Fees	Salaries, allowance and benefits in kind	Discretionary bonuses	Employee share option benefits	Employer's contributions to pension scheme	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive directors						
Ms. Lau Ting	–	–	3,000	844	–	3,844
Mr. Sun Ho *(Note v)*	–	1,440	3,000	11,649	72	16,161
Mr. Chen Aizheng	–	365	–	7,597	9	7,971
Mr. Ng Man Fai, Matthew	–	259	–	–	9	268
Mr. Yu Wing Keung, Dicky *(Note vi)*	–	–	–	–	–	–
Independent non-executive directors						
Mr. Roger King	90	–	–	422	–	512
Mr. Huang Shenglan	110	–	–	844	–	954
Mr. Li Xiaojun	90	–	–	422	–	512
	290	2,064	6,000	21,778	90	30,222

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Notes:

(i) Appointed on 12 September 2006

(ii) Appointed on 28 June 2006

(iii) Appointed on 12 May 2006

(iv) Retired on 24 April 2006

(v) Appointed on 3 October 2005

(vi) Resigned on 11 April 2005

During the year ended 31 December 2006, 32,400,000 share options were granted to certain directors of the Company under the Company's share option scheme (Period ended 31 December 2005: 25,800,000).

None of the directors of the Company waived or agreed to waive any emoluments during the year ended 31 December 2006 (Period ended 31 December 2005: Nil).

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group during the year ended 31 December 2006 included four (Period ended 31 December 2005: five) 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 2006 are as follows:

	Year ended 31 December 2006 HK$'000	Period ended 31 December 2005 HK$'000
Basic salaries, other allowances and benefits in kind	**1,074**	–
Discretionary bonuses	**4**	–
Employee share option benefits	**1,197**	–
Employer's contributions to pension schemes	**12**	–
	2,287	–

(c) During the year ended 31 December 2006, 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 (Period ended 31 December 2005: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14. INTANGIBLE ASSETS

			Group		
	Goodwill	**CLO Contract**	**Domain names and trademarks**	**Portal development costs**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
As at 1 April 2005					
Cost	–	–	2,347	5,422	7,769
Accumulated amortisation	–	–	(505)	(5,422)	(5,927)
Net book amount	–	–	1,842	–	1,842
Period ended 31 December 2005					
Opening net book amount	–	–	1,842	–	1,842
Amortisation charge	–	–	(88)	–	(88)
Closing net book amount	–	–	1,754	–	1,754
As at 31 December 2005					
Cost	–	–	2,347	5,422	7,769
Accumulated amortisation	–	–	(593)	(5,422)	(6,015)
Net book amount	–	–	1,754	–	1,754
Year ended 31 December 2006					
Opening net book amount	–	–	1,754	–	1,754
Acquisition of subsidiaries *(Note 35)*	935,319	60,382	–	–	995,701
Amortisation charge	–	(4,896)	(78)	–	(4,974)
Disposals	–	–	(1,676)	–	(1,676)
Closing net book amount	935,319	55,486	–	–	990,805
As at 31 December 2006					
Cost	935,319	60,382	–	5,422	1,001,123
Accumulated amortisation	–	(4,896)	–	(5,422)	(10,318)
Net book amount	935,319	55,486	–	–	990,805

Notes:

(i) Amortisation of the CLO Contract of approximately HK$4,896,000 for the year ended 31 December 2006 is included in general and administrative expenses (Period ended 31 December 2005: Nil).

(ii) Goodwill acquired through business combinations was allocated to the cash-generating unit (the "CGU") representing an operating entity within the business segment identified by the Group. The acquired subsidiaries are principally engaged in the provision of VLT. The recoverable amounts of the CGU are determined based on a value-in-use calculation. The calculation uses cash flow projections based on financial forecasts approved by management covering the remaining term of the CLO Contract of 9 years from the balance sheet date. 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 15.36%, which reflects the specific risks relating to the CGU.

No impairment loss has been recognised in respect of goodwill for the year ended 31 December 2006 as its value-in-use exceeded the carrying amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. PROPERTY, PLANT AND EQUIPMENT

