China LotSynergy

Annual Report 2007

China LotSynergy Holdings Limited

華彩控股有限公司

(Incorporated in Bermuda with limited liability)

Stock code: 8161

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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.

CONTENTS

CORPORATE INFORMATION

DIRECTORS
CHAN Shing, *Chairman*
LAU Ting, *Deputy Chairman*
HOONG Cheong Thard, *Chief Executive Officer*
WU Jingwei, *Vice President*
LIAO Yuang-whang, *Vice President*
Paulus Johannes Cornelis Aloysius KARSKENS, *Non-Executive Director*
WANG Taoguang, *Non-Executive Director*
HUANG Shenglan, *Independent Non-Executive Director*
CHAN Ming Fai, *Independent Non-Executive Director*
LI Xiaojun, *Independent Non-Executive Director*

PRESIDENT
LAU Ting

COMPANY SECRETARY
NG Man Fai, Matthew

QUALIFIED ACCOUNTANT
TAN Yung Kai, Richard

COMPLIANCE OFFICER
HOONG Cheong Thard

AUTHORISED REPRESENTATIVES
HOONG Cheong Thard
NG Man Fai, Matthew

AUDIT COMMITTEE
HUANG Shenglan
CHAN Ming Fai
LI Xiaojun

REMUNERATION COMMITTEE
HUANG Shenglan
CHAN Ming Fai
LAU Ting

AUDITORS
HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

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LEGAL ADVISERS
Appleby Hunter Bailhache
Baker & McKenzie
Haiwen & Partners

PRINCIPAL BANKERS
Standard Chartered Bank (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited
DBS Bank (Hong Kong) Limited

FINANCIAL SUMMARY

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

RESULTS

	Year ended 31 December		Nine-month period ended 31 December	Year ended 31 March	
	2007	2006	2005	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
				As restated	
Continuing operations:					
Turnover	**310,267**	71,345	–	–	1,022
Profit/(Loss) before income tax	**246,967**	12,035	(42,402)	(6,291)	(9,047)
Income tax	**(1,034)**	(186)	179	–	1,500
Profit/(Loss) for the year/period from continuing operations	**245,933**	11,849	(42,223)	(6,291)	(7,547)
Discontinued operations:					
Profit/(Loss) for the year/period from discontinued operations	**–**	(14,748)	(36)	(6,099)	4,342
Profit/(Loss) for the year/period	**245,933**	(2,899)	(42,259)	(12,390)	(3,205)
Attributable to:					
Equity holders of the Company	**132,094**	(29,188)	(42,146)	(11,680)	(3,206)
Minority interests	**113,839**	26,289	(113)	(710)	1
	245,933	(2,899)	(42,259)	(12,390)	(3,205)

ASSETS AND LIABILITIES

	As at 31 December			As at 31 March	
	2007	2006	2005	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**2,859,639**	1,496,604	313,042	47,194	60,641
Total liabilities	**(759,035)**	(60,868)	(7,928)	(2,172)	(3,793)
Net assets	**2,100,604**	1,435,736	305,114	45,022	56,848

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

The Group is principally engaged in the provision of lottery gaming system, terminal equipment and relevant technologies and consultancy services for the public welfare lottery market in China.

BUSINESS REVIEW

In 2007, the Group made substantial progress in its lottery business and achieved significant results in strategic developments. The Group committed resources to improve its operational and management infrastructure. Under a strengthened platform, the Group continued to supply Video Lottery Terminals ("VLT") to the China Lottery On-line ("CLO", or "中福在線") national network, and completed the restructuring of Tabcorp International Hong Kong Limited ("TIHK") (a joint venture company focusing on the national high frequency lottery KENO project) by bringing in GTECH Corporation ("GTECH"), one of the world's largest KENO system providers. The Group expanded into traditional computer lottery business through the strategic acquisition of Champ Mark Investments Limited and its subsidiaries ("CMIL Group"), a traditional computer lottery equipment supplier focusing on the China welfare lottery sector. The Group also formed a joint venture with International Game Technology ("IGT") in Beijing, one of the global leading gaming system and equipment company, to facilitate the Group's expansion into new lottery related business.

During the year under review, the Group's total turnover was approximately HK$310 million, representing an increase of 335% over the corresponding period last year. Excluding the share option expenses and amortisation of intangibles, the profit attributable to equity holders of the Company for the year was approximately HK$155.7 million (2006: loss of HK$2.9 million).

Supply of VLT Equipment

In 2007, CLO's instant video lottery was one of the fastest-growing lottery products in China. As the exclusive supplier of VLT in China, the Group benefited from the rapid growth of the product. As at the end of 2007, there were over 920 CLO halls in more than 300 cities located in 28 provinces (including autonomous regions and municipalities) throughout the country, and there were over 22,000 connected VLT terminals in CLO halls operated under one single system forming a national distribution network. VLT sales for 2007 amounted to RMB13.26 billion, representing 21% of the total national welfare lottery sales of RMB63.1 billion in 2007 (approximately 1.6% and 9.2% in 2005 and 2006 respectively) and a year-on-year increase of over RMB8.64 billion.

Restructuring of KENO Joint Venture Company – TIHK

During the year under review, the Group completed the restructuring of the joint venture, TIHK, in order to facilitate the development requirement of the national high frequency KENO lottery project in China. In December 2007, China LotSynergy Limited, a wholly-owned subsidiary of the Company, acquired the remaining 67% equity interest in TIHK from Tabcorp International No. 1 Pty Ltd, a wholly-owned subsidiary of Tabcorp Holdings Limited. Immediately after the acquisition, the Group disposed of 50% equity interest in TIHK to GTECH Global Services Corporation Ltd., a wholly-owned subsidiary of GTECH. Pursuant to the transaction, TIHK became a 50:50 joint venture of the Group and GTECH and its name was changed to CLS-GTECH Company Limited. Through the restructuring, GTECH becomes a new shareholder and is involved in the KENO project. This will bring positive impacts to the future development of the project especially on the implementation of a nationwide rollout of KENO in public places in the PRC. GTECH has extensive industry experience and can provide technical assurance to ensure the implementation of the rollout plans. At present, KENO has demonstrated satisfactory business prospects in the initial nationwide trial run. The Group anticipates that KENO will contribute to its steady long term income growth once KENO is rolled out in public places nationwide in the PRC on a significant scale.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(Cont'd)*

Restructuring of KENO Joint Venture Company – TIHK *(Cont'd)*

GTECH together with its parent company, Lottomatica, S.p.A., is the world's largest lottery company and one of the largest gaming solution providers. GTECH provides leading gaming technology and its instant lottery systems operate in many countries worldwide and cover the areas of gaming system, terminal supply, printing, logistics and distribution. GTECH is also one of the largest providers of KENO systems to operators worldwide and it provides KENO systems to Beijing and Shenzhen Lottery Issuing Centers. It has extensive experience in operating business in the PRC. Its parent company, Lottomatica, S.p.A., is listed on the Milan Stock Exchange in Italy with over US$5.5 billion in market value at 28 December 2007.

Acquisition of CMIL Group, Entering the Traditional Computer Lottery Business

The Group expanded its business to include traditional computer lottery through an acquisition. In the fourth quarter 2007, the Group completed the acquisition of CMIL Group, whose subsidiaries 廣州市三環永新科技有限公司(Guangzhou San Huan Yong Xin Technology Company Limited*) ("GZSH") and 廣州洛圖終端技術有限公司 (Guangzhou Lottnal Terminal Technology Company Limited*) ("GZL") are principally engaged in the research and development, manufacture, supply and maintenance of traditional computer lottery terminal and equipment in the PRC and possess a number of relevant patents and intellectual properties rights. Currently, GZSH specialises in the provision of lottery system and equipment to the provincial welfare lottery issuing authorities in the PRC; GZL is a well-known PRC corporation which is engaged in the research and development and manufacture of lottery ticket scanners. CMIL Group is also currently the sole supplier of standardised national high frequency lottery KENO gaming terminals in the PRC. The acquisition diversified the Group's income source and extended its business from the original VLT and KENO lottery business to the traditional computer lottery business and resulted in enlargement of the Group's involvement in the PRC lottery market.

Exploring New Lottery Business Through International Cooperation

The Group is committed to working with strategic partners, who are global leaders in the industry, to develop the China lottery business. In May 2007, the Group and IGT entered into a share subscription agreement and a technical cooperation agreement. Pursuant to these agreements, the Group and IGT formed a strategic alliance whereby the Group would be able to obtain advanced international lottery technologies and systems, as well as operation and management expertise to enhance its service and expand into the PRC lottery market. The completion of the share subscription agreement took place on 31 May 2007 upon the fulfillment of all conditions. IGT subscribed for new shares and convertible note issued by the Company with a total investment over HK$802 million.

Following the formation of the strategic alliance between the Group and IGT, the two parties entered into a shareholders' agreement in August 2007 and through their respective wholly-owned subsidiaries formed a 50:50 joint venture to develop new lottery business in China.

* *For identification only*

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OUTLOOK

China's welfare lottery business is directed by the PRC authorities. Since its launch twenty years ago, the China welfare lottery has made significant contribution to the country's social security and welfare business. In 2007, total sales of the China welfare lottery amounted to approximately RMB63.1 billion, and it raised approximately RMB21.7 billion for welfare funds.

Compared with many developed countries, the lottery industry in China is still in its developing stage. Before the passing of lottery legislations in China, there will be improvements and adjustments to be made on areas from supervision, issuance to distribution. The Group believes that the government is speeding up the legislation process to regulate the industry. The operation of the China welfare lottery is also being improved based on the principle of "safe operation, and healthy development". The implementation of the principles will reflect more clearly the validity and the public welfare nature of the China welfare lottery and will reduce policy risks faced by investors. It will also result in more effective clamp down on illegal lottery, underground gambling, and other forms of illegal gaming and this will be positive for the issuance and sales of lottery and will provide more room for the development of the lottery business in China.

The Group is pleased to be involved in the welfare lottery business in the PRC. One of the development strategies of the Group is to work with leading international industry players to introduce international advanced lottery technology and operation management expertise into the China lottery market. The Group believes that the cooperation with IGT and GTECH can help the China lottery industry to improve the standard of research and development of systems, terminal manufacturing and operations. It will also improve and enrich game varieties and contents and allow the China lottery market to be operated in an enhanced safety environment and developed in a sustainable and stable manner in the long term.

The Group's strategic focus is on the welfare lottery business and on consolidating its leading position in the China lottery industry. The Group will further enhance the build-up of its technical team, strengthen the existing business and seek to explore new business opportunities in lottery-related segments in China. The Group will also expand through mergers and acquisitions to enhance its business portfolio and strengthen its revenue streams and profitability in order to provide long-term and stable returns to its shareholders.

FINANCIAL REVIEW

During the year, the Group's income from lottery business and the Group's operation in the production and provision of lottery terminals in the PRC achieved encouraging results.

The Group recorded a turnover of approximately HK$310.3 million for the year ended 31 December 2007, representing a growth of 335% over 2006. Profit attributable to equity holders for the year amounted to approximately HK$132.1 million, as compared with the loss of HK$29.19 million for 2006. The profit attributable to equity holders for the year, excluding the share option expenses and amortisation of intangible assets, was approximately HK$155.7 million, as compared with the loss of HK$2.9 million for last year.

Benefiting from the expanding coverage across China during the year, the Group's business in the production and provision of VLT continued to grow. The VLT sales for 2007 increased by 187% to RMB13.26 billion compared with 2006.

The Group also recorded a gain on disposal of investment of approximately HK$70 million during the year, which represented the gain on the disposal of 50% equity interest of TIHK to GTECH Global Services Corporation Ltd.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY, FINANCIAL RESOURCES, GEARING RATIO AND CAPITAL STRUCTURE

The Group raised a net proceeds of approximately HK$787 million from a placement of 93,400,000 shares (equivalent to 373,600,000 shares after subdivision of shares became effective on 7 August 2007) at HK$2.70 each (equivalent to HK$0.675 each after subdivision of shares became effective on 7 August 2007) and an issue of convertible note at a principal amount of HK$550 million to IGT during the year.

At 31 December 2007, the Group had an outstanding guarantee and indemnity for HK$20 million (at 31 December 2006: 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.

The Group believes that the available financial resources will sufficiently fund our capital and operating requirements. The Group did not have any bank borrowings at 31 December 2007 (at 31 December 2006: Nil).

The Group's total equity amounted to approximately HK$2,100.6 million at 31 December 2007 (at 31 December 2006: HK$1,435.7 million). At 31 December 2007, net current assets of the Group amounted to approximately HK$1,130.1 million (at 31 December 2006: HK$336.8 million), including approximately HK$1,010.6 million in cash and deposits with banks and financial institution (at 31 December 2006: HK$326.8 million).

The gearing ratio (defined as total liabilities over total assets) of the Group at 31 December 2007 was approximately 26.5% (at 31 December 2006: 4.1%).

EXPOSURE TO EXCHANGE RATES FLUCTUATION

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

PLEDGE OF ASSET

At 31 December 2007, the Group did not pledge any of its assets to obtain banking facilities nor have any charge on its assets (at 31 December 2006: Nil).

CONTINGENT LIABILITIES

At 31 December 2007, the Group did not have any material contingent liabilities (at 31 December 2006: Nil).

STAFF

At 31 December 2007, the Group had 214 (2006: 120) full time employees. 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. The Group will further strengthen its team, and in particular on the build up of its technical team, in order to offer enhanced services for China's welfare lottery market.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Mr. CHAN Shing, aged 52
Chairman

Mr. Chan is the Chairman and an Executive Director of the Company. He is the core founder of the Group and has over 18 years of experience in corporate planning and management. He shall use his extensive resources and in-depth knowledge of the PRC market in the formulation and implementation of the Group's overall strategies for development. Mr. Chan is also the Chairman and the Managing Director of Burwill Holdings Limited. Ms. Lau Ting is the spouse of Mr. Chan.

Ms. LAU Ting, aged 51
Deputy Chairman and President

Ms. Lau is the Deputy Chairman, an Executive Director and the President of the Company. Ms. Lau is the core founder of the Group and implements the Group's overall strategies for development. She has over 18 years of extensive experience in business planning and management, merger and acquisition, and financial and human resources management. Ms. Lau is also an executive director of Burwill Holdings Limited. Ms. Lau is the spouse of Mr. Chan Shing.

Mr. HOONG Cheong Thard, aged 39
Chief Executive Officer

Mr. Hoong joined the Group in September 2006 and currently is an Executive Director and the 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. WU Jingwei, aged 36
Vice President

Mr. Wu joined the Group in July 2007 and currently is an Executive Director and a Vice President of the Company. He is responsible for the research and development of products and technology, and oversees the day-to-day operations of the Group's business in the Mainland China. Mr. Wu has over 12 years of experience in information technology and has extensive experience in consumer electronics market in China. Prior to joining the Group, Mr. Wu was the General Manager of Hisense Cyber Product Limited, responsible for China business. He had also held senior position in Founder Technology Group Corp., responsible for the consumer product business and the overall products development in China market. Mr. Wu holds a bachelor's degree in Mechanical Engineering from Beijing Technology and Business University.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS *(Cont'd)*

Mr. LIAO Yuang-whang, aged 38
Vice President

Mr. Liao joined the Group in September 2007 and was appointed as an Executive Director of the Company in November 2007. He currently is an Executive Director and a Vice President/Chief Financial Officer of the Company. Mr. Liao is responsible for the investor relations and financial management of the Group. Mr. Liao has over 11 years of experience in banking and finance. Prior to joining the Group, Mr. Liao had previously been the Director of Investor Relations of Samson Holding Ltd., a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Director in the Private Equity of Citibank, Hong Kong. He also held the positions of Financial Officer, Risk Analyst and Vice-President of Private Equity at Citibank, Taipei. Mr. Liao holds a Bachelor of Arts Degree in Management Science from National Chiao Tung University and a Master of Philosophy in Management from Cambridge University. Mr. Liao is currently a Non-Executive Director of Samson Holding Ltd. and an Independent Non-Executive Director of Unimicron Technology Corp., a company listed on Taiwan Stock Exchange Corporation.

Mr. Paulus Johannes Cornelis Aloysius KARSKENS, aged 55
Non-Executive Director

Mr. Karskens joined the Group in July 2007 and is a Non-Executive Director of the Company. Mr. Karskens is also the President of the International Division of IGT, a subsidiary of International Game Technology (NYSE: IGT), a company incorporated in the State of Nevada and listed on the New York Stock Exchange. IGT is a global company specialising in the design, development, manufacturing, distribution and sale of games, platforms and systems to many jurisdictions with legalized gaming around the world. Mr. Karskens has been with IGT since November 1993. He has been the President of IGT International since December 2000, and has successfully assisted in the expansion of international business of IGT, bringing IGT to a leading position in the global gaming industry in the supplies of systems, games and terminals. Mr. Karskens had previously been the Senior Vice President of IGT operations in the United Kingdom, Europe and South-Africa. Mr. Karskens had also held various management positions in several computer system related companies in Europe for over 20 years. Mr. Karskens received a doctorandus degree in Economics from Free University of Amsterdam.

Mr. WANG Taoguang, aged 43
Non-Executive Director

Mr. Wang joined the Group in June 2006 and currently is a Non-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, master's 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)*

Mr. HUANG Shenglan, aged 56
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 46
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.

Mr. LI Xiaojun, aged 32
Independent Non-Executive Director

Mr. Li joined the Group in September 2004 and is an Independent Non-Executive Director. Mr. Li is a practicing 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.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. CHEN Hengben, aged 68

Mr. Chen is the Company's Vice President and the Chairman of the Board for Guangzhou San Huan Yong Xin Technology Company Limited and Guangzhou Lottnal Terminal Technology Company Limited, both of which are subsidiaries of the Group. Mr. Chen, who is one of China's first generation of computer experts in developing the lottery system and equipment, has over 40 years of practical experience in computer science and electronic engineering. He was Senior Engineer for the Research Institute of China Ordnance Industry and the Vice President covering technology for the Computer Center of Guangdong Provincial Science and Technology Commission; In 1992, he took part in establishing Guangzhou Horse Race Ground and took the position of Vice Chief Commander for the Project Construction of the Real Time Racing Lottery Bidding System for Guangzhou Horse Race Ground; In 1999, he was appointed as Chief Commander for the Project Construction of Macau Dog Racing Club Real Time Lottery Bidding System. Afterwards he founded Guangzhou San Huan Yong Xin Technology Company Limited and Guangzhou Lottnal Terminal Technology Company Limited. Mr. Chen holds a Bachelor's degree in Computer Major from South China University of Technology.

