Annual Report 2008

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

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

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors

LAU Ting, *Chairman and Chief Executive Officer*
CHAN Shing
WU Jingwei, *Vice President/Chief Operations Officer*
LIAO Yuang-whang, *Vice President/Chief Financial Officer*

Non-Executive Directors

HOONG Cheong Thard
Paulus Johannes Cornelis Aloysius KARSKENS

Independent Non-Executive Directors

HUANG Shenglan
CHAN Ming Fai
CUI Shuming

COMPANY SECRETARY

NG Man Fai, Matthew

QUALIFIED ACCOUNTANT

TAN Yung Kai, Richard

COMPLIANCE OFFICER

LIAO Yuang-whang

AUTHORISED REPRESENTATIVES

LIAO Yuang-whang
NG Man Fai, Matthew

AUDIT COMMITTEE

HUANG Shenglan
CHAN Ming Fai
CUI Shuming

REMUNERATION COMMITTEE

HUANG Shenglan
CHAN Ming Fai
LAU Ting

AUDITORS

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 3308, 33rd Floor
Office Tower
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Wanchai, Hong Kong
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PRINCIPAL SHARE REGISTRARS

Butterfield Fulcrum Group (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM 08
Bermuda

BRANCH SHARE REGISTRARS IN HONG KONG

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

LEGAL ADVISERS

Appleby
Baker & McKenzie
Gaopeng & 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 the 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
	2008	2007	2006	2005	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
					As restated
Continuing operations:					
Turnover	**117,377**	310,267	71,345	–	–
Finance costs	**(25,238)**	(14,329)	–	–	–
Impairment of goodwill	**(854,725)**	–	–	–	–
Share option expenses	**(12,940)**	(20,327)	(23,823)	(26,279)	–
(Loss)/Profit before income tax	**(927,032)**	246,967	12,035	(42,402)	(6,291)
Income tax	**580**	(1,034)	(186)	179	–
(Loss)/Profit for the year/period from continuing operations	**(926,452)**	245,933	11,849	(42,223)	(6,291)
Discontinued operations:					
Loss for the year/period from discontinued operations	**–**	–	(14,748)	(36)	(6,099)
(Loss)/Profit for the year/period	**(926,452)**	245,933	(2,899)	(42,259)	(12,390)
Attributable to:					
Equity holders of the Company	**(930,729)**	132,094	(29,188)	(42,146)	(11,680)
Minority interests	**4,277**	113,839	26,289	(113)	(710)
	(926,452)	245,933	(2,899)	(42,259)	(12,390)

ASSETS AND LIABILITIES

		As at 31 December			As at 31 March
	2008	2007	2006	2005	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total current assets	**1,110,564**	1,338,118	388,292	308,416	44,135
Total assets	**1,810,535**	2,859,639	1,496,604	313,042	47,194
Total liabilities	**(823,723)**	(759,035)	(60,868)	(7,928)	(2,172)
Net assets	**986,812**	2,100,604	1,435,736	305,114	45,022

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

The Group is principally engaged in the business of provision of lottery gaming systems, terminal equipment and related technologies and consultancy services to the welfare lottery market in China.

Business Review

Since February 2008, the China Lottery Online (中福在線) ("CLO") video lottery, which is distributed nationally, has undergone major adjustments in its game offerings, operating hours, payout ratio, etc. Following the implementation of these measures, sales of video lottery shrunk significantly compared to the same period of 2007. However, the Group remains optimistic about the prospects of the China welfare lottery, and continues to adhere to the Group's development strategy and to strengthen the operation and management of relevant businesses. During the Year, state approval was obtained to implement the terminal equipment rollout of the high-frequency lottery KENO in public venues throughout eight provinces including Hunan, Shandong and Liaoning, etc. The Group has received orders for terminals from the provinces; and arranged shipment and gradually connected the terminals for sales. The Guangdong provincial welfare lottery issuance authority, a key client of our traditional computer lottery ticket equipment business, achieved a new welfare lottery sales (including computer lottery tickets and other products) record of over RMB six billion in 2008. Guangdong province has been ranking number one consecutively in terms of welfare lottery sales in China. In the meantime, the Group and its strategic partner, International Game Technology, a global leader in the lottery industry, are proactively exploring new lottery related businesses.

VLT (Video Lottery Terminals) Supply

Since February 2008, CLO video lottery, which is distributed nationally, has undergone major adjustments in its game offerings, operating hours, payout ratio, etc. Following the implementation of these measures, sales of video lottery shrunk significantly compared to the same period of 2007. As the exclusive provider of terminal equipment for CLO, the Group's business performance has been inevitably adversely affected. The management believes that its negative effects will continue for some time before the introduction of new games. Therefore, the management considered that it is necessary to conservatively revalue its intangible assets relating to CLO video lottery business in the financial statements of the Group for the year ending 31 December 2008 (the "2008 Annual Results"). Having confirmed with the auditors of the Company, the Group decided to make a non-cash write-down of HK$840 million on the value of intangible assets relating to CLO video lottery business, which will be reflected in the 2008 Annual Results; and because of such substantial non-cash write-down amount, the Group experienced a significant loss in its 2008 Annual Results.