	Group							
	VLT leased to third parties under operating leases	VLT under construction	Leasehold improvements	Plant and equipment	Computer equipment and software	Office equipment and furniture	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
As at 1 April 2005								
Cost	–	–	46	–	6,044	866	296	7,252
Accumulated depreciation	–	–	(40)	–	(5,772)	(397)	(216)	(6,425)
Net book amount	–	–	6	–	272	469	80	827
Period ended 31 December 2005								
Opening net book amount	–	–	6	–	272	469	80	827
Exchange differences	–	–	–	–	5	–	1	6
Additions	–	–	1,301	–	176	575	–	2,052
Disposals	–	–	–	–	–	(225)	–	(225)
Depreciation	–	–	(5)	–	(59)	(75)	(41)	(180)
Closing net book amount	–	–	1,302	–	394	744	40	2,480
As at 31 December 2005								
Cost	–	–	1,347	–	6,225	1,033	297	8,902
Accumulated depreciation	–	–	(45)	–	(5,831)	(289)	(257)	(6,422)
Net book amount	–	–	1,302	–	394	744	40	2,480
Year ended 31 December 2006								
Opening net book amount	–	–	1,302	–	394	744	40	2,480
Exchange differences	1,180	171	(1)	24	10	–	–	1,384
Acquisition of subsidiaries *(Note 35)*	32,212	4,268	–	586	43	8	–	37,117
Additions	–	26,001	635	872	172	682	430	28,792
Transfers	24,619	(24,619)	–	–	–	–	–	–
Depreciation	(5,431)	–	(258)	(147)	(113)	(260)	(73)	(6,282)
Closing net book amount	52,580	5,821	1,678	1,335	506	1,174	397	63,491
As at 31 December 2006								
Cost	61,521	5,821	1,986	1,689	6,482	1,727	739	79,965
Accumulated depreciation	(8,941)	–	(308)	(354)	(5,976)	(553)	(342)	(16,474)
Net book amount	52,580	5,821	1,678	1,335	506	1,174	397	63,491

Note: Depreciation of VLT leased to third parties under operating leases of approximately HK$5,431,000 (Period ended 31 December 2005: Nil) has been charged in cost of services and depreciation of plant and equipment of approximately HK$147,000 has been capitalised in VLT under construction (Period ended 31 December 2005: Nil). Depreciation of other items of property, plant and equipment of approximately HK$704,000 (Period ended 31 December 2005: HK$180,000) has been charged in general and administrative expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

	Company			
	Leasehold improvements	**Computer equipment and software**	**Office equipment and furniture**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
As at 1 April 2005				
Cost	–	–	–	–
Accumulated depreciation	–	–	–	–
Net book amount	–	–	–	–
Period ended 31 December 2005				
Opening net book amount	–	–	–	–
Additions	174	–	110	284
Closing net book amount	174	–	110	284
As at 31 December 2005				
Cost	174	–	110	284
Accumulated depreciation	–	–	–	–
Net book amount	174	–	110	284
Year ended 31 December 2006				
Opening net book amount	174	–	110	284
Additions	102	110	437	649
Depreciation	(14)	(16)	(78)	(108)
Closing net book amount	262	94	469	825
As at 31 December 2006				
Cost	276	110	547	933
Accumulated depreciation	(14)	(16)	(78)	(108)
Net book amount	262	94	469	825

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. INVESTMENTS IN AND AMOUNTS DUE FROM SUBSIDIARIES

	As at 31 December 2006 HK$'000	As at 31 December 2005 HK$'000
Unlisted shares, at cost	**23,909**	23,909
Provision for impairment	**(10,000)**	(10,000)
	13,909	13,909

The amounts due from subsidiaries as shown on the Company's balance sheet are unsecured, interest-free and repayable on demand. The carrying amounts of the amounts due approximate their fair values.

The following is a list of the subsidiaries as at 31 December 2006:

Name	Place of incorporation/ establishment and kind of legal entity *(Note (vi))*	Particulars of issued share capital/ registered capital	Interest held	Principal activities
Held directly:				
Harrogate Group Limited	British Virgin Islands, Limited liability company	US$2,500,000	100%	Investment holding
Profit Talent Investments Limited	British Virgin Islands, Limited liability company	US$1	100%	Investment holding
Onwealth Holdings Limited	British Virgin Islands, Limited liability company	US$1	100%	Investment holding
Willstrong Investments Limited	British Virgin Islands, Limited liability company	US$1	100%	Investment holding
Held indirectly:				
Flynn Technology Limited	British Virgin Islands, Limited liability company	US$1,000	100%	Investment holding
China LotSynergy Limited (formerly known as WorldMetal.com Limited)	Hong Kong, Limited liability company	US$500,000	100%	Investment holding