Mr. LIN Jianzhong, aged 48

Mr. Lin is a director and Chief Engineer of Guangzhou San Huan Yong Xin Technology Company Limited and Guangzhou Lottnal Terminal Technology Company Limited, both of which are subsidiaries of the Group. Mr. Lin has over 13 years of practical experience and sophisticated skills in developing lottery terminal and ticket scanner. He was Senior Engineer for the Computer Center of Guangdong Provincial Science and Technology Commission, and is a founder of Guangzhou San Huan Yong Xin Technology Company Limited and Guangzhou Lottnal Terminal Technology Company Limited, where he accomplished developing varieties of bidding terminals and lottery ticket scanners. Mr. Lin holds a Master's degree in Radio Engineering from South China University of Technology.

Mr. MENG Xin, aged 40

Mr. Meng is a Director of Corich International Limited, a subsidiary of the Group and the General Manager of Dongguan Corich Electronics Co., Ltd., overseeing the day-to-day operations. Mr. Meng has more than a decade of experience in Electronic Manufacturing Industry. Before joining Dongguan Corich Electronics Co., Ltd. in 2004, Mr. Meng was a senior manager of a computer company and then a technology development company in Beijing.

Mr. NG Man Fai, Matthew, aged 40

Mr. Ng joined the Group in June 2000 and currently is the Company Secretary of the Company, responsible for the Group's company secretarial affairs and compliance matters. 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.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT *(Cont'd)*

Dr. CHEN Aizheng, aged 49

Dr. Chen joined the Group in June 2000 and currently is the Chief Representative of the Beijing Representative Office and Director of Information Centre 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. He is a brother of Mr. Chan Shing and the brother-in-law of Ms. Lau Ting.

Mr. CHENG Guoming, aged 35

Mr. Cheng joined the Group in December 2005 as the Head of Project Management of the Company. He is a qualified accountant in mainland China and has 10 years of experience in merger and acquisition, restructuring and relevant project management. Prior to joining the Company, he was a senior manager of Deloitte corporate finance team. Mr. Cheng holds a bachelor's degree in Economy and a certificate of International Economy Laws from Fudan University.

Mr. TAN Yung Kai, Richard, aged 36

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.

Ms. SONG Xiaojun, aged 41

Ms. Song joined the Group in December 2007 as the In-house Legal Counsel of the Company. She obtained the lawyer qualification certificate in mainland China and she has over 15 years of experience in legal areas, specialising in commercials, foreign investments in China, dispute resolutions and intellectual property. Ms. Song advised and represented many Chinese and international enterprises. Prior to joining the Company, Ms. Song worked with the China University of Politics and Law, law firms in mainland China and Hong Kong respectively. Ms. Song holds a bachelor's degree in law from the China University of Politics and Law and a master's degree (Magister Juris) in European and Comparative Law from Oxford University.

REPORT OF THE DIRECTORS

The Directors present 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 2007.

FINANCIAL RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 31 December 2007 are set out in the consolidated income statement on page 37.

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 2007.

PRINCIPAL ACTIVITIES AND SEGMENT INFORMATION

The principal activity of the Company is investment holding.

The Group is principally engaged in investment, project development and the provision of technologies, equipments and consultancy services in public welfare lottery business and related sectors in China.

Analysis of the Group's turnover and segment information for the year ended 31 December 2007 are set out in note 5 to the consolidated financial statements.

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 88% of the Group's turnover.

The aggregate costs of sales and services attributable to the five largest suppliers of the Group during the year were less than 30% of the costs of sales and services 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.

PROPERTY, PLANT AND EQUIPMENT

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

SUBSIDIARIES

The particulars of the Company's principal subsidiaries as at 31 December 2007 are set out in note 18 to the consolidated financial statements.

REPORT OF THE DIRECTORS

SHARE CAPITAL

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

CONVERTIBLE NOTE

The Company issued an unsecured 8-year maturity zero coupon convertible note with a principal amount of HK$550 million ("Convertible Note") to International Game Technology on 31 May 2007. Details of the Convertible Note are set out in note 30 to the consolidated financial statements.

RESERVES

Details of movements in reserves during the year are set out in note 34 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2007, there was no distributable reserve to the shareholders in accordance with the Company's Bye-laws (As at 31 December 2006: 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.

CHANGE OF HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

With effect from 9 November 2007, the head office and principal place of business of the Company has been changed to Unit 3308, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.

CHANGE OF COMPLIANCE OFFICER

On 16 July 2007, Mr. NG Man Fai, Matthew resigned and Mr. HOONG Cheong Thard was appointed as the Compliance Officer of the Company.

CHANGE OF COMPANY SECRETARY

On 1 December 2007, Ms. NG Lai Ping, Grace resigned and Mr. NG Man Fai, Matthew was appointed as the Company Secretary of the Company.

APPOINTMENT OF PRESIDENT

With effect from 14 February 2008, Ms. LAU Ting, the Deputy Chairman and an Executive Director of the Company, was appointed as the Deputy Chairman, an Executive Director and the President of the Company.

REPORT OF THE DIRECTORS

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

During the year ended 31 December 2007, the Company repurchased a total of 9,688,000 shares of HK$0.0025 each in the share capital of the Company (the "Shares") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the general mandates granted by the shareholders at the annual general meeting held on 24 April 2007, details of which were as follows:–

Month/Year	Number of Shares repurchased	Price per Share Lowest	Price per Share Highest	Total consideration (before expenses)
		HK$	*HK$*	*HK$*
12/2007	9,688,000	0.850	0.900	8,510,560

All Shares repurchased were cancelled subsequently 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 2007.

SHARE OPTION SCHEME

As at 31 December 2007, there were options for 313,400,000 Shares granted by the Company pursuant to the option scheme, as adopted by the shareholders of the Company on 30 July 2002 (the "Option Scheme"), which were valid and outstanding.

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

(i) Purpose of the Option Scheme

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

(ii) Participants

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

(iii) Maximum number of shares

The limit on the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Option Scheme and any other share option schemes of the Company and/or its holding company and/or its subsidiary must not exceed 30% of the number of issued shares from time to time. The total number of Shares available for issue under the Option Scheme as at the date of this report is 555,932,800 Shares, representing approximately 7.31% of the issued share capital of the Company as of that date.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME *(Cont'd)*

(iv) Maximum entitlement of each Participant

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

(v) Option period

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

(vi) Payment on acceptance of option

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

(vii) Subscription price

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

(viii) The life of the Option Scheme

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

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME *(Cont'd)*

Movements of share options granted under the Option Scheme during the year ended 31 December 2007:

	Date of grant	Exercise price per Share HK$	Exercise period from	Exercise period until	No. of Shares under the options held as at 1/1/2007	exercised during the year [5]	cancelled during the year	lapsed during the year	granted during the year [2]	held as at 31/12/2007	Approximate percentage interest in the Company's issued share capital
(i) Name of Director											
CHAN Shing	01/09/2005	0.490	31/10/2005	30/10/2007	2,000,000	(2,000,000)	–	–	–	–	0%
	01/09/2005	0.490	31/10/2006	30/10/2007	2,000,000	(2,000,000)	–	–	–	–	0%
	08/06/2006	0.305	08/06/2007	07/06/2011	600,000	–	–	–	–	600,000	0.008%
	08/06/2006	0.305	08/06/2008	07/06/2011	600,000	–	–	–	–	600,000	0.008%
	08/06/2006	0.305	08/06/2009	07/06/2011	600,000	–	–	–	–	600,000	0.008%
	08/06/2006	0.305	08/06/2010	07/06/2011	600,000	–	–	–	–	600,000	0.008%
LAU Ting	01/09/2005	0.490	31/10/2005	30/10/2007	2,000,000	(2,000,000)	–	–	–	–	0%
	01/09/2005	0.490	31/10/2006	30/10/2007	2,000,000	(2,000,000)	–	–	–	–	0%
	08/06/2006	0.305	08/06/2007	07/06/2011	600,000	–	–	–	–	600,000	0.008%
	08/06/2006	0.305	08/06/2008	07/06/2011	600,000	–	–	–	–	600,000	0.008%
	08/06/2006	0.305	08/06/2009	07/06/2011	600,000	–	–	–	–	600,000	0.008%
	08/06/2006	0.305	08/06/2010	07/06/2011	600,000	–	–	–	–	600,000	0.008%
HOONG Cheong Thard	30/06/2006	0.285	16/08/2007	29/06/2016	17,600,000	–	–	–	–	17,600,000	0.230%
	30/06/2006	0.285	16/08/2008	29/06/2016	17,600,000	–	–	–	–	17,600,000	0.230%
	30/06/2006	0.285	16/08/2009	29/06/2016	17,600,000	–	–	–	–	17,600,000	0.230%
	30/06/2006	0.285	16/08/2010	29/06/2016	17,600,000	–	–	–	–	17,600,000	0.230%
WU Jingwei	11/01/2007	0.445	01/01/2008	31/12/2011	–	–	–	–	2,000,000	2,000,000	0.026%
	11/01/2007	0.445	01/01/2009	31/12/2011	–	–	–	–	2,000,000	2,000,000	0.026%
	11/01/2007	0.445	01/01/2010	31/12/2011	–	–	–	–	2,000,000	2,000,000	0.026%
	11/01/2007	0.445	01/01/2011	31/12/2011	–	–	–	–	2,000,000	2,000,000	0.026%
	04/07/2007	0.975	01/01/2008	31/12/2013	–	–	–	–	1,200,000	1,200,000	0.016%
	04/07/2007	0.975	01/01/2009	31/12/2013	–	–	–	–	1,200,000	1,200,000	0.016%
	04/07/2007	0.975	01/01/2010	31/12/2013	–	–	–	–	1,200,000	1,200,000	0.016%
	04/07/2007	0.975	01/01/2011	31/12/2013	–	–	–	–	1,200,000	1,200,000	0.016%
	04/07/2007	0.975	01/01/2012	31/12/2013	–	–	–	–	3,200,000	3,200,000	0.042%
	04/07/2007	0.975	01/01/2013	31/12/2013	–	–	–	–	3,200,000	3,200,000	0.042%
	13/11/2007	0.960	01/01/2008	31/12/2011	–	–	–	–	8,000,000	8,000,000	0.104%
	13/11/2007	0.960	01/01/2009	31/12/2011	–	–	–	–	8,000,000	8,000,000	0.104%
	13/11/2007	0.960	01/01/2010	31/12/2011	–	–	–	–	8,000,000	8,000,000	0.104%
	13/11/2007	0.960	01/01/2011	31/12/2011	–	–	–	–	8,000,000	8,000,000	0.104%
LIAO Yuang-whang	18/09/2007	0.904	18/09/2008	17/09/2011	–	–	–	–	3,200,000	3,200,000	0.042%
	18/09/2007	0.904	18/09/2009	17/09/2011	–	–	–	–	3,200,000	3,200,000	0.042%
	18/09/2007	0.904	18/09/2010	17/09/2011	–	–	–	–	5,600,000	5,600,000	0.073%
	13/11/2007	0.960	18/09/2008	17/09/2012	–	–	–	–	8,000,000	8,000,000	0.104%
	13/11/2007	0.960	18/09/2009	17/09/2012	–	–	–	–	8,000,000	8,000,000	0.104%
	13/11/2007	0.960	18/09/2010	17/09/2012	–	–	–	–	8,000,000	8,000,000	0.104%
	13/11/2007	0.960	18/09/2011	17/09/2012	–	–	–	–	8,000,000	8,000,000	0.104%
SUN Ho[3]	01/09/2005	0.490	31/10/2005	30/10/2007	27,600,000	(27,600,000)	–	–	–	–	0%
	01/09/2005	0.490	31/10/2006	30/10/2007	27,600,000	(27,600,000)	–	–	–	–	0%
	08/06/2006	0.305	08/06/2007	07/06/2011	3,800,000	(3,800,000)	–	–	–	–	0%
	08/06/2006	0.305	08/06/2008	07/06/2011	3,800,000	–	(3,800,000)	–	–	–	0%
	08/06/2006	0.305	08/06/2009	07/06/2011	3,800,000	–	(3,800,000)	–	–	–	0%
	08/06/2006	0.305	08/06/2010	07/06/2011	3,800,000	–	(3,800,000)	–	–	–	0%

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 1/1/2007	exercised during the year [5]	cancelled during the year	lapsed during the year	granted during the year [2]	held as at 31/12/2007	Approximate percentage interest in the Company's issued share capital
(i) Name of Director *(Cont'd)*											
CHEN Aizheng[4]	01/09/2005	0.490	31/10/2005	30/10/2007	18,000,000	(18,000,000)	–	–	–	–	0%
	01/09/2005	0.490	31/10/2006	30/10/2007	18,000,000	(18,000,000)	–	–	–	–	0%
	08/06/2006	0.305	08/06/2007	07/06/2011	8,000,000	–	–	–	–	–[4]	0.104%
	08/06/2006	0.305	08/06/2008	07/06/2011	8,000,000	–	–	–	–	–[4]	0.104%
	08/06/2006	0.305	08/06/2009	07/06/2011	8,000,000	–	–	–	–	–[4]	0.104%
	08/06/2006	0.305	08/06/2010	07/06/2011	8,000,000	–	–	–	–	–[4]	0.104%
NG Man Fai, Matthew[4]	08/06/2006	0.305	08/06/2007	07/06/2011	600,000	(600,000)	–	–	–	–	0%
	08/06/2006	0.305	08/06/2008	07/06/2011	600,000	–	–	–	–	–[4]	0.008%
	08/06/2006	0.305	08/06/2009	07/06/2011	600,000	–	–	–	–	–[4]	0.008%
	08/06/2006	0.305	08/06/2010	07/06/2011	600,000	–	–	–	–	–[4]	0.008%
HUANG Shenglan	01/09/2005	0.490	31/10/2005	30/10/2007	2,000,000	(2,000,000)	–	–	–	–	0%
	01/09/2005	0.490	31/10/2006	30/10/2007	2,000,000	(2,000,000)	–	–	–	–	0%
	08/06/2006	0.305	08/06/2007	07/06/2011	600,000	–	–	–	–	600,000	0.008%
	08/06/2006	0.305	08/06/2008	07/06/2011	600,000	–	–	–	–	600,000	0.008%
	08/06/2006	0.305	08/06/2009	07/06/2011	600,000	–	–	–	–	600,000	0.008%
	08/06/2006	0.305	08/06/2010	07/06/2011	600,000	–	–	–	–	600,000	0.008%
CHAN Ming Fai	08/06/2006	0.305	08/06/2007	07/06/2011	600,000	(600,000)	–	–	–	–	0%
	08/06/2006	0.305	08/06/2008	07/06/2011	600,000	–	–	–	–	600,000	0.008%
	08/06/2006	0.305	08/06/2009	07/06/2011	600,000	–	–	–	–	600,000	0.008%
	08/06/2006	0.305	08/06/2010	07/06/2011	600,000	–	–	–	–	600,000	0.008%
LI Xiaojun	01/09/2005	0.490	31/10/2005	30/10/2007	1,000,000	(1,000,000)	–	–	–	–	0%
	01/09/2005	0.490	31/10/2006	30/10/2007	1,000,000	(1,000,000)	–	–	–	–	0%
	08/06/2006	0.305	08/06/2007	07/06/2011	600,000	–	–	–	–	600,000	0.008%
	08/06/2006	0.305	08/06/2008	07/06/2011	600,000	–	–	–	–	600,000	0.008%
	08/06/2006	0.305	08/06/2009	07/06/2011	600,000	–	–	–	–	600,000	0.008%
	08/06/2006	0.305	08/06/2010	07/06/2011	600,000	–	–	–	–	600,000	0.008%
(ii) Continuous contract employees	01/09/2005	0.490	31/10/2005	30/10/2007	2,400,000	(2,400,000)	–	–	–	–	0%
	01/09/2005	0.490	31/10/2006	30/10/2007	2,400,000	(2,400,000)	–	–	–	–	0%
	15/12/2005	0.675	15/12/2006	14/12/2008	6,000,000	(2,000,000)	–	–	–	4,000,000	0.052%
	08/06/2006	0.305	08/06/2007	07/06/2011	7,400,000	(4,800,000)	–	–	–	10,600,000[6]	0.138%
	08/06/2006	0.305	08/06/2008	07/06/2011	7,400,000	–	(1,400,000)	–	–	14,600,000[6]	0.191%
	08/06/2006	0.305	08/06/2009	07/06/2011	7,400,000	–	(1,400,000)	–	–	14,600,000[6]	0.191%
	08/06/2006	0.305	08/06/2010	07/06/2011	7,400,000	–	(1,400,000)	–	–	14,600,000[6]	0.191%
	11/05/2007	0.775	02/05/2008	01/05/2014	–	–	–	–	1,800,000	1,800,000	0.024%
	11/05/2007	0.775	02/05/2009	01/05/2014	–	–	–	–	1,800,000	1,800,000	0.024%
	11/05/2007	0.775	02/05/2010	01/05/2014	–	–	–	–	1,800,000	1,800,000	0.024%
	11/05/2007	0.775	02/05/2011	01/05/2014	–	–	–	–	1,800,000	1,800,000	0.024%
	11/05/2007	0.775	02/05/2012	01/05/2014	–	–	–	–	1,800,000	1,800,000	0.024%
	11/05/2007	0.775	02/05/2013	01/05/2014	–	–	–	–	3,000,000	3,000,000	0.039%
	04/07/2007	0.975	04/07/2008	03/07/2012	–	–	–	–	400,000	400,000	0.005%
	04/07/2007	0.975	04/07/2009	03/07/2012	–	–	–	–	400,000	400,000	0.005%
	04/07/2007	0.975	04/07/2010	03/07/2012	–	–	–	–	400,000	400,000	0.005%
	04/07/2007	0.975	04/07/2011	03/07/2012	–	–	–	–	400,000	400,000	0.005%
	02/10/2007	0.920	01/01/2008	31/12/2011	–	–	–	–	1,500,000	1,500,000	0.020%
	02/10/2007	0.920	01/01/2009	31/12/2011	–	–	–	–	1,500,000	1,500,000	0.020%