Nevertheless, the management believes that VLT, being the new trend in lottery business, still enjoys a bright prospect in China compared with other lottery products. The State Council has approved to issue CLO video lottery as a disaster relief lottery. The Group remains positive and optimistic towards the long-term development of its VLT equipment supply business in China.

KENO High Frequency Lottery Business

In 2008, state approval was obtained to implement the terminal equipment rollout of KENO in public venues throughout eight provinces including Hunan, Shandong and Liaoning, etc. in China. This is a significant progress and breakthrough for the project. CLS-GTECH Company Limited, a joint venture company of the Group and GTECH Corporation ("GTECH"), possesses an exclusive contract for the system and terminal provision for KENO. The Group has received orders for terminals from the provinces and arranged shipment and installation to connect the terminals for sales.

With the rollout and commencement of sales, KENO will bring opportunities as well as challenges to the Group, generating steady revenue for the Group. The Group and GTECH will work with the lottery issuance authorities and will build up the KENO project as a large-scale high-frequency lottery product in China.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK *(Cont'd)*

Business Review *(Cont'd)*

Computer Lottery Tickets Business

The Group provides traditional computer lottery terminal equipment to provincial welfare lottery issuance authorities in China and achieves revenue from sharing the sales of the lottery. In addition, the Group also provides lottery scanners and readers for corporate clients. The Guangdong provincial welfare lottery issuance authority is a key client of our traditional computer lottery ticket equipment. Sales revenue exceeding RMB six billion was achieved by Guangdong province in 2008, which was a new record high on welfare lottery sales (including computer lottery tickets and other products) and made Guangdong the first province with sales exceeding RMB six billion since the issuance of the China welfare lottery tickets over twenty years ago. Revenue from this business recorded a continued growth compared to the same period in 2007, which brought in a stable cash flow for the Group.

In addition, the Group is now leveraging on this business opportunity to develop multi-functional lottery terminals. It is also actively exploring overseas markets, with the aim of obtaining orders from Europe.

Outlook

At present, many countries are in serious turmoil caused by the financial tsunami and credit crunch; global economic growth has slowed down significantly. Corporations are closing down and unemployment has begun to influence social stability in various countries, including China. Therefore, social aid is playing an important role in such severe environments. During the year of 2008, the China welfare lottery raised funds of nearly RMB20 billion, which provided major financial support to social aid initiatives such as helping the elderly, the handicapped, the orphans and those in poverty etc. The Group remains optimistic about prospects of the welfare lottery market in China and is convinced that China will become one of the leading lottery markets in the world.

The Group is proud to participate in the China welfare lottery business, and will strive to seize significant opportunities ahead. The Group believes that lottery legislation will be passed in China, which means the China lottery market will be better regulated, and China will also open up the lottery market gradually. This will provide business opportunities for the Group to expand into various parts of the lottery value chain.

In respect of its existing businesses, the Group is proactively working with the government to issue CLO video lottery as a disaster relief lottery product, and is striving to achieve better performance in the supply of video lottery terminals. For the massive roll out and sales of the high-frequency lottery product KENO in public venues in the eight provinces including Hunan, Shandong and Liaoning, the Group is proactively working on the system and terminal supply and service. In the meantime, the Group is working hard to explore other lottery-related businesses.

The Group believes that the cooperation with our partners International Game Technology and GTECH, global leaders in the industry, will benefit the China lottery industry in terms of improving the standards of research and development of lottery systems, manufacture of terminals, as well as operation and maintenance, while also improving and enriching the variety and content of games, thereby contributing to the safe operation and healthy development of the China lottery market.

The Group will continue to actively explore new lottery-related business opportunities in China and seek to create new revenue streams by extending to and participating in various parts of the lottery value chain. The Group will endeavour to enhance its business portfolio and strengthen its revenue base and profitability by establishing research and development and business development teams and identifying and acquiring businesses that are in shareholders' interests and with strategic values, in order to provide long-term and stable returns to its shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group recorded a turnover of approximately HK$117.4 million for the year ended 31 December 2008, representing a decrease of 62% over 2007. Loss attributable to equity holders for the year amounted to approximately HK$930.7 million, as compared with the profit of HK$132.1 million for 2007.

In February 2008, CLO video lottery, which is distributed nationally in China, made major adjustments to its game offerings, operating hours, payout ratio, etc. Being the exclusive provider of terminal equipment for CLO video lottery, the Group's business performance has been adversely affected during the year. Therefore, at 31 December 2008, the recoverable amount of goodwill allocated to the cash-generating unit of video lottery terminals provision has been reassessed and was impaired by HK$840 million.

At 31 December 2008, the directors of the Company (the "Directors") have reassessed the recoverable amount of goodwill associated with the acquisition of 北京網人互聯科技有限公司 during the year and determined the entire goodwill was impaired by HK$14.7 million.