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Name	Place of incorporation/ establishment and kind of legal entity *(Note (vi))*	Particulars of issued share capital/ registered capital	Interest held	Principal activities
Held indirectly: (Cont'd)				
WorldMetal Logistics Limited	Hong Kong, Limited liability company	HK$2	100%	Inactive
China LotSynergy Asset Management Limited (formerly known as Rusmet.com Limited)	Hong Kong, Limited liability company	US$2	100%	Treasury management
SteelnMetal.com Limited *(Note (i))*	Korea, Limited liability company	WON1,000,000,000	50% *(Note (vii))*	Inactive
北京威銘商網資訊技術有限公司("北京威銘") *(Note (ii))*	PRC, Sino-foreign equity joint venture	US$4,080,000	50% *(Note (vii))*	Inactive
上海漢絡馬口鐵貿易有限公司("上海漢絡") *(Note (iii))*	PRC, Wholly foreign owned enterprise	US$200,000	100%	Inactive
China LotSynergy Limited	British Virgin Islands, Limited liability company	US$100	100%	Investment holding
China LotSynergy Development Limited (formerly know as China LotSynergy 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 (vii))*	Investment holding
East Grand Enterprises Limited	Hong Kong, Limited liability company	HK$1	50% *(Note (vii))*	Investment holding

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Name	Place of incorporation/ establishment and kind of legal entity *(Note (vi))*	Particulars of issued share capital/ registered capital	Interest held	Principal activities
Held indirectly: (Cont'd)				
Dongguan Corich Electronics Co., Ltd. ("東莞天意") *(Note (iv))*	PRC, Wholly foreign owned enterprise	HK$8,000,000	50% *(Note (vii))*	Provision of VLT
海南天意日盛電子設備租賃有限公司 ("海南天意") *(Note (v))*	PRC Wholly foreign owned enterprise	HK$14,000,000	50% *(Note (vii))*	Provision of VLT
China LotSynergy Investment Limited	Hong Kong, Limited liability company	HK$1	100%	Investment holding
Aceteam Investment Limited	Hong Kong, Limited liability company	HK$1	100% *(Note (viii))*	Not yet commenced business

Notes:

(i) SteelnMetal.com Limited is an equity joint venture established in Korea.

(ii) 北京威銘 is a Sino-foreign equity joint venture established in the PRC to be operated for a period of 30 years up to 2030.

(iii) 上海漢絡 is a wholly foreign owned enterprise established in the PRC to be operated for a period of 50 years up to 2052.

(iv) 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.

(v) 海南天意 is a wholly foreign owned enterprise established in the PRC to be operated for a period of 30 years up to 2035.

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

(vii) 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.

(viii) On 29 June 2006, China LotSynergy Investment Limited ("CLS" - a wholly-owned subsidiary of the Company), Octavian International Limited ("Octavian") and Aceteam Investment Limited entered into a joint venture agreement ("JV Agreement") with a view to jointly develop lottery related businesses in the PRC and internationally. Pursuant to the JV Agreement, CLS and Octavian agreed to establish a joint venture company namely Aceteam Investment Limited, which would be held as to 60% by CLS and as to 40% by Octavian, and the total paid up capital committed by both parties amounts to HK$46,800,000. As at 31 December 2006, the Group was committed to contribute to the capital of Aceteam Investment Limited in the amount of approximately HK$28,080,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. INVESTMENT IN AND AMOUNTS DUE FROM/TO AN ASSOCIATE

	Group	
	2006	2005
	HK$'000	HK$'000
Beginning of the year/period	**2**	–
Capital contribution to TIHK	**59,398**	2
Acquisition of interest in associate *(Note 35)*	**500,000**	–
Share of profit less loss	**(4,943)**	–
Exchange difference *(Note 29)*	**967**	–
Acquisition of subsidiaries *(Note 35)*	**(501,408)**	–
End of the year/period	**54,016**	2

Particulars of the unlisted associate of the Group as at 31 December 2006 are as follows:

Name of company	Particulars of issued shares held by the Group	Place of incorporation	Interest held	Principal activities
Tabcorp International Hong Kong Limited ("TIHK")	9,900,000 ordinary shares of A$1 each	British Virgin Islands	33%	Development of nationwide unified platform for lottery operation in the PRC

The amounts due from/to the associate are unsecured, interest-free and repayable on demand. The carrying amounts of the amounts due approximate their fair values.

The following table illustrates the summarised financial information of the associate of the Group as extracted from its unaudited management accounts:

	2006	2005
	HK$'000	HK$'000
Total assets	**171,790**	28
Total liabilities	**(8,104)**	(22)
Revenue	**468**	–
Loss	**19,554**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18. AVAILABLE-FOR SALE FINANCIAL ASSETS

	Group	
	As at 31 December 2006 HK$'000	As at 31 December 2005 HK$'000
Unlisted guarantee fund, at fair value	**–**	390

19. ACCOUNTS RECEIVABLE

Income from provision of VLT is billed on a monthly basis and is due 15 days after month-end. As at 31 December 2006, the ageing analysis of the accounts receivable is as follows:

	Group	
	As at 31 December 2006 HK$'000	As at 31 December 2005 HK$'000
0 – 30 days	**14,893**	–
31 – 60 days	**9,245**	–
	24,138	–

The carrying amounts of the Group's accounts receivable are denominated in RMB. The carrying amounts of the Group's accounts receivable approximate their fair values.