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 1/1/2007	exercised during the year [5]	cancelled during the year	lapsed during the year	granted during the year [2]	held as at 31/12/2007	Approximate percentage interest in the Company's issued share capital
(ii) Continuous contract employees *(Cont'd)*	02/10/2007	0.920	01/01/2010	31/12/2011	–	–	–	–	1,500,000	1,500,000	0.020%
	02/10/2007	0.920	01/01/2011	31/12/2011	–	–	–	–	1,500,000	1,500,000	0.020%
	02/10/2007	0.920	02/10/2008	01/10/2012	–	–	–	–	600,000	600,000	0.008%
	02/10/2007	0.920	02/10/2009	01/10/2012	–	–	–	–	600,000	600,000	0.008%
	02/10/2007	0.920	02/10/2010	01/10/2012	–	–	–	–	600,000	600,000	0.008%
	02/10/2007	0.920	02/10/2011	01/10/2012	–	–	–	–	600,000	600,000	0.008%
	13/11/2007	0.960	01/01/2008	31/12/2011	–	–	–	–	1,000,000	1,000,000	0.013%
	13/11/2007	0.960	01/01/2009	31/12/2011	–	–	–	–	1,000,000	1,000,000	0.013%
	13/11/2007	0.960	01/01/2010	31/12/2011	–	–	–	–	1,000,000	1,000,000	0.013%
	13/11/2007	0.960	01/01/2011	31/12/2011	–	–	–	–	1,000,000	1,000,000	0.013%
(iii) Other participants	01/09/2005	0.490	31/10/2005	30/10/2007	5,720,000	(4,520,000)	(600,000)	(600,000)	–	–	0%
	01/09/2005	0.490	31/10/2006	30/10/2007	6,200,000	(5,000,000)	(600,000)	(600,000)	–	–	0%
	08/06/2006	0.305	08/06/2007	07/06/2011	4,000,000	(4,000,000)	–	–	–	–	0%
	08/06/2006	0.305	08/06/2008	07/06/2011	4,000,000	–	–	–	–	4,000,000	0.052%
	08/06/2006	0.305	08/06/2009	07/06/2011	4,000,000	–	–	–	–	4,000,000	0.052%
	08/06/2006	0.305	08/06/2010	07/06/2011	4,000,000	–	–	–	–	4,000,000	0.052%
	13/11/2007	0.960	01/01/2008	31/12/2011	–	–	–	–	10,000,000	10,000,000	0.131%
	13/11/2007	0.960	01/01/2009	31/12/2011	–	–	–	–	10,000,000	10,000,000	0.131%
	13/11/2007	0.960	01/01/2010	31/12/2011	–	–	–	–	10,000,000	10,000,000	0.131%
	13/11/2007	0.960	01/01/2011	31/12/2011	–	–	–	–	10,000,000	10,000,000	0.131%
Total:					305,520,000	(135,320,000)	(16,800,000)	(1,200,000)	161,200,000	313,400,000	

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 33 to the consolidated financial statements.

2. For the share options granted during the year, (i) the closing price per Share immediately before the date of grant of 11 January 2007 was HK$0.445; (ii) the closing price per Share immediately before the date of grant of 11 May 2007 was HK$0.775; (iii) the closing price per Share immediately before the date of grant of 4 July 2007 was HK$0.975; (iv) the closing price per Share immediately before the date of grant of 18 September 2007 was HK$0.890; (v) the closing price per Share immediately before the date of grant of 2 October 2007 was HK$0.920; and (vi) the closing price per Share immediately before the date of grant of 13 November 2007 was HK$0.930.

3. Mr. SUN Ho resigned as a Non-Executive Director of the Company on 23 October 2007.

4. Mr. CHEN Aizheng and Mr. NG Man Fai, Matthew resigned as Executive Directors of the Company on 16 July 2007 and they are currently employees of the Company. Their respective holdings of shares under the options were included in the portion of "Continuous contract employees".

5. The weighted average closing price per Share immediately before the date on which the option for 135,320,000 Shares was exercised was HK$1.08.

6. The balances included the number of share options held by Mr. CHEN Aizheng and Mr. NG Man Fai, Matthew.

REPORT OF THE DIRECTORS

DIRECTORS

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

Executive Directors:

Mr. CHAN Shing	– appointed on 16 July 2007
Ms. LAU Ting	
Mr. HOONG Cheong Thard	
Mr. WU Jingwei	– appointed on 16 July 2007
Mr. LIAO Yuang-whang	– appointed on 13 November 2007
Mr. CHEN Aizheng	– resigned on 16 July 2007
Mr. NG Man Fai, Matthew	– resigned on 16 July 2007

Non-Executive Directors:

Mr. Paulus Johannes Cornelis Aloysius KARSKENS	– appointed on 16 July 2007
Mr. WANG Taoguang	– re-designated on 23 October 2007
Mr. SUN Ho	– re-designated on 16 July 2007 and resigned on 23 October 2007

Independent Non-Executive Directors:

Mr. HUANG Shenglan
Mr. CHAN Ming Fai
Mr. LI Xiaojun

In accordance with bye-laws 99 and 102(B) of the Bye-laws of the Company, Ms. LAU Ting, Mr. LIAO Yuang-whang, Mr. HUANG Shenglan 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 8 to 10.

SENIOR MANAGEMENT

Biographical details of the senior management of the Group are set out on pages 11 to 12.

REPORT OF THE DIRECTORS

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

As at 31 December 2007, 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

Name of Director	Number of Shares Personal interests	Family interests	Corporate interests	Total	Approximate percentage interest in the Company's issued share capital
CHAN Shing	341,407,092	213,155,212 *(Note 1)*	1,629,617,232 *(Notes 2 & 3)*	2,184,179,536 *(Note 3)*	28.53%
LAU Ting	213,155,212	341,407,092 *(Note 4)*	1,629,617,232 *(Notes 2 & 3)*	2,184,179,536 *(Note 3)*	28.53%
HUANG Shenglan	4,000,000	–	–	4,000,000	0.05%
LI Xiaojun	2,000,000	–	–	2,000,000	0.03%

Notes:

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

2. 45,280,768 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 Mr. CHAN Shing and Ms. LAU Ting. 42,380,168 Shares were held by Strong Purpose Corporation ("Strong Purpose"), a company which is wholly-owned by Mr. CHAN Shing and Ms. LAU Ting. 1,541,956,296 Shares were held by Burwill Holdings Limited ("Burwill"), which is owned as to 20.36% by Hang Sing, as to 19.05% by Strong Purpose, as to 3.42% by Mr. CHAN Shing and as to 3.34% by Ms. LAU Ting.

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 were owned by Mr. CHAN Shing.

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	Number of ordinary shares Personal interests	Family interests	Corporate interests	Total	Approximate percentage interest in the issued share capital of Burwill
CHAN Shing	37,999,472	37,158,072 *(Note 1)*	438,304,701 *(Notes 2 & 3)*	513,462,245 *(Note 3)*	46.17%
LAU Ting	37,158,072	37,999,472 *(Note 4)*	438,304,701 *(Notes 2 & 3)*	513,462,245 *(Note 3)*	46.17%

Notes:

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

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 Mr. CHAN Shing and Ms. LAU Ting. 211,900,848 shares were held by Strong Purpose, a company which is wholly-owned by Mr. CHAN Shing and Ms. LAU Ting.

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 were owned by Mr. CHAN Shing.

(2) Interests in Underlying Shares

As at 31 December 2007, 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 2007, 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 2007, according to the register required to be kept by the Company under Section 336 of the SFO, the following persons (other than the Directors and chief executive of the Company) had interests and short positions in the shares and underlying shares of the Company:

(1) Interests in Shares of the Company

Name of Shareholder	Personal interests	Number of Shares Corporate interests	Total	Approximate percentage interest in the Company's issued share capital
Burwill	–	1,541,956,296	1,541,956,296 *(Note 1)*	20.14%
Atlantis Investment Management Limited	703,000,000	–	703,000,000	9.18%
Legg Mason Inc *(Note 2)*	–	566,952,000	566,952,000	7.40%
Lloyds TSB Group Plc *(Note 3)*	–	536,716,800	536,716,800	7.01%
YU Man Yiu, Park	176,834,000	260,000,400 *(Note 4)*	436,834,400	5.71%
Ward Ferry Management (BVI) Limited *(Note 5)*	–	432,792,000	432,792,000	5.65%
JPMorgan Chase & Co. *(Note 6)*	–	389,656,000	389,656,000	5.09%

Notes:

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

2. These Shares were held by Legg Mason International Equities (Singapore) Pte Limited, 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.

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

4. 400 Shares were held by Good Talent Trading Limited which is owned as to 35% by Mr. YU Man Yiu, Park and 260,000,000 Shares were held by Centrix Investments Limited, a company which is wholly-owned by Mr. YU Man Yiu, Park.

5. 193,528,000 Shares were held by WF Asia Fund Limited, 13,048,000 Shares were held by Arrow WF Asia Fund, 61,048,000 Shares were held by WF Japan Fund Limited, 78,920,000 Shares were held by WF Asian Smaller Companies Fund Limited and 86,248,000 Shares were held by WF Asian Reconnaissance Fund Limited. Ward Ferry Management (BVI) Limited is the investment manager of these funds or companies.

6. These Shares were held by JPMorgan Chase Bank, N.A., a company which is wholly-owned by JPMorgan Chase & Co.

REPORT OF THE DIRECTORS

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

(2) Interests in Underlying Shares

As at 31 December 2007, International Game Technology had a derivative interest in 575,916,000 Shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

Save as disclosed above, as at 31 December 2007, there was no person (other than the Directors and chief executive of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and/or who were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN CONTRACTS

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

SERVICE CONTRACTS WITH DIRECTORS

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.

REDUCTION OF SHARE PREMIUM

At the annual general meeting of the Company held on 24 April 2007, a special resolution approving the reduction of share premium account of the Company by approximately HK$87,346,000 from approximately HK$1,346,562,000 to approximately HK$1,259,216,000, and the application of such sum to eliminate the accumulated losses of the Company of approximately HK$87,346,000 as at 31 December 2006 (the "Share Premium Reduction"), was passed by the shareholders and the Share Premium Reduction took effect on 24 April 2007 accordingly.

REPORT OF THE DIRECTORS

ISSUE OF SHARES

(1) The Company issued a total of 135,320,000 Shares for a total consideration of HK$43,590,000 upon the exercise of share options by the optionholders for the year ended 31 December 2007.

(2) Pursuant to the subscription agreement dated 1 May 2007 and subject to the subdivision of shares became effective on 7 August 2007, the Company issued and allotted a total of 373,600,000 new Shares at an issue price of HK$0.675 each (as adjusted) to International Game Technology on 31 May 2007 for a total consideration of HK$252,180,000. The above subscription shares were issued pursuant to the general mandate granted to the Directors at the annual general meeting of the Company held on 24 April 2007.

(3) Pursuant to the acquisition agreements dated 10 September 2007, the Company issued and allotted a total of (i) 50,400,000 new Shares to Citibest Investments Limited on 30 October 2007 for a total consideration of approximately HK$57 million; and (ii) 16,800,000 new Shares to certain vendors on 27 December 2007 for a total consideration of approximately HK$15 million. The above consideration Shares were issued pursuant to the approval by the shareholders at the special general meeting of the Company held on 22 October 2007.

SUBDIVISION OF SHARES AND CHANGE OF BOARD LOT SIZE

At the special general meeting of the Company held on 6 August 2007, an ordinary resolution approving the subdivision of shares, under which each of the existing issued and unissued shares of HK$0.01 each in the share capital of the Company would be subdivided into 4 subdivided shares of HK$0.0025 each (the "Subdivided Shares"), was passed by the shareholders. The share subdivision became effective on 7 August 2007, and with effect from 21 August 2007, the Subdivided Shares are traded in board lots of 4,000 Subdivided Shares.

Details of the trading arrangements for the Subdivided Shares are set out in the circular of the Company dated 20 July 2007.

SUBSCRIPTION AGREEMENT AND TECHNICAL COOPERATION AGREEMENT

On 1 May 2007, the Company and International Game Technology (NYSE: IGT) (the "Subscriber") entered into a subscription agreement (the "Subscription Agreement"), whereby the Company agreed to allot and issue to the Subscriber and the Subscriber agreed to subscribe for (i) 93,400,000 new shares of HK$0.01 each of the Company at the subscription price of HK$2.70 each (or 373,600,000 Shares at the subscription price of HK$0.675 each upon effective of subdivision of shares on 7 August 2007) (the "Subscription Shares"), at a consideration of HK$252,180,000; and (ii) an unsecured 8-year maturity zero coupon convertible note with a principal amount of HK$550,000,000 (the "Convertible Note"). Based on the initial conversion price of HK$3.82 per share (or HK$0.955 per Share upon effective of subdivision of shares on 7 August 2007) (subject to adjustment) and assuming full conversion of the Convertible Note, the Convertible Note will be converted into approximately 143,979,000 shares of HK$0.01 each (or 575,916,000 Shares upon effective of subdivision of shares on 7 August 2007) (the "Conversion Shares"). Completion of the Subscription Agreement took place on 31 May 2007 and accordingly, the Subscription Shares were issued and allotted and the Convertible Note was issued to the Subscriber on 31 May 2007. The Subscription Shares and the Conversion Shares were or will be issued pursuant to the general mandate granted to the Directors at the annual general meeting of the Company held on 24 April 2007.

On 1 May 2007, the Company and IGT, a wholly-owned subsidiary of the Subscriber, also entered into a technical cooperation agreement in relation to technical support, assistance and consultation services (the "Technical Cooperation Agreement"). Under the Technical Cooperation Agreement, IGT will provide certain technical services to the Group in respect of its existing business. Following the completion of the Subscription Agreement, the Technical Cooperation Agreement has come into effect on 31 May 2007.

The net proceeds of the Subscription Shares and the Convertible Note after deduction of the relevant expenses and commission has been/will be used for financing business expansion, potential investment opportunities and general working capital.

REPORT OF THE DIRECTORS

MAJOR TRANSACTION – ACQUISITION OF INTERESTS IN TRADITIONAL COMPUTER LOTTERY SYSTEM AND EQUIPMENT SUPPLIERS

On 10 September 2007, Upmax Investments Limited, a wholly-owned subsidiary of the Company, Citibest Investments Limited and others entered into a conditional sale and purchase agreement (the "Acquisition Agreement"), pursuant to which the Group would acquire for the entire issued share capital of Champ Mark Investments Limited ("CMIL") (the "Acquisition"). The principal asset of CMIL is its interests in Champ Technology Limited ("CTL"), which in turn holds 60% equity interests in each of 廣州市三環永新科技有限公司 (Guangzhou San Huan Yong Xin Technology Company Limited*) ("GZSH") and Lottnal Holdings Limited (洛圖控股有限公司) ("LHL") and its subsidiary ("LHL Group").

On the same date, CTL, a wholly-owned subsidiary of CMIL, as purchaser also entered into (i) a conditional sale and purchase agreement ("GZSH Acquisition Agreement") for the acquisition of 20% of the total equity interests in GZSH ("GZSH Acquisition"); and (ii) a conditional sale and purchase agreement (the "LHL Acquisition Agreement") for the acquisition of 20% of the total issued share capital of LHL ("LHL Acquisition").

The Group, through entering into of the Acquisition Agreement, and the entering into of the GZSH Acquisition Agreement and the LHL Acquisition Agreement by CTL, had conditionally agreed to acquire an aggregate of 80% equity interests in GZSH and the LHL Group. The aggregate consideration of the Acquisition, the GZSH Acquisition and the LHL Acquisition amounted to HK$224.0 million which would be satisfied as to (i) HK$156.8 million by cash; and as to (ii) HK$67.2 million by the allotment and issue of an aggregate of 67.2 million new Shares of the Company (the "Consideration Shares").

The Acquisition, the GZSH Acquisition and the LHL Acquisition constituted a major transaction for the Company under the GEM Listing Rules, details of the transaction were set out in the Company's circular dated 4 October 2007.

The Acquisition, the GZSH Acquisition and the LHL Acquisition as well as the allotment and issue of the Consideration Shares were approved by the shareholders of the Company at the special general meeting held on 22 October 2007. All the conditions precedent to the completion of the Acquisition Agreement were fulfilled and/or waived on 30 October 2007 and the completion of the Acquisition Agreement took place on 30 October 2007. Subsequently, all the conditions precedent to the completion of the GZSH Acquisition Agreement and the LHL Acquisition Agreement were fulfilled and/or waived on 27 December 2007 and the completion of the GZSH Acquisition Agreement and the LHL Acquisition Agreement took place on 27 December 2007. Following the completion of the Acquisition, the GZSH Acquisition and the LHL Acquisition, CMIL becomes a wholly-owned subsidiary of the Company and the Company, through CMIL group of companies, holds 80% equity interests in each of GZSH and LHL Group.

* *For identification only*

REPORT OF THE DIRECTORS

DISCLOSEABLE TRANSACTION – ACQUISITION OF 67% EQUITY INTEREST IN TIHK AND FORMATION OF A JOINT VENTURE WITH GTECH

On 19 December 2007, the Company, Tabcorp International Hong Kong Limited (renamed to CLS-GTECH Company Limited) ("TIHK") and the Company's certain subsidiaries (the "Company Entities") entered into a share and assets sale agreement with Tabcorp International No.1 Pty Ltd ("TI") and its certain subsidiaries (the "Tabcorp Entities") pursuant to which the Company Entities agreed to acquire and the Tabcorp Entities agreed to sell (i) 20,100,000 shares representing 67% of the total issued share capital of TIHK; (ii) the assets and (iii) the business intellectual property rights for a total consideration of A$15,000,000 (the "Acquisition"). The Acquisition was completed on the same date. Immediately before completion of the Acquisition, TIHK was indirectly owned as to 33% by the Company, and as to 67% by TI. Immediately after completion of the Acquisition, the Company indirectly owned the entire interest of TIHK.