The Group's loss attributable to equity holders for the year was weighted down by some non-cash items as follows:

	Year ended 31 December 2008 HK$'000
Loss attributable to equity holders for the year	(930,729)
Add : Non-cash items	
Impairment loss of goodwill	854,725
Share option expenses	12,940
Accrued interest expense on convertible note	25,238
CLO contract value amortised	3,264
Fair value change on redemption option embedded in convertible note	(34,575)
Fair value change on investment property	(7,000)
Fair value change on listed securities	27,480
Loss after striping out non-cash items	(48,657)

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY, FINANCIAL RESOURCES, GEARING RATIO AND CAPITAL STRUCTURE

At 31 December 2008, the Group had an outstanding guarantee and indemnity for HK$30 million (at 31 December 2007: 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 2008 (at 31 December 2007: Nil).

The Group's total equity amounted to approximately HK$986.8 million at 31 December 2008 (at 31 December 2007: HK$2,100.6 million). At 31 December 2008, net current assets of the Group amounted to approximately HK$865.5 million (at 31 December 2007: HK$1,130.1 million), including approximately HK$747.7 million in cash and deposits with banks and financial institution (at 31 December 2007: HK$1,010.6 million).

The gearing ratio (defined as total liabilities over total assets) of the Group at 31 December 2008 was approximately 45.5% (at 31 December 2007: 26.5%).

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 2008, the Group did not pledge any of its assets to obtain banking facilities nor have any charge on its assets (at 31 December 2007: Nil).

CONTINGENT LIABILITIES

At 31 December 2008, the Group did not have any material contingent liabilities (at 31 December 2007: Nil).

STAFF

At 31 December 2008, the Group had 205 (2007: 214) 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

Ms. LAU Ting, aged 52
Chairman and Chief Executive Officer

Ms. Lau is the Chairman, an Executive Director and the Chief Executive Officer 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, and has spearheaded the Group's efforts with success in business expansion in the China lottery industry. Ms. Lau is also an executive director of Burwill Holdings Limited. Ms. Lau is the spouse of Mr. Chan Shing.

Mr. CHAN Shing, aged 53
Executive Director

Mr. Chan is the Executive Director of the Company and the core founder of the Group. Mr. Chan has over 18 years of experience in corporate planning and management. Mr. Chan is also the Chairman and the Managing Director of Burwill Holdings Limited. Mr. Chan is the spouse of Ms. Lau Ting.

Mr. WU Jingwei, aged 37
Vice President/Chief Operations Officer

Mr. Wu is an Executive Director, a Vice President and the Chief Operations Officer 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 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 in July 2007, 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.

Mr. LIAO Yuang-whang, aged 39
Vice President/Chief Financial Officer and Compliance Officer

Mr. Liao is an Executive Director, a Vice President/Chief Financial Officer and the Compliance 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 in September 2007, 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 Vice-President and Chief Financial Officer of the subsidiaries of Samson Holding Ltd.. Mr. Liao held the position of Director in the Private Equity of Citibank, Hong Kong. He also held the positions of 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..

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS *(Cont'd)*

Mr. HOONG Cheong Thard, aged 40
Non-Executive Director

Mr. Hoong currently is a Non-Executive Director and the Consultant of the Company. Mr. Hoong joined the Group in September 2006 and had been an Executive Director and the Chief Executive Officer of the Company until September 2008. Mr. Hoong has over 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 Managing Director of Far East Consortium International Limited, a company listed on the Stock Exchange. He is a member of the Institute of Chartered Accountants in England and Wales and holds a bachelor's degree in Mechanical Engineering from Imperial College, University of London.

Mr. Paulus Johannes Cornelis Aloysius KARSKENS, aged 56
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. HUANG Shenglan, aged 57
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.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS *(Cont'd)*

Mr. CHAN Ming Fai, aged 47
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 cofounded the KGI Group, which is a pan-Asian investment bank with shareholders including major investors and institutions in Asia, where he was the head of the asset management operation which managed about USD400 million in hedge funds and other portfolios, and was also a member of the management committee of KGI Group. Mr. Chan received a bachelor's degree in Social Sciences with major in Economics from the University of Hong Kong.

Mr. CUI Shuming, aged 71
Independent Non-Executive Director

Mr. Cui Shuming joined the Group in June 2008 and is an Independent Non-Executive Director of the Company. He graduated from People's University of China. He was the Deputy Head of the Bank of China, Jiangsu branch, the Executive Director of The Nationa Commercial Bank, Ltd. and the General Manager of its Hong Kong branch, a Director and the Executive Vice President of The Ka Wah Bank Limited and an Independent Non-Executive Director of two public listed companies in Hong Kong, Cheung Tai Hong Holdings Limited (currently known as ITC Properties Group Limited) and Wah Sang Gas Holdings Limited. Mr. Cui is currently an Independent Non-Executive Director of Burwill Holdings Limited and Yue Da Mining Holdings Limited, both are listed companies in Hong Kong. He has over 40 years' experience in international finance and corporate planning and management.