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Included in the balance of prepayments, deposits and other receivables of the Group as at 31 December 2005 was an initial deposit of HK$10 million paid by the Group upon entering into a heads of agreement on 20 December 2005 in connection with the subscription of interest in Corich (Note 35).

The carrying amounts of the Group's and the Company's prepayments, deposits and other receivables approximate their fair values.

21. AMOUNTS DUE FROM RELATED COMPANIES

The balance represents amounts due from subsidiaries of Burwill Holdings Limited, a substantial shareholder of the Company. The amounts due are unsecured, interest-free and repayable on demand. The maximum amount outstanding during the year was approximately HK$21,250,000.

The carrying amounts of the amounts due approximate their fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. DEPOSIT WITH A FINANCIAL INSTITUTION

The balance represents a deposit (denominated in RMB) placed with Minmetals Finance Company Limited (五礦集團財務有限責任公司) ("Minmetals Finance"), a registered financial institution in the PRC. Minmetals Finance is a fellow subsidiary of a minority shareholder of a non-wholly owned subsidiary of the Company. This deposit is kept as a saving deposit with the financial institution and bears interest at a rate at the prevailing interest rate of the People's Bank of China as at 31 December 2006 (As at 31 December 2005: 2.25% per annum). The remittance of these funds out of the PRC is subject to the exchange control restrictions imposed by the PRC government. For the year ended 31 December 2006, total interest income from Minmetals Finance in respect of the aforesaid deposit amounted to approximately HK$172,000 (Period ended 31 December 2005: HK$346,000).

The carrying amount of the Group's deposit with a financial institution approximates its fair value.

23. CASH AND BANK BALANCES

As at 31 December 2006, the Group had cash and bank balances of approximately HK$42,259,000 (As at 31 December 2005: HK$257,000) 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.

The carrying amounts of the Group's and the Company's cash and bank balances approximate their fair values.

24. ACCOUNTS PAYABLE

As at 31 December 2006, the ageing analysis of the accounts payable is as follows:

	Group	
	As at 31 December 2006 HK$'000	As at 31 December 2005 HK$'000
0 – 30 days	**646**	–
31 – 60 days	**631**	–
Over 60 days	**1,403**	–
	2,680	–

The carrying amounts of the Group's accounts payable are denominated in RMB. The carrying amounts of the Group's accounts payable approximate their fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25. ACCRUALS AND OTHER PAYABLES

The carrying amounts of the Group's and the Company's accruals and other payables approximate their fair values.

26. AMOUNTS DUE TO RELATED COMPANIES/A DIRECTOR

The amounts due are unsecured, interest-free and repayable on demand. The carrying amounts of the amounts due approximate their fair values.

27. SHARE CAPITAL

	Authorised Ordinary shares of HK$0.01 each	
	Number of shares	HK$'000
As at 1 April 2005, 31 December 2005 and 1 January 2006	2,000,000,000	20,000
Increase in authorised share capital *(Note (i))*	2,000,000,000	20,000
As at 31 December 2006	4,000,000,000	40,000

	Issued and fully paid ordinary shares of HK$0.01 each	
	Number of shares	HK$'000
As at 1 April 2005	1,000,000,000	10,000
New issue of shares *(Note (ii))*	200,000,000	2,000
New issue of shares *(Note (iii))*	230,000,000	2,300
As at 31 December 2005 and 1 January 2006	1,430,000,000	14,300
Shares options exercised *(Note (iv))*	120,000	1
New issue of shares *(Note (v))*	180,000,000	1,800
New issue of shares *(Note (vi))*	200,000,000	2,000
Repurchase of shares *(Note (vii))*	(37,538,000)	(375)
As at 31 December 2006	1,772,582,000	17,726

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27. SHARE CAPITAL *(Cont'd)*

Notes:

(i) Pursuant to the ordinary resolution passed by the Company's shareholders at the special general meeting held on 21 March 2006, the authorised share capital of the Company was increased from HK$20,000,000 to HK$40,000,000 by the creation of an additional 2,000,000,000 shares of HK$0.01 each in the capital of the Company (the "Shares").

(ii) Pursuant to the placing agreements dated 7 March 2005, the Company allotted and issued a total of 200,000,000 new Shares to the placees on 8 April 2005 upon completion thereof. Total net proceeds from the placing of approximately HK$5 million were used as the Group's general working capital.