Immediately after completion of the Acquisition and on 19 December 2007, China LotSynergy Limited ("CLSL"), a wholly-owned subsidiary of the Company, also entered into an agreement for the sale and purchase of shares with GTECH Global Services Corporation Ltd. ("GTECH") and TIHK pursuant to which, CLSL agreed to sell and GTECH agreed to purchase 15,000,000 shares representing 50% of the total issued share capital of TIHK for a total consideration of US$20,000,000 (the "Disposal"). The Disposal was completed on 19 December 2007 and immediately after completion of the Acquisition. Upon completion of the Disposal, TIHK has become a joint venture between CLSL and GTECH, under which TIHK was owned as to 50% by CLSL and as to 50% by GTECH. Following completion of the Disposal, the name of TIHK has been changed from "Tabcorp International Hong Kong Limited" to "CLS-GTECH Company Limited".

The Acquisition and the Disposal constituted a discloseable transaction for the Company under the GEM Listing Rules, details of the Acquisition and the Disposal were set out in the Company's circular dated 10 January 2008.

RENEWAL OF CONTINUING CONNECTED TRANSACTION

During the year ended 31 December 2007, ChinaSteel.com Corporation Limited ("ChinaSteel"), which was in voluntarily liquidation and a subsidiary of the Company, had placed a deposit for a principal amount of RMB16,000,000 (approximately HK$17,200,000) (the "Deposit") (2006: RMB16,000,000 (approximately HK$16,000,000)) 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, namely Minmetals Development Company Ltd. who held 50% interest in ChinaSteel. The liquidation of ChinaSteel was completed on 16 January 2008.

Minmetals Finance was a connected person of the Company as it was an associate of a substantial shareholder of ChinaSteel. As such, the entering into of the Deposit Agreement constituted a continuing connected transaction for the Company under the GEM Listing Rules.

The Directors, including the Independent Non-Executive Directors have reviewed the above continuing connected transaction and confirmed that the transaction was made in the ordinary and usual 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 have also confirmed that the above continuing connected transaction has been approved by the Board of Directors of the Company, entered into in accordance with the relevant agreement governing the transaction and has not exceeded the cap as disclosed in the announcement of the Company dated 13 April 2006.

REPORT OF THE DIRECTORS

FINANCIAL SUMMARY

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

EMPLOYEE RETIREMENT BENEFITS

Details of the retirement benefit schemes of the Group and the employee retirement benefit costs charged to the consolidated income statement for the year are set out in note 38.

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.

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
CHAN Shing
Chairman

Hong Kong, 29 February 2008

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 2007, except for the deviations as disclosed in this report.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the required standard of dealings regarding securities transactions by directors set out in Rules 5.48 to 5.67 of the GEM Listing Rules as its code of conduct for dealings in securities of the Company by the Directors (the "Code of Conduct"). Having made specific enquiry of all Directors, all Directors confirmed that they had complied with the required standard of dealings set out in the Code of Conduct throughout the financial year ended 31 December 2007.

BOARD OF DIRECTORS

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

Executive Directors
Mr. Chan Shing *(Chairman) (appointed on 16 July 2007)*
Ms. Lau Ting *(Deputy Chairman and President)*
Mr. Hoong Cheong Thard *(Chief Executive Officer)*
Mr. Wu Jingwei *(Vice President) (appointed on 16 July 2007)*
Mr. Liao Yuang-whang *(Vice President) (appointed on 13 November 2007)*
Mr. Chen Aizheng *(resigned on 16 July 2007)*
Mr. Ng Man Fai, Matthew *(resigned on 16 July 2007)*

Non-Executive Directors
Mr. Paulus Johannes Cornelis Aloysius Karskens *(appointed on 16 July 2007)*
Mr. Wang Taoguang *(re-designated on 23 October 2007)*
Mr. Sun Ho *(re-designated on 16 July 2007 and resigned on 23 October 2007)*

Independent Non-Executive Directors
Mr. Huang Shenglan
Mr. Chan Ming Fai
Mr. Li Xiaojun

On 14 March 2007, Mr. Sun Ho resigned as the Chief Executive Officer of the Company and Mr. Hoong Cheong Thard was appointed as the Chief Executive Officer of the Company.

On 16 July 2007, (i) Mr. Chan Shing was appointed as the Chairman and an Executive Director of the Company; (ii) Mr. Wu Jingwei was appointed as an Executive Director and a Deputy Chief Executive Officer of the Company; and (iii) Mr. Paulus Johannes Cornelis Aloysius Karskens was appointed as a Non-Executive Director of the Company.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(Cont'd)*

On 16 July 2007, (i) Ms. Lau Ting was re-designated from the Chairman and an Executive Director of the Company to the Deputy Chairman and an Executive Director of the Company; (ii) Mr. Hoong Cheong Thard was re-designated from a Deputy Chairman, an Executive Director and the Chief Executive Officer of the Company to an Executive Director and the Chief Executive Officer of the Company; (iii) Mr. Sun Ho was re-designated from a Deputy Chairman and an Executive Director of the Company to a Non-Executive Director of the Company; and (iv) Mr. Chen Aizheng and Mr. Ng Man Fai, Matthew resigned as Executive Directors of the Company.

On 23 October 2007, Mr. Wang Taoguang was re-designated from an Executive Director of the Company to a Non-Executive Director of the Company and Mr. Sun Ho resigned as a Non-Executive Director of the Company.

On 13 November 2007, Mr. Liao Yuang-whang, a Deputy Chief Executive Officer of the Company, was appointed as an Executive Director of the Company.

On 14 February 2008, (i) Ms. Lau Ting, the Deputy Chairman and an Executive Director of the Company, was appointed as the Deputy Chairman, an Executive Director and the President of the Company; (ii) the offices of Mr. Hoong Cheong Thard were changed to an Executive Director and the Chief Executive Officer (首席執行官) of the Company; (iii) the offices of Mr. Wu Jingwei were changed to an Executive Director and a Vice President of the Company; and (iv) the offices of Mr. Liao Yuang-whang were changed to an Executive Director and a Vice President/Chief Financial Officer of the Company.

As at the date of this report, the Board comprised ten Directors, five of whom are Executive Directors, two of whom are Non-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.

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

The Board 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 that Ms. Lau Ting is the spouse of Mr. Chan Shing.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(Cont'd)*

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

	Directors' Attendance
Executive Directors	
Mr. Chan Shing *(Chairman)*	2/2
Ms. Lau Ting *(Deputy Chairman and President)*	3/4
Mr. Hoong Cheong Thard	4/4
Mr. Wu Jingwei	1/2
Mr. Liao Yuang-whang	0/0
Mr. Chen Aizheng	1/2
Mr. Ng Man Fai, Matthew	2/2
Non-Executive Directors	
Mr. Paulus Johannes Cornelis Aloysius Karskens	2/2
Mr. Wang Taoguang	1/4
Mr. Sun Ho	1/2
Independent Non-Executive Directors	
Mr. Huang Shenglan	4/4
Mr. Chan Ming Fai	4/4
Mr. Li Xiaojun	1/4

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Currently, the Chairman of the Board and the President (Chief Executive Officer) are Mr. Chan Shing and Ms. Lau Ting respectively.

The roles of the Chairman and the President are held separately by two individuals to ensure their respective independence, accountability and responsibilities. The Chairman was responsible for overseeing the function of the Board and formulating overall strategies of and organizing the implementation structure for the Company, and the President was responsible for assisting the Board in business planning and managing the Group's overall business operations and the Chief Executive Officer is assisting the President and participates in the formulation and implementation of the Group's overall strategies for development and oversees day-to-day operations of the Group.

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. Ms. Lau Ting, Mr. Liao Yuang-whang, Mr. Huang Shenglan and Mr. Li Xiaojun are subject to retirement by rotation at the forthcoming annual general meeting in accordance with the Company's Bye-laws.

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE

The Remuneration Committee was established on 10 August 2006 with specific written terms of reference which deal with its authority and duties. The terms of reference of the Remuneration Committee has posted on the Company's website and is made available on request. On 14 March 2007, the Remuneration Committee comprises three members, Mr. Huang Shenglan, Mr. Chan Ming Fai and Mr. Hoong Cheong Thard. The chairman of the Remuneration Committee is Mr. Huang Shenglan. 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.

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

One meeting of the Remuneration Committee was held during the year ended 31 December 2007. Details of the attendance of the Remuneration Committee Meeting are as follows:

	Members' Attendance
Mr. Huang Shenglan *(Chairman of Renumeration Committee)*	1/1
Mr. Chan Ming Fai	1/1
Mr. Hoong Cheong Thard	1/1

With effect from 29 February 2008, the Remuneration Committee of the Company comprises Mr. Huang Shenglan, Mr. Chan Ming Fai and Ms. Lau Ting.

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 Shing as the Chairman and an Executive Director, Mr. Wu Jingwei and Mr. Liao Yuang-whang as Executive Directors of the Company and the resignations of Mr. Chen Aizheng, Mr. Ng Man Fai, Matthew and Mr. Sun Ho as Executive Directors/Non Executive Director were held. Details of the attendance of the meeting are as follows:

	Directors' Attendance
Mr. Chan Shing	2/2
Ms. Lau Ting	3/3
Mr. Hoong Cheong Thard	3/3
Mr. Wu Jingwei	0/2
Mr. Liao Yuang-whang	0/0
Mr. Chen Aizheng	1/1
Mr. Ng Man Fai, Matthew	1/1
Mr. Paulus Johannes Cornelis Aloysius Karskens	0/2
Mr. Wang Taoguang	0/3
Mr. Sun Ho	0/1
Mr. Huang Shenglan	0/3
Mr. Chan Ming Fai	0/3
Mr. Li Xiaojun	0/3

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE

The Audit Committee was established in 2001 and 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 include:

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

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

	Members' Attendance
Mr. Huang Shenglan	4/4
Mr. Chan Ming Fai	4/4
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 results of the Group for the financial year ended 31 December 2007 have been reviewed by the Audit Committee. The terms of reference of the Audit Committee has posted on the Company's website and is make available on request.

AUDITORS' REMUNERATION

For the year ended 31 December 2007, 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	
	2007	2006
	HK$	HK$
Types of Services		
Audit for the Group	**590,000**	350,000
Non-audit services		
– Professional services on acting as reporting accountants	**356,300**	109,000

CORPORATE GOVERNANCE REPORT

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 35.

INTERNAL CONTROL

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

INVESTOR RELATIONS

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

The corporate website of the Company 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
Central
Hong Kong

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

We have audited the consolidated financial statements of China LotSynergy Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 37 to 100, which comprise the consolidated and company balance sheets as at 31 December 2007, 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 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

Hong Kong, 29 February 2008

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Continuing operations:			
Turnover	5	**310,267**	71,345
Costs of sales and services		**(50,917)**	(11,026)
Gross profit		**259,350**	60,319
Other income and gains	6	**116,770**	20,152
General and administrative expenses		**(72,744)**	(39,670)
Other expenses		**(8,536)**	–
Finance costs	7	**(14,329)**	–
Share option expenses		**(20,327)**	(23,823)
Operating profit from continuing operations	8	**260,184**	16,978
Share of profit less loss of associates		**(13,217)**	(4,943)
Profit before income tax		**246,967**	12,035
Income tax	10	**(1,034)**	(186)
Profit for the year from continuing operations		**245,933**	11,849
Discontinued operations:			
Loss for the year from discontinued operations	9	**–**	(14,748)
Profit/(Loss) for the year		**245,933**	(2,899)
Attributable to:			
Equity holders of the Company		**132,094**	(29,188)
Minority interests		**113,839**	26,289
		245,933	(2,899)
Earnings/(Loss) per share for profit/(loss) from continuing operations attributable to the equity holders of the Company during the year			
– basic	12	**1.79 HK cents**	(0.21) HK cents
– diluted	12	**1.76 HK cents**	(0.21) HK cents
Loss per share for loss from discontinued operations attributable to the equity holders of the Company during the year			
– basic and diluted	12	**N/A**	(0.22) HK cents

BALANCE SHEETS

At 31 December 2007

	Notes	Group 2007 HK$'000	Group 2006 HK$'000	Company 2007 HK$'000	Company 2006 HK$'000
Non-current assets					
Property, plant and equipment	15	**141,974**	63,491	**647**	825
Leasehold land	16	**97,548**	–	**–**	–
Intangible assets	17	**1,183,681**	990,805	**–**	–
Investments in subsidiaries	18	**–**	–	**13,909**	13,909
Investments in jointly-controlled entities	19	**90,954**	–	**–**	–
Investment in an associate	20	**–**	54,016	**–**	–
Deferred income tax assets	31	**1,030**	–	**–**	–
Prepaid rentals		**6,334**	–	**–**	–
Total non-current assets		**1,521,521**	1,108,312	**14,556**	14,734
Current assets					
Inventories	21	**12,159**	–	**–**	–
Accounts receivable	22	**74,740**	24,138	**–**	–
Prepayments, deposits and other receivables		**16,203**	16,109	**7,017**	8,401
Amounts due from subsidiaries	18	**–**	–	**2,231,291**	1,319,673
Amount due from a jointly-controlled entity	19	**7,877**	–	**–**	–
Amounts due from related companies	23	**24,289**	21,250	**–**	–
Financial assets at fair value through profit or loss	24	**192,294**	–	**143,814**	–
Deposit with a financial institution	25	**17,287**	16,175	**–**	–
Cash and bank balances	26	**993,269**	310,620	**1,456**	94
Total current assets		**1,338,118**	388,292	**2,383,578**	1,328,168
Total assets		**2,859,639**	1,496,604	**2,398,134**	1,342,902
Current liabilities					
Accounts payable	27	**11,986**	2,680	**–**	–
Accruals and other payables		**26,009**	9,042	**2,492**	163
Amount due to a jointly-controlled entity	19	**44,345**	–	**–**	–
Amount due to an associate	20	**–**	29,637	**–**	–
Amounts due to related companies	28	**133**	9,080	**–**	–
Amount due to a director	28	**–**	347	**–**	–
Income tax payable		**2,306**	682	**–**	–
Financial liabilities at fair value through profit or loss	29	**123,230**	–	**123,230**	–
Total current liabilities		**208,009**	51,468	**125,722**	163
Net current assets		**1,130,109**	336,824	**2,257,856**	1,328,005
Total assets less current liabilities		**2,651,630**	1,445,136	**2,272,412**	1,342,739
Non-current liabilities					
Convertible note	30	**537,119**	–	**537,119**	–
Deferred income tax liabilities	31	**13,907**	9,400	**4,507**	–
Total non-current liabilities		**551,026**	9,400	**541,626**	–
Net assets		**2,100,604**	1,435,736	**1,730,786**	1,342,739

BALANCE SHEETS *(Cont'd)*

At 31 December 2007

		Group		Company	
		2007	2006	**2007**	2006
	Notes	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Capital and reserves					
Share capital	*32*	**19,142**	17,726	**19,142**	17,726
Reserves	*34*	**1,753,095**	1,414,346	**1,736,338**	1,412,359
Retained profit/(Accumulated losses)	*35*	**132,823**	(87,346)	**(24,694)**	(87,346)
Capital and reserves attributable to equity holders of the Company		**1,905,060**	1,344,726	**1,730,786**	1,342,739
Minority interests		**195,544**	91,010	**–**	–
Total equity		**2,100,604**	1,435,736	**1,730,786**	1,342,739

LAU TING
Director

HOONG CHEONG THARD
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

	Attributable to equity holders of the Company				
	Share capital HK$'000 *(Note 32)*	Reserves HK$'000 *(Note 34)*	Accumulated losses HK$'000	Minority interests HK$'000	Total HK$'000
Balance 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 cancelled	–	(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 at 31 December 2006	17,726	1,414,346	(87,346)	91,010	1,435,736

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

For the year ended 31 December 2007

	Attributable to equity holders of the Company				
	Share capital HK$'000 *(Note 32)*	Reserves HK$'000 *(Note 34)*	Retained profit/ (Accumulated losses) HK$'000	Minority interests HK$'000	Total HK$'000
Balance at 1 January 2007	**17,726**	**1,414,346**	**(87,346)**	**91,010**	**1,435,736**
Currency translation differences	**–**	**14,770**	**–**	**8,848**	**23,618**
Net income recognised directly in equity	**–**	**14,770**	**–**	**8,848**	**23,618**
Profit for the year	**–**	**–**	**132,094**	**113,839**	**245,933**
Total recognised income for the year	**–**	**14,770**	**132,094**	**122,687**	**269,551**
Reduction of share premium	**–**	**(87,346)**	**87,346**	**–**	**–**
Repurchase of shares	**(24)**	**(8,486)**	**–**	**–**	**(8,510)**
Share option scheme:					
– value of employee services	**–**	**17,699**	**–**	**–**	**17,699**
– value of other participants' services	**–**	**2,628**	**–**	**–**	**2,628**
– issue of shares under share option scheme	**338**	**63,786**	**–**	**–**	**64,124**
– vested share options cancelled and lapsed	**–**	**(729)**	**729**	**–**	**–**
Issue of shares under subscription agreement	**934**	**251,246**	**–**	**–**	**252,180**
Issue of shares arising on business combination	**168**	**71,736**	**–**	**–**	**71,904**
Share issue expenses	**–**	**(6,635)**	**–**	**–**	**(6,635)**
Convertible note – equity component	**–**	**24,842**	**–**	**–**	**24,842**
Deferred tax on convertible note	**–**	**(4,762)**	**–**	**–**	**(4,762)**
Dividends paid to minority shareholders	**–**	**–**	**–**	**(24,860)**	**(24,860)**
Minority interests arising on business combination	**–**	**–**	**–**	**15,554**	**15,554**
Acquisition of additional interests in subsidiaries	**–**	**–**	**–**	**(8,847)**	**(8,847)**
	1,416	**323,979**	**88,075**	**(18,153)**	**395,317**
Balance at 31 December 2007	**19,142**	**1,753,095**	**132,823**	**195,544**	**2,100,604**

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Cash flows from operating activities			
Net cash generated from operating activities	36	**149,895**	14,573
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	39	**(137,158)**	1,839
Purchase of property, plant and equipment		**(80,041)**	(28,792)
Prepaid operating lease payment for leasehold land		**(98,172)**	–
Purchase of financial assets at fair value through profit or loss		**(145,242)**	(28,087)
Proceeds from sale of domain names and trademarks		**–**	100
Proceeds from sale of available-for-sale financial assets		**–**	390
Proceeds from sale of financial assets at fair value through profit or loss		**99,646**	32,960
Payments in connection with subscription of interest in Corich International Limited ("Corich")	39	**–**	(490,000)
Acquisition of additional interest in Tabcorp International Hong Kong Limited ("TIHK")		**(103,350)**	–
Proceeds from disposal of interest in TIHK		**146,867**	–
Advance to a jointly-controlled entity		**(7,877)**	–
Capital contributed to an associate		**–**	(29,710)
Advance to an associate		**–**	(41)
Interest income from bank deposits		**29,758**	15,279
Net cash used in investing activities		**(295,569)**	(526,062)
Cash flows from financing activities			
Repurchase of shares		**(8,510)**	(53,648)
Proceeds from issue of shares		**316,304**	661,735
Share issue expenses		**(6,635)**	(29,585)
Proceeds from issue of convertible note		**541,276**	–
Dividends paid to minority shareholders		**(24,860)**	–
Net cash generated from financing activities		**817,575**	578,502
Net increase in cash and cash equivalents		**671,901**	67,013
Cash and cash equivalents at beginning of the year		**310,620**	242,657
Effect of foreign exchange rate changes		**10,748**	950
Cash and cash equivalents at end of the year		**993,269**	310,620
Analysis of balances of cash and cash equivalents			
Cash and bank balances		**993,269**	310,620

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

1. GENERAL INFORMATION

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

The Company's shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company and its subsidiaries (together the "Group") are principally engaged in investment, project development and the provision of technologies and equipment and consultancy services in public welfare lottery business and related sectors.