SENIOR MANAGEMENT

Mr. CHEN Aizheng, aged 50

Mr. 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 and also is the Chairman of 北京靈彩科技有限公司, a subsidiary 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. NG Man Fai, Matthew, aged 41

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 18 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)*

Mr. CHEN Hengben, aged 69

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. MENG Xin, aged 41

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 10 years' 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. TAN Yung Kai, Richard, aged 37

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 42

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 board of Directors of the Company (the "Board") presents to the shareholders their report together with the audited financial statements of the Group for the year ended 31 December 2008.

FINANCIAL RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 31 December 2008 are set out in the consolidated income statement on page 34.

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 2008.

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 2008 are set out in note 5 to the consolidated financial statements.

MAJOR SUPPLIERS AND CUSTOMERS

The Group's five largest customers accounted for about 99% of its turnover for the year. In addition, the largest customer of the Group accounted for about 39% of the Group's turnover.

The percentage of the Group's purchases attributable to the Group's five largest suppliers was about 43%. In addition, the largest supplier of the Group accounted for about 13% of the Group's purchases.

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

PROPERTY, PLANT AND EQUIPMENT

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

SUBSIDIARIES

The particulars of the Company's principal subsidiaries as at 31 December 2008 are set out in note 18 to the consolidated financial statements.

SHARE CAPITAL

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

REPORT OF THE DIRECTORS

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 32 to the consolidated financial statements.

RESERVES

Details of movements in reserves during the year are set out in note 36 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2008, there was no distributable reserve to the shareholders in accordance with the Company's Bye-laws (As at 31 December 2007: Nil).

PRE-EMPTIVE RIGHTS

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

CHANGES OF INDEPENDENT NON-EXECUTIVE DIRECTOR AND AUDIT COMMITTEE MEMBER

On 18 June 2008, (i) Mr. CUI Shuming was appointed as an Independent Non-Executive Director and a member of the Audit Committee of the Company; and (ii) Mr. LI Xiaojun resigned as an Independent Non-Executive Director and a member of the Audit Committee of the Company.

With effect from 18 June 2008, the Audit Committee of the Company comprised Mr. HUANG Shenglan, Mr. CHAN Ming Fai and Mr. CUI Shuming.

RE-DESIGNATION OF DIRECTORS

Mr. CHAN Shing was re-designated as an Executive Director of the Company with effect from 18 June 2008.

Ms. LAU Ting was re-designated as the Chairman, an Executive Director, the President and a member of the Remuneration Committee of the Company with effect from 18 June 2008, and on 12 September 2008, her title of President was changed to Chief Executive Officer.

Mr. HOONG Cheong Thard was re-designated as a Non-Executive Director of the Company with effect from 12 September 2008.

CHANGE OF COMPLIANCE OFFICER AND AUTHORISED REPRESENTATIVE

With effect from 12 September 2008, (i) Mr. HOONG Cheong Thard resigned as the Compliance Officer and an Authorised Representative of the Company; and (ii) Mr. LIAO Yuang-whang, an Executive Director and Vice President/Chief Financial Officer of the Company, was appointed as the Compliance Officer and an Authorised Representative of the Company.

RESIGNATION OF NON-EXECUTIVE DIRECTOR

On 13 November 2008, Mr. WANG Taoguang resigned as a Non-Executive Director of the Company.

REPORT OF THE DIRECTORS

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

During the year ended 31 December 2008, the Company repurchased a total of 254,596,000 shares of HK$0.0025 each in the share capital of the Company (the "Shares") on 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$*	*HK$*
1/2008	53,040,000	0.495	0.960	39,466,200
3/2008	191,544,000	0.350	0.500	84,204,620
4/2008	10,012,000	0.380	0.425	4,024,760

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, sold or redeemed any of the Company's listed securities during the year ended 31 December 2008.

SHARE OPTION SCHEME

As at 31 December 2008, there were options for 245,800,000 Shares granted by the Company pursuant to the option scheme, as adopted by the shareholders of the Company on 30 July 2002 (the "Option Scheme"), which were valid and outstanding.

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

(i) Purpose of the Option Scheme

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

(ii) Participants

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

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME *(Cont'd)*

(iii) Maximum number of shares

The limit on the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Option Scheme and any other share option schemes of the Company and/or its holding company and/or its subsidiary must not exceed 30% of the number of issued shares from time to time. The total number of Shares available for issue under the Option Scheme as at the date of this report is 623,532,800 Shares, representing approximately 8.42% of the issued share capital of the Company as of that date.