(iii) Pursuant to the subscription agreements dated 9 August 2005, the Company allotted and issued a total of 230,000,000 new Shares to the subscribers on 19 August 2005, following the completion of the placing agreement for the placing of a total of 400,000,000 existing Shares (the "2005 Top-up Placing") to more than six placees. The Company raised a sum of approximately HK$271 million through the 2005 Top-up Placing and the fund was intended to be used as to approximately HK$59 million to pay up the capital commitment of TIHK and the remaining balance for investing in other relevant business opportunities that may arise in the future and for the Group's general working capital.

(iv) Share options were exercised by optionholders in January 2006 to subscribe for a total of 120,000 Shares by payment of subscription monies of approximately HK$235,000, of which HK$1,000 was credited to share capital and the balance of HK$234,000 was credited to the share premium account.

(v) Pursuant to the subscription agreements dated 17 January 2006, the Company allotted and issued a total of 180,000,000 new Shares at a subscription price of HK$3.675 each to the subscribers on 27 January 2006, following the completion of the placing agreements for the placing of 180,000,000 existing Shares to more than six placees at a placing price of HK$3.675 each (the "2006 Top-up Placing"). The Company raised a sum of approximately HK$631.9 million through the 2006 Top-up Placing and the fund was partly used to settle the balance of the cash consideration of HK$470 million for the subscription of interest in Corich and as the Group's general working capital.

(vi) Pursuant to the Corich Subscription Agreement (Note 35), the Company allotted and issued a total of 200,000,000 Corich Consideration Shares at HK$2.40 each to Toward Plan Investments Limited and Win Key Development Limited on 28 April 2006 as payment of part of the consideration for the subscription of interest in Corich.

(vii) The Company repurchased 37,538,000 of its own Shares on the Stock Exchange in February and May 2006. The highest and lowest price paid per Share were HK$2.95 and HK$0.87 respectively. The total amount paid for the repurchase of Shares was approximately HK$53,648,000 and has been deducted from shareholders' equity. The Shares repurchased were subsequently cancelled.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28. 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 (the "GEM Listing Rules").

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 Company's board of directors 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 of the options granted. 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 of directors may determine and expiring on the last day of the period.

Details of the movements of share options under the Option Scheme during the year ended 31 December 2006 and the period ended 31 December 2005 are as follows:

Year ended 31 December 2006

			Number of options				
Date of grant	Exercise price HK$	Exercisable period	As at 1 January 2006	Granted	Lapsed	Exercised	As at 31 December 2006
1 September 2005	1.96	31 October 2005 to 30 October 2007	15,550,000	–	(250,000)	(120,000)	15,180,000
1 September 2005	1.96	31 October 2006 to 30 October 2007	15,550,000	–	(250,000)	–	15,300,000
15 December 2005	2.70	15 December 2006 to 14 December 2008	1,500,000	–	–	–	1,500,000
8 June 2006	1.22	8 June 2007 to 7 June 2011	–	6,700,000	–	–	6,700,000
8 June 2006	1.22	8 June 2008 to 7 June 2011	–	6,700,000	–	–	6,700,000
8 June 2006	1.22	8 June 2009 to 7 June 2011	–	6,700,000	–	–	6,700,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Year ended 31 December 2006 *(Cont'd)*

			Number of options				
Date of grant	**Exercise price** HK$	**Exercisable period**	**As at 1 January 2006**	**Granted**	**Lapsed**	**Exercised**	**As at 31 December 2006**
8 June 2006	1.22	8 June 2010 to 7 June 2011	–	6,700,000	–	–	6,700,000
30 June 2006	1.14	16 August 2007 to 29 June 2016	–	4,400,000	–	–	4,400,000
30 June 2006	1.14	16 August 2008 to 29 June 2016	–	4,400,000	–	–	4,400,000
30 June 2006	1.14	16 August 2009 to 29 June 2016	–	4,400,000	–	–	4,400,000
30 June 2006	1.14	16 August 2010 to 29 June 2016	–	4,400,000	–	–	4,400,000
			32,600,000	44,400,000	(500,000)	(120,000)	76,380,000

Period ended 31 December 2005

			Number of options				
Date of grant	Exercise price HK$	Exercisable period	As at 1 April 2005	Granted	Lapsed	Exercised	As at 31 December 2005
1 September 2005	1.96	31 October 2005 to 30 October 2007	–	15,550,000	–	–	15,550,000
1 September 2005	1.96	31 October 2006 to 30 October 2007	–	15,550,000	–	–	15,550,000
15 December 2005	2.70	15 December 2006 to 14 December 2008	–	1,500,000	–	–	1,500,000
			–	32,600,000	–	–	32,600,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28. 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. No options under the Option Scheme were expired during the year ended 31 December 2006 and the period ended 31 December 2005.