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 29 February 2008.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants. 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.

(a) Standards, amendment and interpretations effective in 2007

HKFRS 7, "Financial Instruments: Disclosures", and the complementary amendment to HKAS 1, "Presentation of Financial Statements - Capital Disclosures", introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group's financial instruments, or the disclosures relating to taxation and trade and other payables.

HK(IFRIC) - Int 8, "Scope of HKFRS 2", 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 in order to establish whether or not they fall within the scope of HKFRS 2. This standard does not have any impact on the Group's financial statements.

HK(IFRIC) - Int 10, "Interim Financial Reporting and Impairment", prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This standard does not have any impact on the Group's financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

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

2.1 Basis of preparation *(Cont'd)*

(b) Standards, amendments and interpretations effective in 2007 but not relevant

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Group's operations:

- HK(IFRIC) - Int 7, "Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies"; and

- HK(IFRIC) - Int 9, "Reassessment of Embedded Derivatives".

(c) 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 and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods, but the Group has not early adopted them:

- HKAS 23 (Revised), "Borrowing Costs" (effective from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply HKAS 23 (Revised) from 1 January 2009 but is currently not applicable to the Group as there are no qualifying assets.

- HKFRS 8, "Operating Segments" (effective from 1 January 2009). HKFRS 8 replaces HKAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, "Disclosures about segments of an enterprise and related information". The new standard requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply HKFRS 8 from 1 January 2009. The expected impact is still being assessed in detail by management, but it appears likely that the number of reportable segments, as well as the manner in which the segments are reported, will change in a manner that is consistent with the internal reporting provided to the chief operating decision-maker. As goodwill is allocated to groups of cash-generating units based on segment level, the change will also require management to reallocate goodwill to the newly identified operating segments. Management does not anticipate that this will result in any material impairment to the goodwill balance.

- HK(IFRIC) - Int 11, "HKFRS 2 – Group and Treasury Share Transactions" (effective from 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 2008, but it is not expected to have a significant impact on the Group's financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

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

2.1 Basis of preparation *(Cont'd)*

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group *(Cont'd)*

- HK(IFRIC) - Int 14, "HKAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" (effective from 1 January 2008). HK(IFRIC) - Int 14 provides guidance on assessing the limit in HKAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The Group will apply HK(IFRIC) - Int 14 from 1 January 2008, but it is not expected to have any impact on the Group's financial statements.

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

The following interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods but are not relevant for the Group's operations:

- HK(IFRIC) - Int 12, "Service Concession Arrangements" (effective from 1 January 2008). HK(IFRIC) - Int 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. HK(IFRIC) - Int 12 is not relevant to the Group's operations because none of the Group's companies provide for public sector services.

- HK(IFRIC) - Int 13, "Customer Loyalty Programmes" (effective from 1 July 2008). HK(IFRIC) - Int 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. HK(IFRIC) - Int 13 is not relevant to the Group's operations because none of the Group's companies operate any loyalty programmes.

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all of 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

For the year ended 31 December 2007

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

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

2.2 Consolidation *(Cont'd)*

(c) Associates *(Cont'd)*

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.

(d) Jointly-controlled entities

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

The Group's share of its jointly-controlled entity'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.

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

In the Company's balance sheet, the investments in jointly-controlled entities are stated at cost less provision for impairment losses. The results of jointly-controlled entities 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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

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

2.4 Foreign currency translation *(Cont'd)*

(b) Transactions and balances *(Cont'd)*

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.

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 17 and 39) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

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

2.5 Intangible assets *(Cont'd)*

(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 and jointly-controlled entities is included in investments in associates and jointly-controlled entities 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.

2.6 Property, plant and equipment

Property, plant and equipment are stated at cost less 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:

Lottery terminals leased to third parties under operating leases	20%
Buildings	2.5%
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

For the year ended 31 December 2007

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

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

Assets that have an indefinite useful life or are 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). Non-financial 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 and cash and bank balances 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 dates; these are classified as current assets.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

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

2.8 Financial assets *(Cont'd)*

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the income statement 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

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

2.10 Inventories

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

2.11 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts (if any).

2.12 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.

2.13 Trade payables

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

2.14 Borrowings

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

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised in shareholders' equity, net of income tax effects.

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

2.15 Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

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

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

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, associates and jointly-controlled entities, 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.

2.16 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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

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

2.16 Employee benefits *(Cont'd)*

(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.

2.17 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.

2.18 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 lottery terminals is accounted for in accordance with the terms of the relevant contracts.

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

(c) Income from sales of lottery equipment is recognised when the Group 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 the 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

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

2.19 Operating leases

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

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

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

(a) Market risk

(i) Foreign exchange risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. Approximately 98% (2006: 100%) of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sale, whilst approximately 100% (2006: 100%) of costs are denominated in the units' functional currency. The Group manages the foreign exchange exposure arising from its normal course of business activities and investments in foreign operations by funding its local operations and investments through cash flow generated from business transactions locally. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure closely and will consider hedging significant foreign currency exposure should the need arise.

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

	Increase/ (decrease) in RMB %	Increase/ (decrease) in profit after income tax HK$'000	Increase/ (decrease) in equity HK$'000
2007			
If Hong Kong dollar weakens against RMB	**5**	**4,275**	**19,921**
If Hong Kong dollar strengthens against RMB	**(5)**	**(4,251)**	**(18,416)**
2006			
If Hong Kong dollar weakens against RMB	5	1,441	7,176
If Hong Kong dollar strengthens against RMB	(5)	(1,372)	(6,492)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

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

3.1 Financial risk factors *(Cont'd)*

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

(ii) Price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group is exposed to equity price risk arising from individual equity investments classified as trading equity investments (Note 24) as at 31 December 2007. The Group's listed investments are listed in Hong Kong and are valued at quoted market prices at the balance sheet date.

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

	Increase/ (decrease) in carrying amount of equity investments HK$'000	Increase/ (decrease) in profit after income tax HK$'000	Increase/ (decrease) in equity HK$'000
2007			
5% increase in equity price	**2,424**	**2,424**	**2,424**
5% decrease in equity price	**(2,424)**	**(2,424)**	**(2,424)**

The Group did not have any equity investments or significant derivative financial instruments at 31 December 2006. Accordingly, no sensitivity analysis in respect of price risk at 31 December 2006 is presented.

(iii) Cash flow and fair value interest rate risk

The Group's fair value interest rate risk relates primarily to fixed-rate borrowings arising from liability component of convertible note (Note 30). The Group has not hedged its exposure to fair value interest rate risk, as the management considers the risk is insignificant to the Group. The Group is not exposed to significant cash flow interest rate risk as the Group did not have variable-rate borrowings at 31 December 2007 (2006: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

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

3.1 Financial risk factors *(Cont'd)*

(b) Credit risk

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

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

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. At the balance sheet date, the Group has certain concentrations of credit risk as 91% (2006: 100%) and 100% (2006: 100%) of the Group's accounts receivable were due from the Group's largest customer and the five largest customers, respectively.

Further quantitative data in respect of the Group's exposure to credit risk arising from accounts receivable are disclosed in Note 22 to the consolidated financial statements.

(c) Liquidity risk

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

At 31 December 2007, the Group had an outstanding guarantee and indemnity for HK$20 million (2006: 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. The Group did not have any bank borrowings at 31 December 2007 (2006: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

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

3.1 Financial risk factors *(Cont'd)*

(c) Liquidity risk *(Cont'd)*

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contractual undiscounted payments, was as follows:

	Carrying amount as per consolidated balance sheet HK$'000	Total contractual undiscounted cash flows HK$'000	On demand or within 1 year HK$'000	More than 1 year but less than 5 years HK$'000	More than 5 years HK$'000
2007					
Accounts payable	**11,986**	**11,986**	**11,986**	**–**	**–**
Amount due to a jointly-controlled entity	**44,345**	**44,345**	**44,345**	**–**	**–**
Amounts due to related companies	**133**	**133**	**133**	**–**	**–**
Convertible note	**537,119**	**755,032**	**–**	**–**	**755,032**
	593,583	**811,496**	**56,464**	**–**	**755,032**

	Carrying amount as per consolidated balance sheet HK$'000	Total contractual undiscounted cash flows HK$'000	On demand or within 1 year HK$'000	More than 1 year but less than 5 years HK$'000	More than 5 years HK$'000
2006					
Accounts payable	2,680	2,680	2,680	–	–
Amount due to an associate	29,637	29,637	29,637	–	–
Amounts due to related companies	9,080	9,080	9,080	–	–
Amount due to a director	347	347	347	–	–
	41,744	41,744	41,744	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

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

3.2 Capital risk management

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

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

The Group monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as total debt divided by adjusted capital. Total debt comprises accounts payable, accruals and other payables, amount due to a jointly-controlled entity, amount due to an associate, amounts due to related companies and amount due to a director as shown in the consolidated balance sheet. Adjusted capital comprises convertible note and all components of equity (including share capital, reserves, retained profit and minority interests as shown in the consolidated balance sheet).

During 2007, the Group's strategy, which was unchanged from 2006, was to maintain a debt-to-adjusted capital ratio within 3% to 6%. The debt-to-adjusted capital ratios at 31 December 2007 and 2006 are as follows:

	2007 HK$'000	2006 HK$'000
Total debt	**82,473**	50,786
Convertible note *(Note 30)*	**537,119**	–
Total equity	**2,100,604**	1,435,736
Adjusted capital	**2,637,723**	1,435,736
Debt-to-adjusted capital ratio	**3.1%**	3.5%

3.3 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 fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. For an option-based derivative, the fair value is estimated using option pricing model (for example, the Black-Scholes option pricing model).

The carrying value less impairment provision of trade 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

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

3.4 Financial instruments by category

The carrying amounts of each of the categories of financial instruments at the balance sheet date are as follows:

	Financial assets at fair value through profit or loss (held for trading) HK$'000	Loans and receivables HK$'000	Total HK$'000
2007			
Financial assets as per consolidated balance sheet			
Accounts receivable	–	**74,740**	**74,740**
Amount due from a jointly-controlled entity	–	**7,877**	**7,877**
Amounts due from related companies	–	**24,289**	**24,289**
Financial assets at fair value through profit or loss	**192,294**	–	**192,294**
Deposit with a financial institution	–	**17,287**	**17,287**
Cash and bank balances	–	**993,269**	**993,269**
	192,294	**1,117,462**	**1,309,756**

	Financial liabilities at fair value through profit or loss (held for trading) HK$'000	Financial liabilities at amortised cost HK$'000	Total HK$'000
Financial liabilities as per consolidated balance sheet			
Accounts payable	–	**11,986**	**11,986**
Amount due to a jointly-controlled entity	–	**44,345**	**44,345**
Amounts due to related companies	–	**133**	**133**
Financial liabilities at fair value through profit or loss	**123,230**	–	**123,230**
Convertible note	–	**537,119**	**537,119**
	123,230	**593,583**	**716,813**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

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

3.4 Financial instruments by category *(Cont'd)*

	Loans and receivables HK$'000
2006	
Financial assets as per consolidated balance sheet	
Accounts receivable	24,138
Amounts due from related companies	21,250
Deposit with a financial institution	16,175
Cash and bank balances	310,620
	372,183

	Financial liabilities at amortised cost HK$'000
Financial liabilities as per consolidated balance sheet	
Accounts payable	2,680
Amount due to an associate	29,637
Amounts due to related companies	9,080
Amount due to a director	347
	41,744

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

For the year ended 31 December 2007

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

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

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:

	2007 **HK$'000**	2006 HK$'000
Turnover		
Income from provision of lottery terminals	**284,162**	71,295
Income from sales of lottery equipment	**26,038**	–
Income from provision of consultancy services	**67**	50
	310,267	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 years ended 31 December 2007 and 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. Accordingly, no further business segment information is presented.

(b) Secondary reporting format - geographical segments

For the years ended 31 December 2007 and 2006, 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	**2007** **HK$'000**	2006 HK$'000
PRC	**1,578,896**	1,143,421
Hong Kong	**1,184,550**	294,374
Other	**5,239**	4,793
	2,768,685	1,442,588
Investments in jointly-controlled entities	**90,954**	–
Investment in an associate	**–**	54,016
	2,859,639	1,496,604

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

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

(b) Secondary reporting format - geographical segments *(Cont'd)*

Capital expenditure

	2007 HK$'000	2006 HK$'000
PRC	**280,653**	1,060,890
Hong Kong	**111,185**	720
	391,838	1,061,610

6. OTHER INCOME AND GAINS

	2007 HK$'000	2006 HK$'000
Fair value gains/(loss), net:		
– Financial assets at fair value through profit or loss (held for trading)	**2,884**	4,873
– Early redemption option embedded in convertible note at fair value	**61,528**	–
– Redemption option held by a noteholder embedded in convertible note at fair value	**(47,300)**	–
	17,112	4,873
Interest income from bank deposits	**29,758**	15,279
Net gain on disposal of interest in TIHK *(Note 19(i))*	**69,740**	–
Rental income	**160**	–
	116,770	20,152

7. FINANCE COSTS

	2007 HK$'000	2006 HK$'000
Accrued interest expense on convertible note *(Note 30)*	**14,329**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

8. OPERATING PROFIT FROM CONTINUING OPERATIONS

	2007	2006
	HK$'000	HK$'000
The Group's operating profit from continuing operations is arrived after charging/(crediting):		
Costs of sales and services		
– Depreciation of lottery terminals	**17,383**	5,431
– Business tax	**14,836**	3,636
– Cost of inventories recognised as expense	**13,372**	–
– Repairs and maintenance	**2,522**	300
– Transportation	**2,804**	1,659
	50,917	11,026
Loss on disposal of property, plant and equipment	**1,198**	–
Loss on disposal of domain names and trademarks	**–**	1,576
Operating lease rentals in respect of land and buildings	**3,815**	2,481
Auditors' remuneration	**590**	350
Amortisation of intangible assets		
– CLO Contract *(Note 17)*	**6,527**	4,896
– Domain names and trademarks *(Note 17)*	**–**	78
Depreciation of other items of property, plant and equipment	**1,203**	704
Write-down of inventories to net realisable value	**658**	–
Impairment of other receivables	**8,536**	–
Foreign exchange differences, net	**(1,170)**	(1,103)

9. 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:

	2007	2006
	HK$'000	HK$'000
Revenue	**–**	7,335
Expenses	**–**	(22,083)
Loss before income tax from discontinued operations	**–**	(14,748)
Income tax	**–**	–
Loss for the year from discontinued operations	**–**	(14,748)

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

	2007	2006
	HK$'000	HK$'000
Operating activities	**–**	(13,094)
Investing activities	**–**	–
Financing activities	**–**	–
Total cash flows	**–**	(13,094)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

10. INCOME TAX

Hong Kong Profits Tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profit for the year. No provision for Hong Kong Profits Tax has been made for the year ended 31 December 2007 as the Group had no assessable profits arising in or derived from Hong Kong for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

	2007	2006
	HK$'000	HK$'000
Current income tax		
– Hong Kong Profits Tax	**–**	186
– PRC Enterprise Income Tax	**1,262**	–
Deferred income tax *(Note 31)*	**(228)**	–
	1,034	186

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 as follows:

	2007	2006
	HK$'000	HK$'000
Profit/(Loss) before income tax		
From continuing operations	**246,967**	12,035
From discontinued operations	**–**	(14,748)
	246,967	(2,713)
Tax calculated at the applicable tax rate of 17.5%	**43,219**	(475)
Income not subject to tax	**(67,832)**	(15,806)
Expenses not deductible for tax purposes	**27,548**	16,467
Others	**(1,901)**	–
Tax charge	**1,034**	186

11. 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$25,423,000 (2006: HK$34,084,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

12. EARNINGS/(LOSS) PER SHARE

Basic and diluted earnings/(loss) per share is calculated by dividing the profit/(loss) attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the year.