(iv) Maximum entitlement of each Participant

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

(v) Option period

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

(vi) Payment on acceptance of option

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

(vii) Subscription price

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

(viii) The life of the Option Scheme

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

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME (Cont'd)

Movements of share options granted under the Option Scheme during the year ended 31 December 2008:

	Date of grant	Exercise price per Share HK$	Exercise period from	Exercise period until	held as at 1/1/2008	No. of Shares under the options granted during the year [2]	exercised during the year	cancelled during the year	lapsed during the year	held as at 31/12/2008	Approximate percentage interest in the Company's issued share capital
(i) Name of Director											
LAU Ting	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 Shing	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%
WU Jingwei	11/01/2007	0.445	01/01/2008	31/12/2011	2,000,000	–	–	–	–	2,000,000	0.027%
	11/01/2007	0.445	01/01/2009	31/12/2011	2,000,000	–	–	–	–	2,000,000	0.027%
	11/01/2007	0.445	01/01/2010	31/12/2011	2,000,000	–	–	–	–	2,000,000	0.027%
	11/01/2007	0.445	01/01/2011	31/12/2011	2,000,000	–	–	–	–	2,000,000	0.027%
	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	0.043%
	04/07/2007	0.975	01/01/2013	31/12/2013	3,200,000	–	–	–	–	3,200,000	0.043%
	13/11/2007	0.960	01/01/2008	31/12/2011	8,000,000	–	–	–	–	8,000,000	0.108%
	13/11/2007	0.960	01/01/2009	31/12/2011	8,000,000	–	–	–	–	8,000,000	0.108%
	13/11/2007	0.960	01/01/2010	31/12/2011	8,000,000	–	–	–	–	8,000,000	0.108%
	13/11/2007	0.960	01/01/2011	31/12/2011	8,000,000	–	–	–	–	8,000,000	0.108%
	25/08/2008	0.500	25/08/2009	24/08/2013	–	2,000,000	–	–	–	2,000,000	0.027%
	25/08/2008	0.500	25/08/2010	24/08/2013	–	2,000,000	–	–	–	2,000,000	0.027%
	25/08/2008	0.500	25/08/2011	24/08/2013	–	2,000,000	–	–	–	2,000,000	0.027%
	25/08/2008	0.500	25/08/2012	24/08/2013	–	2,000,000	–	–	–	2,000,000	0.027%
LIAO Yuang-whang	18/09/2007	0.904	18/09/2008	17/09/2011	3,200,000	–	–	–	–	3,200,000	0.043%
	18/09/2007	0.904	18/09/2009	17/09/2011	3,200,000	–	–	–	–	3,200,000	0.043%
	18/09/2007	0.904	18/09/2010	17/09/2011	5,600,000	–	–	–	–	5,600,000	0.076%
	13/11/2007	0.960	18/09/2008	17/09/2012	8,000,000	–	–	–	–	8,000,000	0.108%
	13/11/2007	0.960	18/09/2009	17/09/2012	8,000,000	–	–	–	–	8,000,000	0.108%
	13/11/2007	0.960	18/09/2010	17/09/2012	8,000,000	–	–	–	–	8,000,000	0.108%
	13/11/2007	0.960	18/09/2011	17/09/2012	8,000,000	–	–	–	–	8,000,000	0.108%
	25/08/2008	0.500	25/08/2009	24/08/2013	–	2,000,000	–	–	–	2,000,000	0.027%
	25/08/2008	0.500	25/08/2010	24/08/2013	–	2,000,000	–	–	–	2,000,000	0.027%
	25/08/2008	0.500	25/08/2011	24/08/2013	–	2,000,000	–	–	–	2,000,000	0.027%
	25/08/2008	0.500	25/08/2012	24/08/2013	–	2,000,000	–	–	–	2,000,000	0.027%
HOONG Cheong Thard	30/06/2006	0.285	16/08/2007	29/06/2016	17,600,000	–	–	–	–	17,600,000	0.238%
	30/06/2006	0.285	16/08/2008	29/06/2016	17,600,000	–	–	–	–	17,600,000	0.238%
	30/06/2006	0.285	16/08/2009	29/06/2016	17,600,000	–	–	(17,600,000)	–	–	0%
	30/06/2006	0.285	16/08/2010	29/06/2016	17,600,000	–	–	(17,600,000)	–	–	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 1/1/2008	granted during the year [2]	exercised during the year	cancelled during the year	lapsed during the year	held as at 31/12/2008	Approximate percentage interest in the Company's issued share capital
(i) Name of Director *(Cont'd)*											
HUANG Shenglan	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	08/06/2008	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[3]	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%
	08/06/2006	0.305	08/06/2009	07/06/2011	600,000	–	–	(600,000)	–	–	0%
	08/06/2006	0.305	08/06/2010	07/06/2011	600,000	–	–	(600,000)	–	–	0%
(ii) Continuous contract employees	15/12/2005	0.675	15/12/2006	14/12/2008	4,000,000	–	–	(4,000,000)	–	–	0%
	08/06/2006	0.305	08/06/2007	07/06/2011	10,600,000	–	–	(2,000,000)	–	8,600,000	0.116%
	08/06/2006	0.305	08/06/2008	07/06/2011	14,600,000	–	–	(3,600,000)	–	11,000,000	0.149%
	08/06/2006	0.305	08/06/2009	07/06/2011	14,600,000	–	–	(3,600,000)	–	11,000,000	0.149%
	08/06/2006	0.305	08/06/2010	07/06/2011	14,600,000	–	–	(3,600,000)	–	11,000,000	0.149%
	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	0.041%
	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%
	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%
	02/10/2007	0.920	02/10/2009	01/10/2012	600,000	–	–	(600,000)	–	–	0%
	02/10/2007	0.920	02/10/2010	01/10/2012	600,000	–	–	(600,000)	–	–	0%
	02/10/2007	0.920	02/10/2011	01/10/2012	600,000	–	–	(600,000)	–	–	0%
	13/11/2007	0.960	01/01/2008	31/12/2011	1,000,000	–	–	–	–	1,000,000	0.014%
	13/11/2007	0.960	01/01/2009	31/12/2011	1,000,000	–	–	–	–	1,000,000	0.014%
	13/11/2007	0.960	01/01/2010	31/12/2011	1,000,000	–	–	–	–	1,000,000	0.014%
	13/11/2007	0.960	01/01/2011	31/12/2011	1,000,000	–	–	–	–	1,000,000	0.014%
	25/08/2008	0.500	11/03/2009	10/03/2013	–	600,000	–	–	–	600,000	0.008%
	25/08/2008	0.500	11/03/2010	10/03/2013	–	600,000	–	–	–	600,000	0.008%
	25/08/2008	0.500	11/03/2011	10/03/2013	–	600,000	–	–	–	600,000	0.008%
	25/08/2008	0.500	11/03/2012	10/03/2013	–	600,000	–	–	–	600,000	0.008%
	25/08/2008	0.500	25/08/2009	24/08/2013	–	2,950,000	–	(400,000)	–	2,550,000	0.034%
	25/08/2008	0.500	25/08/2010	24/08/2013	–	2,950,000	–	(400,000)	–	2,550,000	0.034%
	25/08/2008	0.500	25/08/2011	24/08/2013	–	2,950,000	–	(400,000)	–	2,550,000	0.034%
	25/08/2008	0.500	25/08/2012	24/08/2013	–	2,950,000	–	(400,000)	–	2,550,000	0.034%