The fair value of the options granted during the year ended 31 December 2006 was estimated as at the date of grant using the Black-Scholes options pricing model with the following assumptions:

(i) Risk-free interest rate – the yield of three years Exchange Fund Notes;

(ii) Expected volatility of share price – annualised volatility for one year immediately preceding the date of grant. 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 – one to nine years; and

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

According to Black-Scholes options pricing model, the fair value of the options granted during the year ended 31 December 2006 was approximately HK$39,654,000 (Period ended 31 December 2005: HK$38,837,000) of which the Group recognised a share option expense of HK$11,526,000 (Period ended 31 December 2005: HK$26,279,000) for the year ended 31 December 2006.

The 120,000 options exercised during the year resulted in the issue of 120,000 ordinary shares of the Company and new share capital of HK$1,200 and share premium of HK$400,800 (before issue expenses), as further detailed in Note 27 to the financial statements. The related weighted average share price at the date of exercise was HK$3.575.

As at 31 December 2006, the Company had 76,380,000 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 issue of 76,380,000 additional ordinary shares of the Company and additional share capital of HK$763,800 and share premium of approximately HK$165,375,000 (before issue expenses).

Subsequent to the balance sheet date, (i) a total of 2,000,000 options were granted to an employee of the Company with an exercise price of HK$1.78 per share and the share price of the Company at the date of grant was HK$1.78. (ii) a total of 300,000 options lapsed of which 150,000 options were exercisable from 31 October 2005 to 30 October 2007 with an exercise price of HK$1.96 per share and 150,000 options were exercisable from 31 October 2006 to 30 October 2007 with an exercise price of HK1.96 per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29. RESERVES

	Share premium HK$'000	Capital reserve HK$'000 (Note (b))	Group Currency translation reserve HK$'000	Share-based compensation reserve HK$'000	Total HK$'000
Balance as at 1 April 2005	19,865	15,158	1	–	35,024
Share option scheme					
– value of employee services	–	–	–	22,820	22,820
– value of other participants' services	–	–	–	3,459	3,459
Issue of shares	271,454	–	–	–	271,454
Balance as at 31 December 2005 and 1 January 2006	291,319	15,158	1	26,279	332,757
Repurchase of shares	(53,273)	–	–	–	(53,273)
Share option scheme:					
– value of employee services	–	–	–	19,600	19,600
– value of other participants' services	–	–	–	4,223	4,223
– issue of shares under share option scheme	401	–	–	(167)	234
– vested share options lapsed	–	–	–	(347)	(347)
Issue of shares	1,137,700	–	–	–	1,137,700
Share issue expenses	(29,585)	–	–	–	(29,585)
Currency translation differences					
– overseas subsidiaries	–	–	2,070	–	2,070
– overseas associate	–	–	967	–	967
Balance as at 31 December 2006	1,346,562	15,158	3,038	49,588	1,414,346

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29. RESERVES *(Cont'd)*

	Company			
	Share premium HK$'000	**Contributed surplus** HK$'000 *(Note (c))*	**Share-based compensation reserve** HK$'000	**Total** HK$'000
Balance as at 1 April 2005	19,865	16,209	–	36,074
Share option scheme				
– value of employee services	–	–	22,820	22,820
– value of other participants' services	–	–	3,459	3,459
Issue of shares	271,454	–	–	271,454
Balance as at 31 December 2005 and 1 January 2006	291,319	16,209	26,279	333,807
Repurchase of shares	(53,273)	–	–	(53,273)
Share option scheme:				
– value of employee services	–	–	19,600	19,600
– value of other participants' services	–	–	4,223	4,223
– issue of shares under share option scheme	401	–	(167)	234
– vested share options lapsed	–	–	(347)	(347)
Issue of shares	1,137,700	–	–	1,137,700
Share issue expenses	(29,585)	–	–	(29,585)
Balance as at 31 December 2006	1,346,562	16,209	49,588	1,412,359

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30. ACCUMULATED LOSSES

	Company	
	2006	2005
	HK$'000	HK$'000
Balance as at 1 January 2006/1 April 2005	**(53,609)**	(16,909)
Vested share options lapsed	**347**	–
Loss for the year/period	**(34,084)**	(36,700)
Balance as at 31 December 2006/2005	**(87,346)**	(53,609)

31. DEFERRED INCOME TAX LIABILITIES

	Group	
	2006	2005
	HK$'000	HK$'000
Beginning of the year/period	**–**	179
Deferred taxation credit to the income statement	**–**	(179)
Acquisition of subsidiaries *(Note 35)*	**9,400**	–
End of the year/period	**9,400**	–

The balance of deferred income tax liabilities as at 31 December 2006 is attributable to the intangible assets (CLO Contract) recognised arising from acquisition of subsidiaries.