	2007	2006 *(As restated) (Note 32(ii))*
Profit/(Loss) from continuing operations attributable to the equity holders of the Company for the purpose of calculating basic and diluted earnings/(loss) per share *(HK$'000)*	**132,094**	(14,440)
Loss from discontinued operations attributable to the equity holders of the Company for the purpose of calculating basic and diluted loss per share *(HK$'000)*	**–**	(14,748)
Profit/(Loss) attributable to equity holders of the Company *(HK$'000)*	**132,094**	(29,188)
Weighted average number of ordinary shares in issue for the purpose of calculating basic earnings / (loss) per share	**7,360,681,227**	6,883,621,808
Effect of dilutive potential ordinary shares:		
– Share options	**141,435,395**	–
Weighted average number of ordinary shares for the purpose of calculating diluted earnings / (loss) per share	**7,502,116,622**	6,883,621,808
Basic earnings/(loss) per share		
– Continuing operations	**1.79 HK cents**	(0.21) HK cents
– Discontinued operations	**N/A**	(0.22) HK cents
	1.79 HK cents	(0.43) HK cents
Diluted earnings / (loss) per share		
– Continuing operations	**1.76 HK cents**	(0.21) HK cents
– Discontinued operations	**N/A**	(0.22) HK cents
	1.76 HK cents	(0.43) HK cents

The computation of diluted earnings per share for the year ended 31 December 2007 has not assumed the conversion of convertible note because its conversion would increase the earnings per share. The computation of diluted loss per share for the year ended 31 December 2006 has not assumed the exercise of share options because their exercise would reduce the loss per share.

The weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share has been adjusted for the share subdivision on 7 August 2007 (Note 32(ii)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

13. STAFF COSTS

Staff costs (including directors' emoluments) comprise:

	2007 HK$'000	2006 HK$'000
Wages and salaries	**32,170**	31,232
Employee share option benefits	**17,699**	19,600
Social security costs	**274**	27
Pension costs - defined contribution plans	**620**	716
Other staff welfare	**504**	249
	51,267	51,824

14. COMPENSATION TO KEY MANAGEMENT PERSONNEL

	2007 HK$'000	2006 HK$'000
Short-term employee benefits	**20,417**	24,499
Post-employment benefits	**242**	299
Employee share option benefits	**13,249**	16,273
	33,908	41,071

(a) Directors' emoluments

The remuneration of every director of the Company for the year ended 31 December 2007 is set out below:

Name of director	Fees	Salaries, allowances 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						
Mr. Chan Shing *(Note (i))*	–	2,272	1,300	57	6	3,635
Ms. Lau Ting	–	3,360	1,300	186	150	4,996
Mr. Hoong Cheong Thard	–	4,244	1,300	7,352	12	12,908
Mr. Wu Jingwei *(Note (i))*	–	1,264	421	2,044	–	3,729
Mr. Liao Yuang-whang *(Note (ii))*	–	833	200	826	2	1,861
Mr. Chen Aizheng *(Note (iii))*	–	486	32	1,714	7	2,239
Mr. Ng Man Fai, Matthew *(Note (iii))*	–	222	34	128	7	391
Non-executive directors						
Mr. Paulus Johannes Cornelis Aloysius Karskens *(Note (i))*	110	–	–	–	–	110
Mr. Wang Taoguang *(Note (iv))*	46	654	–	–	–	700
Mr. Sun Ho *(Notes (v) and (vi))*	261	1,456	–	384	58	2,159
Independent non-executive directors						
Mr. Huang Shenglan	251	–	–	186	–	437
Mr. Chan Ming Fai	251	–	–	186	–	437
Mr. Li Xiaojun	120	–	–	186	–	306
	1,039	14,791	4,587	13,249	242	33,908

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

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

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

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

Name of director	Fees	Salaries, allowances 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 (vii))*	–	1,285	–	2,979	4	4,268
Mr. Wang Taoguang *(Note (viii))*	–	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 (ix))*	146	–	–	158	–	304
Mr. Li Xiaojun	120	–	–	344	–	464
Mr. Roger King *(Note (x))*	38	–	–	–	–	38
	544	9,210	14,745	16,273	299	41,071

Notes:

(i) Appointed on 16 July 2007
(ii) Appointed on 13 November 2007
(iii) Resigned on 16 July 2007
(iv) Re-designated from an executive director to a non-executive director on 23 October 2007
(v) Re-designated from an executive director to a non-executive director on 16 July 2007
(vi) Resigned on 23 October 2007
(vii) Appointed on 12 September 2006
(viii) Appointed on 28 June 2006
(ix) Appointed on 12 May 2006
(x) Retired on 24 April 2006

During the year ended 31 December 2007, 95,200,000 share options, which have been adjusted for share subdivision (Note 32 (ii)), were granted to certain directors of the Company under the Company's share option scheme (2006: 32,400,000).

None of the directors of the Company waived or agreed to waive any emoluments during the year ended 31 December 2007 (2006: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

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

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group during the year ended 31 December 2007 included five (2006: four) directors of the Company, whose emoluments are set out above. The emoluments payable to the remaining one non-director, highest paid individual for the year ended 31 December 2006 are as follows:

	2007	2006
	HK$'000	HK$'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 2007, 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 (2006: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

15. PROPERTY, PLANT AND EQUIPMENT – GROUP

	Buildings	Lottery terminals leased to third parties under operating leases	Lottery terminals 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	HK$'000
At 1 January 2006									
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 39)*	–	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
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

	Buildings	Lottery terminals leased to third parties under operating leases	Lottery terminals under construction	Leasehold improvements	Plant and equipment	Computer equipment and software	Office equipment and furniture	Motor vehicles	Total
Year ended 31 December 2007									
Opening net book amount	**–**	**52,580**	**5,821**	**1,678**	**1,335**	**506**	**1,174**	**397**	**63,491**
Exchange differences	**–**	**3,729**	**438**	**25**	**89**	**–**	**22**	**48**	**4,351**
Acquisition of subsidiaries *(Note 39)*	**–**	**12,926**	**–**	**–**	**–**	**–**	**214**	**735**	**13,875**
Additions	**8,707**	**–**	**60,597**	**4,350**	**3,564**	**2,010**	**465**	**695**	**80,388**
Transfers	**–**	**56,939**	**(56,939)**	**–**	**–**	**–**	**–**	**–**	**–**
Disposals	**–**	**–**	**–**	**(791)**	**–**	**(207)**	**(4)**	**(196)**	**(1,198)**
Depreciation	**(73)**	**(17,383)**	**–**	**(429)**	**(306)**	**(256)**	**(344)**	**(142)**	**(18,933)**
Closing net book amount	**8,634**	**108,791**	**9,917**	**4,833**	**4,682**	**2,053**	**1,527**	**1,537**	**141,974**
At 31 December 2007									
Cost	**8,707**	**164,106**	**9,917**	**5,136**	**5,381**	**7,364**	**3,016**	**2,022**	**205,649**
Accumulated depreciation	**(73)**	**(55,315)**	**–**	**(303)**	**(699)**	**(5,311)**	**(1,489)**	**(485)**	**(63,675)**
Net book amount	**8,634**	**108,791**	**9,917**	**4,833**	**4,682**	**2,053**	**1,527**	**1,537**	**141,974**

Note: Depreciation of lottery terminals leased to third parties under operating leases of approximately HK$17,383,000 (2006: HK$5,431,000) has been charged in costs of sales and services. Depreciation of approximately HK$347,000 has been capitalised in lottery terminals under construction (2006: HK$147,000). Depreciation of other items of property, plant and equipment of approximately HK$1,203,000 (2006: HK$704,000) has been charged in general and administrative expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

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

	Company			
	Leasehold improvements HK$'000	**Computer equipment and software** HK$'000	**Office equipment and furniture** HK$'000	**Total** HK$'000
At 1 January 2006				
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
At 31 December 2006				
Cost	276	110	547	933
Accumulated depreciation	(14)	(16)	(78)	(108)
Net book amount	262	94	469	825
Year ended 31 December 2007				
Opening net book amount	**262**	**94**	**469**	**825**
Additions	**–**	**10**	**–**	**10**
Depreciation	**(55)**	**(23)**	**(110)**	**(188)**
Closing net book amount	**207**	**81**	**359**	**647**
At 31 December 2007				
Cost	**276**	**120**	**547**	**943**
Accumulated depreciation	**(69)**	**(39)**	**(188)**	**(296)**
Net book amount	**207**	**81**	**359**	**647**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

16. LEASEHOLD LAND - GROUP

The Group's interest in leasehold land represent prepaid operating lease payments and its net book value is analysed as follows:

	2007	2006
	HK$'000	HK$'000
In Hong Kong held on:		
Leases of over 50 years	**97,548**	–
Opening net book amount	**–**	–
Addition	**98,172**	–
Amortisation	**(624)**	–
Closing net book amount	**97,548**	–

17. INTANGIBLE ASSETS

	Group			
	Goodwill	**CLO Contract**	**Domain names and trademarks**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2006				
Cost	–	–	2,347	2,347
Accumulated amortisation	–	–	(593)	(593)
Net book amount	–	–	1,754	1,754
Year ended 31 December 2006				
Opening net book amount	–	–	1,754	1,754
Acquisition of subsidiaries *(Note 39)*	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
At 31 December 2006				
Cost	935,319	60,382	–	995,701
Accumulated amortisation	–	(4,896)	–	(4,896)
Net book amount	935,319	55,486	–	990,805
Year ended 31 December 2007				
Opening net book amount	**935,319**	**55,486**	**–**	**990,805**
Acquisition of subsidiaries *(Note 39)*	**154,099**	**–**	**–**	**154,099**
Acquisition of additional interests in subsidiaries *(Note (i))*	**45,304**	**–**	**–**	**45,304**
Amortisation charge	**–**	**(6,527)**	**–**	**(6,527)**
Closing net book amount	**1,134,722**	**48,959**	**–**	**1,183,681**
At 31 December 2007				
Cost	**1,134,722**	**60,382**	**–**	**1,195,104**
Accumulated amortisation	**–**	**(11,423)**	**–**	**(11,423)**
Net book amount	**1,134,722**	**48,959**	**–**	**1,183,681**

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17. INTANGIBLE ASSETS *(Cont'd)*

Notes:

(i) On 27 December 2007, the Group acquired an additional 20% equity interest in each of GZSH and LHL upon completion of the GZSH Acquisition Agreement and the LHL Acquisition Agreement, respectively. The related goodwill arising from the aforesaid acquisitions amounted to approximately HK$45,304,000 (Note 39).

(ii) Amortisation of the CLO Contract of approximately HK$6,527,000 for the year ended 31 December 2007 is included in general and administrative expenses (2006: HK$4,896,000).

(iii) Impairment tests of goodwill

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

	2007	2006
	HK$'000	HK$'000
Provision of video lottery terminals ("VLT")	**935,319**	935,319
Provision of traditional computer lottery system and equipment	**199,403**	–
	1,134,722	935,319

The recoverable amount of the CGU is determined based on value-in-use calculations.

(a) Provision of VLT

The calculation uses pre-tax cash flow projections based on financial budgets approved by management covering the remaining term of the CLO Contract of 8 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 17.14%, which reflects the specific risks relating to this CGU.

(b) Provision of traditional computer lottery system and equipment

The calculation uses pre-tax cash flow projections based on financial budgets approved by management covering a 5-year period. The key assumptions used for the cash flow projections include the budgeted turnover and expenses during each of the forecasting periods, which are determined by management based on past performance and its expectation of market development. All cash flows are discounted at a discount rate of 17.14%, which reflects the specific risks relating to this CGU.

No impairment loss has been recognised in respect of goodwill for the year ended 31 December 2007 as the recoverable amount exceeded the carrying amount (2006: Nil).

18. INVESTMENTS IN AND AMOUNTS DUE FROM SUBSIDIARIES

	2007	2006
	HK$'000	HK$'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.

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For the year ended 31 December 2007

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

The following is a list of the principal subsidiaries at 31 December 2007:

Name	Place of incorporation/ establishment, Kind of legal entity *(Note (vii))*	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
Onwealth Holdings Limited	British Virgin Islands, Limited liability company	US$1	100%	Investment holding
Held indirectly:				
Century Worldwide Limited	Hong Kong, Limited liability company	HK$1	100%	Investment holding
Champ Mark Investments Limited ("CMIL")	British Virgin Islands, Limited liability company	3,600 issued shares of no par value	100%	Investment holding
Champ Technology Limited ("CTL")	Hong Kong, Limited liability company	HK$1	100%	Investment holding
China LotSynergy Limited	British Virgin Islands, Limited liability company	US$100	100%	Investment holding
China LotSynergy Limited	Hong Kong, Limited liability company	US$500,000	100%	Investment holding and provision of management service
China LotSynergy Asset Management Limited	Hong Kong, Limited liability company	US$2	100%	Treasury management
China LotSynergy Development Limited	Hong Kong, Limited liability company	HK$1	100%	Investment holding
China LotSynergy Group Limited ("CLG")	Hong Kong, Limited liability company	HK$1	100%	Investment holding

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Name	Place of incorporation/ establishment, Kind of legal entity *(Note (vii))*	Particulars of issued share capital/ registered capital	Interest held	Principal activities
Held indirectly: (Cont'd)				
Corich International Limited ("Corich")	British Virgin Islands, Limited liability company	US$2,000,000	50% *(Note (viii))*	Investment holding
East Grand Enterprises Limited	Hong Kong, Limited liability company	HK$1	50% *(Note (viii))*	Investment holding
Flynn Technology Limited	British Virgin Islands, Limited liability company	US$1,000	100%	Investment holding
Globe Team Limited	Hong Kong, Limited liability company	HK$1	100%	Investment holding
Goldwide Limited	Hong Kong, Limited liability company	HK$1	100%	Investment holding
Lottnal Holdings Limited ("LHL")	Hong Kong, Limited liability company	US$350,000	80%	Investment holding
Upmax Investments Limited	British Virgin Islands, Limited liability company	US$1	100%	Investment holding
東莞天意電子有限公司 (「東莞天意」) *(Note (i))*	PRC, Wholly foreign owned enterprise	HK$8,000,000	50% *(Note (viii))*	Provision of VLT
北京靈彩科技有限公司 *(Note (ii))*	PRC, Wholly foreign owned enterprise	HK$1,200,000	50% *(Note (viii))*	Research and development of lottery system and equipment in the PRC
廣州洛圖終端技術有限公司 (Guangzhou Lottnal Terminal Company Limited) ("GZL") *(Note (iii))*	PRC, Wholly foreign owned enterprise	US$350,000	80%	Research and development and manufacturing of lottery ticket scanners and terminal equipment in the PRC and overseas

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Name	Place of incorporation/ establishment, Kind of legal entity *(Note (vii))*	Particulars of issued share capital/ registered capital	Interest held	Principal activities
Held indirectly: (Cont'd)				
廣州市三環永新科技有限公司 (Guangzhou San Huan Yong Xin Technology Company Limited) ("GZSH") *(Note (iv))*	PRC, Sino-foreign equity joint venture enterprise	RMB10,000,000	80%	Provision of lottery system and equipment in the PRC
華彩之家科技發展(北京)有限公司(「華彩之家」) *(Note (v))*	PRC, Wholly foreign owned enterprise	HK$1,200,000	100%	Not yet commenced business
華彩世紀科技發展(北京)有限公司(「華彩世紀」) *(Note (vi))*	PRC, Wholly foreign owned enterprise	HK$10,000,000	100%	Not yet commenced business

Notes:

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

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

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

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

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

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

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

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

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

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For the year ended 31 December 2007

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

	Group	
	2007	2006
	HK$'000	HK$'000
Investments in jointly-controlled entities	**90,954**	–

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

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

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

The following table illustrates the summarised financial information of the Group's jointly-controlled entities:

	2007	2006
	HK$'000	HK$'000
Share of the jointly-controlled entities' assets and liabilities:		
Non-current assets	**26,367**	–
Current assets	**54,812**	–
Current liabilities	**(3,592)**	–
Net assets	**77,587**	–
Share of the jointly-controlled entities' results:		
Revenue	**–**	–
Total expenses	**–**	–
Result	**–**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

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

Notes:

(i) On 19 December 2007, the Company, China LotSynergy Limited ("CLSL"– a wholly owned subsidiary of the Company), CLS Australia Pty Ltd, TIHK and TIHK's subsidiary (collectively, the "Company Entities"), entered into a share and assets sale agreement (the "Tabcorp SPA") with Tabcorp International No. 1 Pty Ltd ("Tabcorp Share Vendor"), Tabcorp International Pty Ltd, Tabcorp International Services and Technology Pty Ltd, Jupiters Limited, Jupiters Gaming Pty Ltd and Tabcorp Holdings Limited (collectively, the "Tabcorp Entities") pursuant to which the Company Entities agreed to acquire and the Tabcorp Entities agreed to sell (i) 67% of the total issued share capital of TIHK; (ii) the business assets and (iii) the business intellectual property for a total consideration of A$15,000,000. Completion of the acquisition took place on 19 December 2007.

Immediately before completion of the aforesaid acquisition, TIHK was owned as to 33% by CLSL and as to 67% by the Tabcorp Share Vendor and each of CLSL and the Tabcorp Share Vendor owed TIHK the principal amount under the promissory note dated 27 January 2006 for a principal amount of A$4,950,000 issued by CLSL in favour of TIHK as part consideration for the issuance of shares in the capital of TIHK to CLSL and the promissory note dated 27 January 2006 for a principal amount of A$10,050,000 issued by the Tabcorp Share Vendor in favour of TIHK as part consideration for the issuance of shares in the capital of TIHK to the Tabcorp Share Vendor (the "Tabcorp Promissory Note"), respectively. Immediately after completion of the acquisition, TIHK was wholly-owned by CLSL, the Tabcorp Promissory Note was released by TIHK and CLSL issued in favour of TIHK two new promissory notes dated 19 December 2007 each for a principal amount of A$7,500,000.