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 1/1/2008	granted during the year [2]	exercised during the year	cancelled during the year	lapsed during the year	held as at 31/12/2008	Approximate percentage interest in the Company's issued share capital
(iii) Other participants	08/06/2006	0.305	08/06/2008	07/06/2011	4,000,000	–	–	–	–	4,000,000	0.054%
	08/06/2006	0.305	08/06/2009	07/06/2011	4,000,000	–	–	–	–	4,000,000	0.054%
	08/06/2006	0.305	08/06/2010	07/06/2011	4,000,000	–	–	–	–	4,000,000	0.054%
	13/11/2007	0.960	01/01/2008	31/12/2011	10,000,000	–	–	(10,000,000)	–	–	0%
	13/11/2007	0.960	01/01/2009	31/12/2011	10,000,000	–	–	(10,000,000)	–	–	0%
	13/11/2007	0.960	01/01/2010	31/12/2011	10,000,000	–	–	(10,000,000)	–	–	0%
	13/11/2007	0.960	01/01/2011	31/12/2011	10,000,000	–	–	(10,000,000)	–	–	0%
	25/08/2008	0.500	25/08/2009	24/08/2013	–	150,000	–	–	–	150,000	0.002%
	25/08/2008	0.500	25/08/2010	24/08/2013	–	150,000	–	–	–	150,000	0.002%
	25/08/2008	0.500	25/08/2011	24/08/2013	–	150,000	–	–	–	150,000	0.002%
	25/08/2008	0.500	25/08/2012	24/08/2013	–	150,000	–	–	–	150,000	0.002%
Total:					313,400,000	30,800,000	–	(98,400,000)	–	245,800,000	

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 35 to the consolidated financial statements.

2. For the share options granted during the year, the closing price per Share immediately before the date of grant of 25 August 2008 was HK$0.33.

3. Mr. LI Xiaojun resigned as an Independent Non-Executive Director of the Company on 18 June 2008.

REPORT OF THE DIRECTORS

DIRECTORS

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

Executive Directors:

Ms. LAU Ting
Mr. CHAN Shing
Mr. WU Jingwei
Mr. LIAO Yuang-whang

Non-Executive Directors:

Mr. HOONG Cheong Thard	– re-designated on 12 September 2008
Mr. Paulus Johannes Cornelis Aloysius KARSKENS	
Mr. WANG Taoguang	– resigned on 13 November 2008

Independent Non-Executive Directors:

Mr. HUANG Shenglan	
Mr. CHAN Ming Fai	
Mr. CUI Shuming	– appointed on 18 June 2008
Mr. LI Xiaojun	– resigned on 18 June 2008

In accordance with bye-laws 99 and 102(B) of the Bye-laws of the Company, Mr. CHAN Shing, Mr. HOONG Cheong Thard, Mr. CHAN Ming Fai and Mr. CUI Shuming shall retire from office by rotation at the forthcoming annual general meeting of the Company ("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 10 to 11.