As at 31 December 2006, the Group had unused tax losses of approximately HK$87,000 (2005: HK$1,232,000) that can be carried forward to offset against future taxable profit. The Group did not recognise a deferred income tax asset in respect of such tax losses as it was not probable that future taxable profit will be available to utilise the unused tax losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of profit/(loss) before income tax to net cash generated from/(used in) operations

	Year ended 31 December 2006 HK$'000	Period ended 31 December 2005 HK$'000
Cash flows from operating activities		
Profit/(Loss) before income tax:		
From continuing operations	**12,035**	(42,402)
From discontinued operations	**(14,748)**	(36)
Adjustments for:		
Depreciation	**6,282**	180
Amortisation of intangible assets	**4,974**	88
Loss on disposal of domain names and trademarks	**1,576**	–
Loss on disposal of property, plant and equipment	**–**	81
Share-based compensation expenses	**23,823**	26,279
Reversal of impairment of accounts receivable	**(9)**	–
Interest income from bank deposits	**(15,279)**	(4,274)
Share of profit less loss of associates	**4,943**	–
Fair value gains on financial assets at fair value through profit or loss	**(4,873)**	–
Operating cash flows before changes in working capital	**18,724**	(20,084)
– Accounts receivable	**1,852**	4,175
– Prepayments, deposits and other receivables	**13,324**	(22,591)
– Amounts due from related companies	**(4,908)**	–
– Accounts payable	**(6,392)**	–
– Accruals and other payables	**(7,763)**	5,899
– Amounts due to related companies	**(196)**	–
– Amount due to a director	**(68)**	–
Net cash generated from/(used in) operating activities	**14,573**	(32,601)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33. OPERATING LEASE COMMITMENTS

As at 31 December 2006, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of rented premises as follows:

	As at 31 December 2006 HK$'000	As at 31 December 2005 HK$'000
No later than one year	**2,606**	2,349
Later than one year and no later than five years	**1,608**	2,957
	4,214	5,306

The Company did not have significant operating lease commitments as at 31 December 2006 (As at 31 December 2005: Nil).

34. 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.

As stipulated by Korean labour law, employees with more than one year of service are entitled to receive a lump sum payment upon voluntary or involuntary termination of their employment. The amount of the benefit is based on the terminated employee's length of employment and rate of pay prior to termination. The Group records the vested benefit obligation assuming all employees were to terminate their employment at the balance sheet date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

34. EMPLOYEE RETIREMENT BENEFITS *(Cont'd)*

During the year, the aggregate amount of the Group's contributions to the aforementioned schemes was approximately HK$716,000 (Period ended 31 December 2005: HK$140,000), with no (Period ended 31 December 2005: HK$7,000) deduction of forfeited contributions. As at 31 December 2006, there was no material forfeited contribution available to reduce the Group's employer contribution payable in future periods.

The Group did not have contribution payable as at 31 December 2006 (As at 31 December 2005: Nil).

35. BUSINESS COMBINATIONS

On 9 January 2006, the Company entered into a subscription agreement ("Corich Subscription Agreement") with China LotSynergy Group Limited ("CLG"- a wholly-owned subsidiary of the Company), Toward Plan Investments Limited and Win Key Development Limited (Toward Plan Investments Limited and Win Key Development Limited are collectively referred to as the "Warrantors") and Corich. Pursuant to the Corich Subscription Agreement, the Group would subscribe for 1,000,000 ordinary shares of US$1.00 each in the share capital of Corich ("Corich Shares") representing either approximately 33.3% or 50% (depending on whether the redemption rights under the Corich Subscription Agreement would be exercised) in the issued share capital of Corich as a result of the subscription, for a consideration of HK$980 million, to be satisfied as to HK$500 million by cash and as to HK$480 million by the allotment and issue of 200,000,000 shares of HK$0.01 each in the capital of the Company ("Corich Consideration Shares") at an issue price of HK$2.40 each. An initial deposit of HK$10 million was paid on 20 December 2005 and a further deposit of HK$20 million was paid on 12 January 2006 in accordance with the Corich Subscription Agreement. The subscription constituted a major transaction for the Company under the GEM Listing Rules and was approved at the Company's special general meeting held on 21 March 2006. On 4 April 2006, the Group completed the subscription for 1,000,000 Corich Shares by payment of the remaining cash consideration of HK$470 million and as a result CLG held 33.3% of the then total issued share capital of Corich, which was accounted for as an associate of the Group as from that date.