On the same day immediately after completion of the Tabcorp SPA, CLSL entered into an agreement for the sale and purchase of shares dated 19 December 2007 with GTECH Global Services Corporation Ltd. ("GTECH") pursuant to which CLSL agreed to sell and GTECH agreed to acquire 50% of the entire issued share capital of TIHK for a total consideration of US$20,000,000. Completion of the disposal took place on 19 December 2007 and the Group realised a net gain on disposal of interest in TIHK of approximately HK$69,740,000 for the year ended 31 December 2007. Upon completion of the aforesaid disposal, TIHK released and discharged CLSL of all its obligations under one of the new promissory notes and at the same time GTECH issued in favour of TIHK a new promissory note dated 19 December 2007 for a principal amount of A$7,500,000. TIHK became a joint venture between GTECH and CLSL, under which TIHK was owned as to 50% by CLSL and as to 50% by GTECH and the name of TIHK was changed from "Tabcorp International Hong Kong Limited" to "CLS-GTECH Company Limited".

(ii) During the year ended 31 December 2007, the Group established a strategic alliance with International Game Technology ("IGT"), one of the global leading consolidated enterprises in gaming industry, with the objective to introduce advanced international gaming technologies and systems, as well as operation and management expertise, in order to provide better services and facilitate the expansion of its business in the lottery market in the PRC. Following the formation of the strategic alliance in May 2007, the Group and IGT, through their respective wholly-owned subsidiaries, entered into a shareholders' agreement on 6 August 2007 and incorporated a joint venture company under the name "IGT Synergy Holding Limited" to develop new lottery-related businesses. At 31 December 2007, the Group was committed to contribute to the capital of IGT Synergy Holding Limited in the amount of approximately US$13,500,000.

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For the year ended 31 December 2007

20. INVESTMENT IN AND AMOUNT DUE TO AN ASSOCIATE

	Group	
	2007	2006
	HK$'000	HK$'000
Beginning of the year	**54,016**	2
Capital contribution to TIHK	**–**	59,398
Acquisition of interest in associate *(Note 39)*	**–**	500,000
Share of profit less loss	**(13,217)**	(4,943)
Exchange difference *(Note 34)*	**6,361**	967
Acquisition of subsidiaries *(Note 39)*	**–**	(501,408)
Transferred to jointly-controlled entity *(Note 19(i))*	**(47,160)**	–
End of the year	**–**	54,016

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

Name	**Particulars of issued shares held**	**Place of incorporation**	**Interest held**	**Principal activities**
TIHK *(Note 19(i))*	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 amount due to an associate was unsecured, interest-free and repayable on demand.

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

	2007	2006
	HK$'000	HK$'000
Total assets	**–**	171,790
Total liabilities	**–**	(8,104)
Revenue	**569**	468
Loss	**(34,039)**	(19,554)

21. INVENTORIES

Inventories consist of electronic parts and components of lottery equipment.

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22. ACCOUNTS RECEIVABLE

Income from provision of lottery terminals is billed on a monthly basis and is due 15–30 days after month-end. Income from sales of lottery equipment is billed upon the delivery of products and with credit periods ranging from 30 to 180 days. Income from provision of maintenance services is billed on a monthly or yearly basis and is due 30 days after the invoice date. At 31 December 2007, the ageing analysis of the accounts receivable is as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
0 – 30 days	**38,842**	14,893
31 – 60 days	**35,898**	9,245
	74,740	24,138

The carrying amounts of substantially all of the Group's accounts receivable are denominated in RMB. None of the Group's accounts receivable at balance sheet date were past due or impaired, and there was no recent history of default for these receivables.

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

23. AMOUNTS DUE FROM RELATED COMPANIES

The balances represent 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$24,289,000 (2006: HK$21,250,000).

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		**Company**	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Listed securities:				
– Equity securities – Hong Kong	**48,480**	–	**–**	–
Early redemption option embedded in convertible note at fair value *(Note 30)*	**143,814**	–	**143,814**	–
	192,294	–	**143,814**	–
Market value of listed securities	**48,480**	–	**–**	–

The fair value of all equity securities is based on their current bid prices in an active market.

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25. DEPOSIT WITH A FINANCIAL INSTITUTION

The balance represents a deposit (denominated in Renminbi) placed with 五礦集團財務有限責任公司 ("五礦財務"), a registered financial institution in the PRC. 五礦財務 is a fellow subsidiary of a minority shareholder of a non-wholly owned subsidiary of the Company. This deposit was kept as a saving deposit with the financial institution and bore interest at the prevailing interest rate of the People's Bank of China at 31 December 2006 and 2007. The remittance of these funds out of the PRC was subject to the exchange control restrictions imposed by the PRC government. The deposit had been withdrawn subsequently as the liquidation of the non-wholly owned subsidiary was completed on 16 January 2008.

26. CASH AND BANK BALANCES

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at bank and in hand	**193,664**	49,317	**1,456**	94
Short-term bank deposits	**799,605**	261,303	**–**	–
Maximum exposure to credit risk	**993,269**	310,620	**1,456**	94

At 31 December 2007, the Group had cash and bank balances of approximately HK$141,029,000 (2006: HK$42,259,000) 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 bank balances are deposited with creditworthy banks with no recent history of default.

27. ACCOUNTS PAYABLE

At 31 December 2007, the ageing analysis of the accounts payable is as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
0 – 30 days	**2,842**	646
31 – 60 days	**3,401**	631
Over 60 days	**5,743**	1,403
	11,986	2,680

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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28. AMOUNTS DUE TO RELATED COMPANIES/A DIRECTOR

The amounts due are unsecured, interest-free and repayable on demand.

29. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group and Company	
	2007	2006
	HK$'000	HK$'000
Redemption option held by a noteholder embedded in convertible note at fair value *(Note 30)*	**123,230**	–

30. CONVERTIBLE NOTE

	Group and Company	
	2007	2006
	HK$'000	HK$'000
Principal amount of convertible note issued (net of issue costs)	**541,276**	–
Early redemption option held by the Company (net of issue costs)	**82,286**	–
Redemption option held by a noteholder (net of issue costs)	**(75,930)**	–
Equity component (net of issue costs)	**(24,842)**	–
Liability component on initial recognition (net of issue costs)	**522,790**	–
Accrued interest during the year	**14,329**	–
Liability component	**537,119**	–

The unsecured 8-year maturity zero coupon convertible note was issued on 31 May 2007 by the Company at a principal amount of HK$550,000,000. The note is convertible into ordinary shares of HK$0.01 each (before share subdivision) of the Company at an initial conversion price of HK$3.82 per ordinary share (before share subdivision) (subject to adjustment) on any business day during the period on and after 31 May 2010 up to 16 May 2015. The note is redeemable by the Company on or at any time after 31 May 2012 and prior to 31 May 2015 at a gross yield of 4% per annum to the noteholder, calculated on a semi-annual basis. Moreover, the noteholder may require the Company to redeem all or some of the note held by the noteholder on 31 May 2012 at 121.89944% of the principal amount. Unless previously converted, purchased or cancelled in accordance with the conditions of the note, the Company shall redeem the note on the maturity date on 31 May 2015 at 137.27857% of the principal amount.

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

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30. CONVERTIBLE NOTE *(Cont'd)*

The fair values of embedded derivative financial instruments in respect of early redemption option held by the Company and redemption option held by a noteholder at inception and at 31 December 2007 are determined based on independent professional valuations which incorporate an option pricing model. The significant assumptions used in the calculation of the fair values of the embedded derivative financial instruments were as follows:

(i) Risk free rate of between 3.061% and 4.502% which was determined based on the yield of the Hong Kong Exchange Fund Notes ("EFN"). The year of maturity of EFN being referred was determined in accordance with the expected life.

(ii) Volatility of between 15.328% and 26.025% which was determined based on the historical interest rates under the same period as the expected life.

(iii) Expected life was based on the terms in the subscription agreement.

The fair value of the liability component of the convertible note at 31 December 2007 was approximately HK$593,374,000.

31. DEFERRED INCOME TAX

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

Deferred tax liabilities:

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Beginning of the year	**9,400**	–	**–**	–
Credited to the income statement	**(255)**	–	**(255)**	–
Acquisition of subsidiaries *(Note 39)*	**–**	9,400	**–**	–
Charged directly to equity	**4,762**	–	**4,762**	–
End of the year	**13,907**	9,400	**4,507**	–

The balance of deferred income tax liabilities at 31 December 2007 is attributable to the intangible assets (CLO Contract) recognised arising from acquisition of subsidiaries of approximately HK$9,400,000 (2006: HK$9,400,000) and the convertible note of approximately HK$4,507,000 (2006: Nil).

Deferred tax assets:

	Group	
	2007	2006
	HK$'000	HK$'000
Beginning of the year	**–**	–
Charged to the income statement	**(27)**	–
Acquisition of subsidiaries *(Note 39)*	**1,025**	–
Exchange differences	**32**	–
End of the year	**1,030**	–

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31. DEFERRED INCOME TAX *(Cont'd)*

The balance of deferred income tax assets is attributable to the accelerated tax depreciation on property, plant and equipment.

At 31 December 2007, the Group had unused tax losses of approximately HK$87,000 (2006: HK$87,000) 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.

32. SHARE CAPITAL

	Authorised ordinary shares	
	Number of shares	HK$'000
At 1 January 2006	2,000,000,000	20,000
Increase in authorised share capital *(Note (i))*	2,000,000,000	20,000
At 31 December 2006 and 1 January 2007	**4,000,000,000**	**40,000**
Subdivision of one share of HK$0.01 each into four shares of HK$0.0025 each *(Note (ii))*	**12,000,000,000**	**–**
At 31 December 2007	**16,000,000,000**	**40,000**

	Issued and fully paid ordinary shares	
	Number of shares	HK$'000
At 1 January 2006	1,430,000,000	14,300
Shares options exercised *(Note (iii))*	120,000	1
New issue of shares *(Note (iv))*	180,000,000	1,800
New issue of shares *(Note (v))*	200,000,000	2,000
Repurchase of shares *(Note (vi))*	(37,538,000)	(375)
At 31 December 2006 and 1 January 2007	**1,772,582,000**	**17,726**
New issue of shares *(Note (vii))*	**93,400,000**	**934**
Subdivision of one share of HK$0.01 each into four shares of HK$0.0025 each *(Note (ii))*	**5,597,946,000**	**–**
New issue of shares *(Note (viii))*	**67,200,000**	**168**
Share options exercised *(Note (ix))*	**135,320,000**	**338**
Repurchase of shares *(Note (x))*	**(9,688,000)**	**(24)**
At 31 December 2007	**7,656,760,000**	**19,142**

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32. 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.

(ii) Pursuant to the ordinary resolution passed by the Company's shareholders at the special general meeting held on 6 August 2007, every share of HK$0.01 each in the issued and unissued share capital of the Company was subdivided into 4 shares of HK$0.0025 each (the "Share Subdivision"). The Share Subdivision became effective on 7 August 2007.

(iii) Share options were exercised by optionholders in January 2006 to subscribe for a total of 120,000 shares of HK$0.01 each 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.

(iv) Pursuant to the placing agreements and subscription agreements dated 17 January 2006, the Company allotted and issued a total of 180,000,000 new shares of HK$0.01 each 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 of HK$0.01 each 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.

(v) Pursuant to the subscription agreement (Note 39), the Company allotted and issued a total of 200,000,000 consideration shares of HK$0.01 each 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.

(vi) The Company repurchased 37,538,000 of its own shares of HK$0.01 each 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.

(vii) Pursuant to the subscription agreement dated 1 May 2007, the Company issued and allotted a total of 93,400,000 new shares of HK$0.01 each at a subscription price of HK$2.70 per share to International Game Technology on 31 May 2007. The net proceeds of the subscription shares and the convertible note would be used for financing business expansion, potential investment opportunities and general working capital.

(viii) Pursuant to the two conditional sale and purchase agreements dated 10 September 2007 (Note 39), the Company allotted and issued a total of 50,400,000 new consideration shares of HK$0.0025 each at HK$1.13 to Citibest Investments Limited on 30 October 2007 and 16,800,000 new consideration shares of HK$0.0025 each at HK$0.89 to certain vendors on 27 December 2007 as payment of part of the consideration for the subscription of interests in CMIL and LHL respectively.

(ix) Share options were exercised by optionholders during the year ended 31 December 2007 to subscribe for a total of 135,320,000 shares of HK$0.0025 each by payment of subscription monies of approximately HK$64,124,000, of which approximately HK$338,000 was credited to share capital and the balance of approximately HK$63,786,000 was credited to the share premium account.

(x) The Company repurchased 9,688,000 of its own shares of HK$0.0025 each on the Stock Exchange in December 2007. The highest and lowest price paid per share were HK$0.90 and HK$0.85 respectively. The total amount paid for the repurchase of shares was approximately HK$8,510,000 and has been deducted from shareholders' equity. The shares repurchased were subsequently cancelled.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

33. SHARE OPTION SCHEME

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

Under the Option Scheme, the Company may grant options to employees (including executive directors) of the Group and other participants to subscribe for shares in the Company, subject to a maximum of 30% of the issued share capital of the Company from time to time excluding for this purpose shares issued on exercise of options. The subscription price will be determined by the 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 years ended 31 December 2006 and 2007 are as follows:

Year ended 31 December 2006

			Number of options				
Date of grant	Exercise price HK$	Exercisable period	At 1 January 2006	Granted	Cancelled	Exercised	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
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

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

Year ended 31 December 2006

Date of grant	Exercise price HK$	Exercisable period	Number of options: At 1 January 2006	Granted	Cancelled	Exercised	At 31 December 2006
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

Year ended 31 December 2007

Date of grant	**Exercise price** ***(after Share Subdivision)*** HK$	**Exercisable period**	**Number of options: At 1 January 2007**	**Granted**	**Share Subdivision** ***(Note 32(ii))***	**Cancelled**	**Exercised**	**Lapsed**	**At 31 December 2007**
1 September 2005	0.49	31 October 2005 to 30 October 2007	15,180,000	–	45,540,000	(600,000)	(59,520,000)	(600,000)	–
1 September 2005	0.49	31 October 2006 to 30 October 2007	15,300,000	–	45,900,000	(600,000)	(60,000,000)	(600,000)	–
15 December 2005	0.675	15 December 2006 to 14 December 2008	1,500,000	–	4,500,000	–	(2,000,000)	–	4,000,000
8 June 2006	0.305	8 June 2007 to 7 June 2011	6,700,000	–	20,100,000	–	(13,800,000)	–	13,000,000
8 June 2006	0.305	8 June 2008 to 7 June 2011	6,700,000	–	20,100,000	(5,200,000)	–	–	21,600,000
8 June 2006	0.305	8 June 2009 to 7 June 2011	6,700,000	–	20,100,000	(5,200,000)	–	–	21,600,000
8 June 2006	0.305	8 June 2010 to 7 June 2011	6,700,000	–	20,100,000	(5,200,000)	–	–	21,600,000
30 June 2006	0.285	16 August 2007 to 29 June 2016	4,400,000	–	13,200,000	–	–	–	17,600,000
30 June 2006	0.285	16 August 2008 to 29 June 2016	4,400,000	–	13,200,000	–	–	–	17,600,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

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

Year ended 31 December 2007

			Number of options						
Date of grant	Exercise price *(after Share Subdivision)* HK$	Exercisable period	At 1 January 2007	Granted	Share Subdivision *(Note 32(ii))*	Cancelled	Exercised	Lapsed	At 31 December 2007
30 June 2006	0.285	16 August 2009 to 29 June 2016	4,400,000	–	13,200,000	–	–	–	17,600,000
30 June 2006	0.285	16 August 2010 to 29 June 2016	4,400,000	–	13,200,000	–	–	–	17,600,000
11 January 2007	0.445	1 January 2008 to 31 December 2011	–	500,000	1,500,000	–	–	–	2,000,000
11 January 2007	0.445	1 January 2009 to 31 December 2011	–	500,000	1,500,000	–	–	–	2,000,000
11 January 2007	0.445	1 January 2010 to 31 December 2011	–	500,000	1,500,000	–	–	–	2,000,000
11 January 2007	0.445	1 January 2011 to 31 December 2011	–	500,000	1,500,000	–	–	–	2,000,000
11 May 2007	0.775	2 May 2008 to 1 May 2014	–	450,000	1,350,000	–	–	–	1,800,000
11 May 2007	0.775	2 May 2009 to 1 May 2014	–	450,000	1,350,000	–	–	–	1,800,000
11 May 2007	0.775	2 May 2010 to 1 May 2014	–	450,000	1,350,000	–	–	–	1,800,000
11 May 2007	0.775	2 May 2011 to 1 May 2014	–	450,000	1,350,000	–	–	–	1,800,000
11 May 2007	0.775	2 May 2012 to 1 May 2014	–	450,000	1,350,000	–	–	–	1,800,000
11 May 2007	0.775	2 May 2013 to 1 May 2014	–	750,000	2,250,000	–	–	–	3,000,000
4 July 2007	0.975	4 July 2008 to 3 July 2012	–	100,000	300,000	–	–	–	400,000
4 July 2007	0.975	4 July 2009 to 3 July 2012	–	100,000	300,000	–	–	–	400,000
4 July 2007	0.975	4 July 2010 to 3 July 2012	–	100,000	300,000	–	–	–	400,000
4 July 2007	0.975	4 July 2011 to 3 July 2012	–	100,000	300,000	–	–	–	400,000

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For the year ended 31 December 2007

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

Year ended 31 December 2007

Date of grant	Exercise price *(after Share Subdivision)* HK$	Exercisable period	Number of options At 1 January 2007	Granted	Share Subdivision *(Note 32(ii))*	Cancelled	Exercised	Lapsed	At 31 December 2007
4 July 2007	0.975	1 January 2008 to 31 December 2013	–	300,000	900,000	–	–	–	1,200,000
4 July 2007	0.975	1 January 2009 to 31 December 2013	–	300,000	900,000	–	–	–	1,200,000
4 July 2007	0.975	1 January 2010 to 31 December 2013	–	300,000	900,000	–	–	–	1,200,000
4 July 2007	0.975	1 January 2011 to 31 December 2013	–	300,000	900,000	–	–	–	1,200,000
4 July 2007	0.975	1 January 2012 to 31 December 2013	–	800,000	2,400,000	–	–	–	3,200,000
4 July 2007	0.975	1 January 2013 to 31 December 2013	–	800,000	2,400,000	–	–	–	3,200,000
18 September 2007	0.904	18 September 2008 to 17 September 2011	–	3,200,000	–	–	–	–	3,200,000
18 September 2007	0.904	18 September 2009 to 17 September 2011	–	3,200,000	–	–	–	–	3,200,000
18 September 2007	0.904	18 September 2010 to 17 September 2011	–	5,600,000	–	–	–	–	5,600,000
2 October 2007	0.920	1 January 2008 to 31 December 2011	–	1,500,000	–	–	–	–	1,500,000
2 October 2007	0.920	1 January 2009 to 31 December 2011	–	1,500,000	–	–	–	–	1,500,000
2 October 2007	0.920	1 January 2010 to 31 December 2011	–	1,500,000	–	–	–	–	1,500,000
2 October 2007	0.920	1 January 2011 to 31 December 2011	–	1,500,000	–	–	–	–	1,500,000
2 October 2007	0.920	2 October 2008 to 1 October 2012	–	600,000	–	–	–	–	600,000
2 October 2007	0.920	2 October 2009 to 1 October 2012	–	600,000	–	–	–	–	600,000
2 October 2007	0.920	2 October 2010 to 1 October 2012	–	600,000	–	–	–	–	600,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

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

Year ended 31 December 2007

Date of grant	Exercise price *(after Share Subdivision)* HK$	Exercisable period	Number of options: At 1 January 2007	Granted	Share Subdivision *(Note 32(ii))*	Cancelled	Exercised	Lapsed	At 31 December 2007
2 October 2007	0.920	2 October 2011 to 1 October 2012	–	600,000	–	–	–	–	600,000
13 November 2007	0.960	1 January 2008 to 31 December 2011	–	19,000,000	–	–	–	–	19,000,000
13 November 2007	0.960	1 January 2009 to 31 December 2011	–	19,000,000	–	–	–	–	19,000,000
13 November 2007	0.960	1 January 2010 to 31 December 2011	–	19,000,000	–	–	–	–	19,000,000
13 November 2007	0.960	1 January 2011 to 31 December 2011	–	19,000,000	–	–	–	–	19,000,000
13 November 2007	0.960	18 September 2008 to 17 September 2012	–	8,000,000	–	–	–	–	8,000,000
13 November 2007	0.960	18 September 2009 to 17 September 2012	–	8,000,000	–	–	–	–	8,000,000
13 November 2007	0.960	18 September 2010 to 17 September 2012	–	8,000,000	–	–	–	–	8,000,000
13 November 2007	0.960	18 September 2011 to 17 September 2012	–	8,000,000	–	–	–	–	8,000,000
			76,380,000	136,600,000	253,740,000	(16,800,000)	(135,320,000)	(1,200,000)	313,400,000

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 lapsed during the year ended 31 December 2006.