REPORT OF THE DIRECTORS

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

As at 31 December 2008, 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

	Number of Shares				Approximate percentage interest in the Company's issued share capital
Name of Director	**Personal interests**	**Family interests**	**Corporate interests**	**Total**	
LAU Ting	213,155,212(L)	341,407,092(L) *(Note 1)*	1,629,617,232(L) 23,093,192(S) *(Notes 2 & 3)*	2,184,179,536(L) 23,093,192(S) *(Note 3)*	29.51%(L) 0.31%(S)
CHAN Shing	341,407,092(L)	213,155,212(L) *(Note 4)*	1,629,617,232(L) 23,093,192(S) *(Notes 2 & 3)*	2,184,179,536(L) 23,093,192(S) *(Note 3)*	29.51%(L) 0.31%(S)
HUANG Shenglan	4,000,000(L)	–	–	4,000,000(L)	0.05%(L)

Notes:

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

2. 45,280,768 Shares were held by Hang Sing Overseas Limited ("Hang Sing") which was owned as to 51% by Orient Strength Limited ("Orient Strength"), a company which was wholly-owned by Mr. CHAN Shing and Ms. LAU Ting. 42,380,168 Shares were held by Strong Purpose Corporation ("Strong Purpose"), a company which was wholly-owned by Mr. CHAN Shing and Ms. LAU Ting. 1,541,956,296 Shares were held by Burwill Holdings Limited ("Burwill"), which was owned as to 7.27% by Hang Sing, as to 6.81% by Strong Purpose, as to 3.42% by Mr. CHAN Shing, as to 3.34% by Ms. LAU Ting and as to 41.48% by Glory Add Limited, a company which was indirectly wholly-owned by Mr. CHAN Shing and Ms. LAU Ting. 23,093,192 Shares held by Hang Sing were in short positions.

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

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

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

REPORT OF THE DIRECTORS

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

(2) Interests in Underlying Shares

As at 31 December 2008, 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 2008, 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.

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

As at 31 December 2008, 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

Name of Shareholder	Beneficial interests	Number of Shares Investment Manager	Corporate interests	Total	Approximate percentage interest in the Company's issued share capital
Burwill	1,535,324,296(L)	–	6,632,000(L)	1,541,956,296(L) *(Note 1)*	20.83%(L)
Burbank John H.	–	–	1,419,630,800(L)	1,419,630,800(L) *(Note 2)*	19.18%(L)
Passport Capital, LLC	–	1,419,630,800(L)	–	1,419,630,800(L) *(Note 2)*	19.18%(L)
Passport Management, LLC	–	1,419,630,800(L)	–	1,419,630,800(L) *(Note 2)*	19.18%(L)
Passport Global Master Fund SPC Ltd for and on behalf of portfolio A – global strategy	963,464,800(L)	–	–	963,464,800(L) *(Note 2)*	13.02%(L)
Atlantis Investment Management Limited	–	923,500,000(L)	–	923,500,000(L)	12.48%(L)

REPORT OF THE DIRECTORS

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

(1) Interests in Shares *(Cont'd)*

Name of Shareholder	Beneficial interests	Number of Shares Investment Manager	Corporate interests	Total	Approximate percentage interest in the Company's issued share capital
Ward Ferry Management (BVI) Limited	–	730,322,000(L)	–	730,322,000(L) *(Note 3)*	9.87%(L)
Legg Mason Inc	–	439,440,000(L)	–	439,440,000(L) *(Note 4)*	5.94%(L)
Passport Special Opportunities Master Fund, LP	448,910,000(L)	–	–	448,910,000(L) *(Note 2)*	6.06%(L)
International Game Technology	373,600,000(L)	–	–	373,600,000(L)	5.05%(L)

Notes:

1. 1,535,324,296 Shares were held by Burwill and 6,632,000 Shares were held by Hillot Limited, a company indirect wholly-owned by Burwill. These Shares formed part of the interests of Mr. CHAN Shing and Ms. LAU Ting.

2. Passport Management, LLC was the investment manager of various funds. One of these funds was Passport Global Master Fund SPC Ltd for and on behalf of portfolio A – global strategy and Passport Special Opportunities Master Fund, LP. Passport Capital, LLC was the sole managing member to Passport Management, LLC and Burbank John H. was the sole managing member to Passport Capital, LLC. The above information was notified by Passport Capital, LLC.

3. 368,988,000 Shares were held by WF Asia Fund Limited, 15,484,000 Shares were held by Arrow WF Asia Fund, 115,120,000 Shares were held by WF Asian Reconnaissance Fund Limited and 230,730,000 Shares were held by WF Asian Smaller Companies Fund Limited. Ward Ferry Management (BVI) Limited was the investment manager of these funds or companies.

4. These Shares were held by Legg Mason International Equities (Singapore) Pte Limited which was wholly-owned by LM International Holding LP ("LM International"). LM International was wholly-owned by Legg Mason International Holdings II, LLC, a company which was wholly-owned by Legg Mason Inc.

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

(2) Interests in Underlying Shares

As at 31 December 2008, International Game Technology had a derivative interest in 575,916,228 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 2008, 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.