Pursuant to the Corich Subscription Agreement, CLG has the right ("Subscriber's Redemption Right") within a period of three months from completion to request Corich to redeem all (but not part) of the 1,000,000 redeemable convertible preference shares of US$1.00 each in the share capital of Corich ("Corich Preference Shares") held by the Warrantors. In the event that this right is exercised by CLG, Corich shall pay to the Warrantors HK$500 million in cash, and instruct the Company to issue the Corich Consideration Shares to the Warrantors on a pro rata basis as referred to in the Corich Subscription Agreement.

On 28 April 2006, CLG exercised the Subscriber's Redemption Right to request Corich to redeem all of the Corich Preference Shares held by the Warrantors, where the Company allotted and issued the Corich Consideration Shares to the Warrantors on a pro rata basis. Upon the exercise of the Subscriber's Redemption Right, CLG holds 50% of the total issued share capital of Corich, which is accounted for as a subsidiary of the Group as from that date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35. BUSINESS COMBINATIONS *(Cont'd)*

The Corich Group through its wholly-owned subsidiary, 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.

Details of net assets acquired and goodwill are as follows:

	HK$'000
Purchase consideration:	
Fair value of Corich Consideration Shares *(Note 27(vi))*	480,000
Fair value of net assets acquired – shown as below	(15,393)
Goodwill	464,607
Goodwill transferred from investment in an associate	470,712
Total goodwill *(Note 14)*	935,319

The assets and liabilities as of 28 April 2006 arising from the acquisition are as follows:

	Fair value HK$'000	**Acquiree's carrying amount** HK$'000
Cash and bank balances	1,839	1,839
Intangible assets – CLO Contract *(Note 14)*	60,382	–
Property, plant and equipment *(Note 15)*	37,117	37,117
Accounts receivable	25,027	25,027
Deposits, prepayments and other receivables	4,429	4,429
Accounts payables	(8,846)	(8,846)
Accruals and other payables	(9,245)	(9,245)
Amount due to director of Corich	(400)	(400)
Amounts due to related parties	(8,726)	(8,726)
Deferred income tax liabilities *(Note 31)*	(9,400)	–
Net assets	92,177	41,195
Minority interests	76,784	
Net assets acquired	15,393	

Purchase consideration settled in cash	–
Cash and cash equivalents in subsidiaries acquired	1,839
Cash inflow on acquisition	1,839

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35. BUSINESS COMBINATIONS *(Cont'd)*

The fair value of the CLO Contract was arrived at on the basis of a valuation carried out by independent, professionally qualified valuers not connected with the Group. The valuation was determined by reference to discounted cash flow projections.

The adoption of HK$2.40 each as the fair value of the Corich Consideration Shares issued at the date of exchange was based on a fair value assessment made by the directors of the Company, taking into consideration all aspects of the combination and significant factors influencing the negotiations. The Group did not adopt the closing price of HK$1.60 per Share as quoted on the Stock Exchange as at the date of issue of the Corich Consideration Shares as the directors considered that the published price was not a reliable indicator of the fair value of the Corich Consideration Shares issued in view of the thinness of the market.

Goodwill arising from acquisition of the Corich Group is attributable to the anticipated profitability and future development of the Corich Group in public welfare lottery business in the PRC and the anticipated future operating synergy from the combinations.

The Corich Group contributed revenues of approximately HK$71,295,000 and net profit of approximately HK$57,600,000 to the Group for the period from the date of acquisition to 31 December 2006. If the acquisition had occurred on 1 January 2006, Group revenue would have been approximately HK$88,747,000 and profit before allocations would have been approximately HK$65,476,000. This pro forma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of the Group that actually would have been achieved had the acquisition occurred on 1 January 2006, nor is it intended to be a projection of future results.

There were no acquisitions in the period ended 31 December 2005.

36. 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 2006:

Nature of transactions

	Year ended 31 December 2006 HK$'000	Period ended 31 December 2005 HK$'000
Sale of domain names, trademarks and software applications to a subsidiary of a substantial shareholder of the Company	**100**	–
Income from provision of consultancy services to an associate	**50**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37. POST BALANCE SHEET EVENTS

On 26 March 2007, the Company announced that the board of directors of the Company intends to put forward a proposal to the Company's shareholders at the forthcoming annual general meeting for a reduction of the share premium account of the Company pursuant to section 46 of the Companies Act of Bermuda ("Share Premium Reduction"). As at 31 December 2006, the amount standing to the credit of the share premium account of the Company was approximately HK$1,346,562,000 and the amount of accumulated losses was approximately HK$87,346,000. Pursuant to the Share Premium Reduction, it is proposed that the share premium account of the Company be reduced by an amount of approximately HK$87,346,000 from approximately HK$1,346,562,000 to approximately HK$1,259,216,000 and that this sum be applied to eliminate the accumulated losses of the Company of approximately HK$87,346,000 as at 31 December 2006.