The fair value of the options granted during the year ended 31 December 2007 was estimated as at the date of grant using the Black-Scholes option 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 standard deviations of continuously compounded rates of return on the Company and comparable listed companies in the United States of America. 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;

(iv) Expected dividend yield – one percentage; and

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

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

According to the Black-Scholes options pricing model, the fair value of the options granted during the year ended 31 December 2007 was approximately HK$44,382,000 (2006: HK$39,654,000) of which the Group recognised a share option expense of approximately HK$6,388,000 (2006: HK$11,526,000) for the year ended 31 December 2007.

The 135,320,000 options exercised during the year resulted in the issue of 135,320,000 ordinary shares of the Company and new share capital of approximately HK$338,000 and share premium of approximately HK$63,786,000 (before issue expenses), as further detailed in Note 32 to the financial statements. The related weighted average share price at the date of exercise was approximately HK$1.079.

At 31 December 2007, the Company had 313,400,000 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 313,400,000 additional ordinary shares of the Company and additional share capital of approximately HK$784,000 and share premium of approximately HK$193,306,000 (before issue expenses).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

34. RESERVES

	Group					
	Share premium HK$'000	**Convertible note** HK$'000	**Capital reserve** HK$'000 *(Note (b))*	**Currency translation reserve** HK$'000	**Share-based compensation reserve** HK$'000	**Total** HK$'000
Balance at 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 cancelled	–	–	–	–	(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 at 31 December 2006 and 1 January 2007	**1,346,562**	**–**	**15,158**	**3,038**	**49,588**	**1,414,346**
Reduction of share premium *(Note (d))*	**(87,346)**	**–**	**–**	**–**	**–**	**(87,346)**
Repurchase of shares	**(8,486)**	**–**	**–**	**–**	**–**	**(8,486)**
Share option scheme:						
– value of employee services	**–**	**–**	**–**	**–**	**17,699**	**17,699**
– value of other participants' services	**–**	**–**	**–**	**–**	**2,628**	**2,628**
– issue of shares under share option scheme	**107,038**	**–**	**–**	**–**	**(43,252)**	**63,786**
– vested share options cancelled and lapsed	**–**	**–**	**–**	**–**	**(729)**	**(729)**
Issue of shares	**322,982**	**–**	**–**	**–**	**–**	**322,982**
Share issue expenses	**(6,635)**	**–**	**–**	**–**	**–**	**(6,635)**
Currency translation differences						
– overseas subsidiaries	**–**	**–**	**–**	**8,409**	**–**	**8,409**
– overseas associate and jointly-controlled entities	**–**	**–**	**–**	**6,361**	**–**	**6,361**
Convertible note – equity component *(Note 30)*	**–**	**24,842**	**–**	**–**	**–**	**24,842**
Deferred tax on convertible note *(Note 31)*	**–**	**(4,762)**	**–**	**–**	**–**	**(4,762)**
Balance at 31 December 2007	**1,674,115**	**20,080**	**15,158**	**17,808**	**25,934**	**1,753,095**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

34. RESERVES *(Cont'd)*

	Company				
	Share premium HK$'000	Convertible note HK$'000	Contributed surplus HK$'000 *(Note c)*	Share-based compensation reserve HK$'000	Total HK$'000
Balance at 1 January 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 cancelled	–	–	–	(347)	(347)
Issue of shares	1,137,700	–	–	–	1,137,700
Share issue expenses	(29,585)	–	–	–	(29,585)
Balance at 31 December 2006 and 1 January 2007	**1,346,562**	**–**	**16,209**	**49,588**	**1,412,359**
Reduction of share premium	**(87,346)**	**–**	**–**	**–**	**(87,346)**
Repurchase of shares	**(8,486)**	**–**	**–**	**–**	**(8,486)**
Share option scheme:					
– value of employee services	**–**	**–**	**–**	**17,699**	**17,699**
– value of other participants' services	**–**	**–**	**–**	**2,628**	**2,628**
– issue of shares under share option scheme	**107,038**	**–**	**–**	**(43,252)**	**63,786**
– vested share options cancelled and lapsed	**–**	**–**	**–**	**(729)**	**(729)**
Issue of shares	**322,982**	**–**	**–**	**–**	**322,982**
Share issue expenses	**(6,635)**	**–**	**–**	**–**	**(6,635)**
Convertible note - equity component *(Note 30)*	**–**	**24,842**	**–**	**–**	**24,842**
Deferred tax on convertible note *(Note 31)*	**–**	**(4,762)**	**–**	**–**	**(4,762)**
Balance at 31 December 2007	**1,674,115**	**20,080**	**16,209**	**25,934**	**1,736,338**

Notes:

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

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

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

(d) At the annual general meeting of the Company held on 24 April 2007, a special resolution approving the reduction of share premium account of the Company by approximately HK$87,346,000 from approximately HK$1,346,562,000 to approximately HK$1,259,216,000, and the application of such sum to eliminate the accumulated losses of the Company of approximately HK$87,346,000 at 31 December 2006, was passed by the shareholders and the reduction of share premium took effect on 24 April 2007 accordingly.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

35. ACCUMULATED LOSSES

	Company	
	2007	2006
	HK$'000	HK$'000
At 1 January	**(87,346)**	(53,609)
Reduction of share premium	**87,346**	–
Vested share options cancelled and lapsed	**729**	347
Loss for the year	**(25,423)**	(34,084)
At 31 December	**(24,694)**	(87,346)

36. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of profit before income tax to net cash generated from operating activities:

	2007	2006
	HK$'000	HK$'000
Cash flows from operating activities		
Profit/(Loss) before income tax:		
From continuing operations	**246,967**	12,035
From discontinued operations	**–**	(14,748)
Adjustments for:		
Depreciation	**18,586**	6,282
Amortisation of prepaid operating lease payment	**624**	–
Amortisation of intangible assets	**6,527**	4,974
Impairment of other receivables	**8,536**	–
Write-down of inventories to net realisable value	**658**	–
Loss on disposal of domain names and trademarks	**–**	1,576
Loss on disposal of property, plant and equipment	**1,198**	–
Share option expenses	**20,327**	23,823
Reversal of impairment of accounts receivable	**–**	(9)
Net fair value gain on financial assets and financial liabilities at fair value through profit or loss	**(17,112)**	(4,873)
Net gain on disposal of interest in TIHK	**(69,740)**	–
Interest income from bank deposits	**(29,758)**	(15,279)
Interest expense on convertible note	**14,329**	–
Share of profit less loss of associates	**13,217**	4,943
Operating cash flows before changes in working capital	**214,359**	18,724
– Prepaid rentals	**(6,334)**	–
– Inventories	**10,759**	–
– Accounts receivable	**(44,410)**	1,852
– Prepayments, deposits and other receivables	**(4,311)**	13,324
– Amounts due from related companies	**(3,005)**	(4,908)
– Accounts payable	**5,628**	(6,392)
– Accruals and other payables	**(9,764)**	(7,763)
– Amount due to a jointly-controlled entity	**(2,862)**	–
– Amounts due to related companies	**(9,792)**	(196)
– Amount due to a director	**(373)**	(68)
Net cash generated from operating activities	**149,895**	14,573

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

37. OPERATING LEASE COMMITMENTS

At 31 December 2007, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of rented premises as follows:

	2007	2006
	HK$'000	HK$'000
No later than one year	**1,924**	2,606
Later than one year and no later than five years	**302**	1,608
	2,226	4,214

The Company did not have significant operating lease commitments at 31 December 2007 (2006: Nil).

38. EMPLOYEE RETIREMENT BENEFITS

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

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

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

During the year, the aggregate amount of the Group's contributions to the aforementioned schemes was approximately HK$620,000 (2006: HK$716,000), with no (2006: Nil) deduction of forfeited contributions. At 31 December 2007, there was no material forfeited contribution available to reduce the Group's employer contribution payable in future periods.

The Group's contribution payable at 31 December 2007 amounted to approximately HK$26,000 (2006: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

39. BUSINESS COMBINATIONS

On 10 September 2007, Upmax Investments Limited (a wholly-owned subsidiary of the Company) entered into an acquisition agreement (the "CMIL Acquisition Agreement") with Citibest Investments Limited ("CIL") and others in relation to the acquisition of the entire issued share capital of CMIL (the "CMIL Sale Shares"). CMIL through CTL, held 60% equity interests in each of GZSH, LHL and GZL (collectively, the "CMIL Group"). The consideration is HK$168.0 million (subject to adjustments), to be satisfied as to (i) HK$117.6 million by cash and (ii) HK$50.4 million by the allotment and issue of 50.4 million new consideration shares of HK$0.0025 each (the "CMIL Consideration Shares") at the issue price of HK$1.0 each, credited as fully paid, to CIL (or its nominees) at completion of the CMIL Acquisition Agreement. The Group adopted the closing price of HK$1.13 per share as quoted on the Stock Exchange as at the date of issue of the CMIL Consideration Shares as their fair value.

On 10 September 2007, CTL (a wholly owned subsidiary of CMIL) entered into an acquisition agreement (the "GZSH Acquisition Agreement") with Mr. Chen Hengben, Mr. Lin Jianzhong, Mr. Yan Hao and Mr. Wang Youcheng (collectively, the "GZSH Vendors") in relation to the acquisition of 20% equity interests in GZSH, at a consideration of HK$8.0 million payable in cash to the GZSH Vendors.

On the same date, CTL also entered into an acquisition agreement (the "LHL Acquisition Agreement") with Mr. Chen Hengben, Mr. Lin Jianzhong and Mr. Miao Zhikun (collectively, the "LHL Vendors") in relation to the acquisition of 20% of the total issued share capital of LHL. The consideration is HK$48.0 million, to be satisfied as to (i) HK$31.2 million by cash and (ii) HK$16.8 million by the allotment and issue of 16.8 million new consideration shares of HK$0.0025 each (the "LHL Consideration Shares") at the issue price of HK$1.0 each, credited as fully paid, to the LHL Vendors (or their respective nominees) at completion of the LHL Acquisition Agreement. The Group adopted the closing price of HK$0.89 per share as quoted on the Stock Exchange as at the date of issue of LHL Consideration Shares as their fair value.

The aforesaid acquisitions constituted a major transaction for the Company under the GEM Listing Rules and were approved pursuant to the ordinary resolution passed by the Company's shareholders at the special general meeting held on 22 October 2007. Upon completion of the CMIL Acquisition Agreement on 30 October 2007, CMIL became a wholly-owned subsidiary of the Company and the Company, through CMIL and CTL, held 60% equity interests in each of GZSH, LHL and GZL.

On 27 December 2007, the Group acquired an additional 20% equity interest in each of GZSH and LHL upon completion of the GZSH Acquisition Agreement and the LHL Acquisition Agreement, respectively. The related goodwill arising from the aforesaid acquisitions amounted to approximately HK$45,304,000 (Note 17).

Details of net assets acquired and goodwill are as follows:

	HK$'000
Purchase consideration:	
Fair value of CMIL Consideration Shares issued *(Note 32(viii))*	56,952
Cash paid	117,600
Direct costs relating to the acquisition	2,866
Fair value of net assets acquired – shown as below	(23,319)
Goodwill *(Note 17)*	154,099

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For the year ended 31 December 2007

39. BUSINESS COMBINATIONS *(Cont'd)*

The assets and liabilities as of 30 October 2007 arising from the acquisition of the CMIL Sale Shares are as follows:

	Fair value	Acquiree's carrying amount
	HK$'000	HK$'000
Cash and bank balances	22,508	22,508
Property, plant and equipment *(Note 15)*	13,875	13,875
Deferred income tax assets *(Note 31)*	1,025	1,025
Inventories	22,825	22,825
Accounts receivable	4,236	4,236
Prepayments, deposits and other receivables	3,851	3,851
Accounts payable	(3,365)	(3,365)
Accruals and other payables	(25,627)	(25,627)
Amounts due to related parties	(129)	(129)
Income tax payable	(326)	(326)
Net assets	38,873	38,873
Minority interests	15,554	
Net assets acquired	23,319	
Purchase consideration settled in cash		120,466
Cash and cash equivalents in subsidiaries acquired		(22,508)
Cash outflow on acquisition		97,958

Goodwill arising from acquisition of the CMIL Group is attributable to the anticipated profitability and future development of the CMIL Group in the provision of traditional computer lottery system and equipment business and the anticipated future operating synergy from the combinations.

The CMIL Group contributed net profit of approximately HK$15,181,000 to the Group for the period from the date of acquisition to 31 December 2007. If the acquisition had occurred on 1 January 2007, the Group's revenue would have been approximately HK$342,661,000 and profit after tax would have been approximately HK$293,156,000. 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 2007, nor is it intended to be a projection of future results.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

39. BUSINESS COMBINATIONS *(Cont'd)*

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.

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 32(v))*	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 17)*	935,319

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For the year ended 31 December 2007

39. BUSINESS COMBINATIONS *(Cont'd)*

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 17)*	60,382	–
Property, plant and equipment *(Note 15)*	37,117	37,117
Accounts receivable	25,027	25,027
Prepayments, deposits and other receivables	4,429	4,429
Accounts payable	(8,846)	(8,846)
Accruals and other payables	(9,245)	(9,245)
Amount due to a 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)

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.

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 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, the Group revenue would have been approximately HK$88,747,000 and profit after tax 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

40. 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 2007:

Nature of transactions

	2007 HK$'000	2006 HK$'000
Income from provision of consultancy services to a jointly-controlled entity/an associate	**67**	50
Rental income from a subsidiary of a substantial shareholder of the Company	**160**	–
Sales of lottery equipment to a jointly-controlled entity/an associate	**23,280**	–
Sales of domain names, trademarks and software applications to a subsidiary of a substantial shareholder of the Company	**–**	100

At 31 December 2007, provisions of approximately HK$8,929,000 (2006: HK$8,929,000) were made on amounts due from related companies (Note 23).

41. POST BALANCE SHEET EVENTS

Repurchase of own shares

Subsequent to 31 December 2007 and up to the date of approval of these financial statements, the Company has repurchased a total of 53,040,000 of its own shares (the "Share Repurchase"), pursuant to the repurchase mandate granted to the board of directors of the Company at the annual general meeting of the Company held on 24 April 2007. The Share Repurchases have been funded from internal resources of the Company. The details are as follows:

Trading date	**Number of shares repurchased**	**Highest price paid** HK$	**Lowest price paid** HK$	**Total paid** HK$
2 January 2008	6,904,000	0.96	0.95	6,585,800
3 January 2008	2,280,000	0.92	0.88	2,062,720
4 January 2008	12,000	0.89	0.89	10,680
7 January 2008	4,908,000	0.89	0.84	4,191,800
8 January 2008	552,000	0.84	0.82	455,040
9 January 2008	4,000	0.82	0.82	3,280
10 January 2008	3,500,000	0.81	0.78	2,766,000
11 January 2008	4,456,000	0.84	0.74	3,547,840
14 January 2008	13,668,000	0.78	0.69	10,002,000
15 January 2008	7,668,000	0.73	0.64	5,015,680
16 January 2008	28,000	0.61	0.60	16,880
17 January 2008	16,000	0.61	0.60	9,640
18 January 2008	32,000	0.57	0.55	18,040
21 January 2008	1,608,000	0.58	0.54	879,600
22 January 2008	4,160,000	0.55	0.495	2,123,760
23 January 2008	504,000	0.56	0.54	276,760
24 January 2008	2,552,000	0.56	0.53	1,393,240
29 January 2008	188,000	0.58	0.57	107,440
Total	53,040,000			39,466,200