REPORT OF THE DIRECTORS

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 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 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 and one of the Non-Executive Directors have 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 retiring Directors who offered 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.

CONTINUING CONNECTED TRANSACTION

During the year ended 31 December 2008, ChinaSteel.com Corporation Limited ("ChinaSteel"), which has been voluntarily liquidated and was a subsidiary of the Company, had placed a deposit for a principal amount of RMB16,000,000 (approximately HK$16,960,000) (the "Deposit") (2007: RMB16,000,000 (approximately HK$17,200,000)) 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. which held 50% interest in ChinaSteel. The liquidation of ChinaSteel was completed on 16 January 2008. Following the liquidation of ChinaSteel, the Deposit has been withdrawn from Minmetals Finance and repaid to the shareholders.

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 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 3 January 2008.

REPORT OF THE DIRECTORS

FINANCIAL SUMMARY

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

UPDATE ON THE POST BALANCE SHEET EVENT IN THE INTERIM REPORT

The acquisition of 80% issued share capital of Three Ring International Technology Co., Limited by the Group was terminated during the year because some of the conditions precedent of the sale and purchase agreement were not met during the due diligence process.

EMPLOYEE RETIREMENT BENEFIT

Details of the retirement benefit schemes of the Group and the employee retirement benefit costs charged to the consolidated income statement for the year are set out in note 40.

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

On behalf of the Board
LAU Ting
Chairman

Hong Kong, 9 March 2009

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

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

In the opinion of the Directors, the Company has complied with all the applicable code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 of the GEM Listing Rules for the financial year ended 31 December 2008, 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 2008.

BOARD OF DIRECTORS

The Directors of the Company as at the date of this report were:

Executive Directors
Ms. LAU Ting
Mr. CHAN Shing
Mr. WU Jingwei
Mr. LIAO Yuang-whang

Non-Executive Directors
Mr. HOONG Cheong Thard *(re-designated on 12 September 2008)*
Mr. Paulus Johannes Cornelis Aloysius KARSKENS

Independent Non-Executive Directors
Mr. HUANG Shenglan
Mr. CHAN Ming Fai
Mr. CUI Shuming *(appointed on 18 June 2008)*

During the period from 1 January 2008 and up to the date of this report, there were the following changes on the compositions of the Board:

(a) with effect from 18 June 2008, Mr. CHAN Shing was re-designated from the Chairman and an Executive Director of the Company to an Executive Director of the Company;

(b) Ms. LAU Ting was appointed as the President of the Company (this title was subsequently changed to the Chief Executive Officer of the Company with effect from 12 September 2008) with effect from 14 February 2008 and she was also re-designated to the Chairman of the Company with effect from 18 June 2008;

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(Cont'd)*

(c) with effect from 18 June 2008, Mr. CUI Shuming was appointed as an Independent Non-Executive Director of the Company and Mr. LI Xiaojun resigned as an Independent Non-Executive Director of the Company; and

(d) with effect from 13 November 2008, Mr. WANG Taoguang resigned as a Non-Executive Director of the Company.

As at the date of this report, the Board comprised nine Directors, four 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 enables the Board to make an informed decision on the matters to be discussed and considered at the board meetings. Minutes of board meetings are kept by the Company Secretary and are open for inspection at any reasonable time on reasonable notice by any Director.

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	
Ms. LAU Ting	3/4
Mr. CHAN Shing	3/4
Mr. WU Jingwei	3/4
Mr. LIAO Yuang-whang	4/4
Non-Executive Directors	
Mr. HOONG Cheong Thard	4/4
Mr. Paulus Johannes Cornelis Aloysius KARSKENS	2/4
Mr. WANG Taoguang	0/4
Independent Non-Executive Directors	
Mr. HUANG Shenglan	3/4
Mr. CHAN Ming Fai	3/4
Mr. CUI Shuming	2/2
Mr. LI Xiaojun	1/2

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

During the period from 1 January 2008 and up to the date of this report, there were the following changes in the offices of the Chairman and Chief Executive Officer:

(a) with effect from 14 February 2008, (i) the offices of Mr. HOONG Cheong Thard was changed from an Executive Director and the Chief Executive Officer (行政總裁) of the Company to an Executive Director and the Chief Executive Officer (首席執行官) of the Company; and (ii) Mr. LAU Ting was appointed as the President of the Company (her title was subsequently changed to the Chief Executive Officer of the Company with effect from 12 September 2008).

(b) with effect from 18 June 2008, (i) Mr. CHAN Shing was re-designated from the Chairman and an Executive Director of the Company to an Executive Director of the Company; and (ii) Ms. LAU Ting was appointed as the Chairman of the Company.

Following the appointment of Ms. LAU Ting as the Chairman of the Company with effect from 18 June 2008, the roles of the chairman and chief executive officer have then not been performed by separate individuals as stipulated in Code provision A.2.1. The Chairman and the Chief Executive Officer of the Company, Ms. LAU Ting, currently assumes the roles of the chairman and the chief executive officer responsible for overseeing the function of the Board and formulating overall strategies of and organizing the implementation structure for the Company and also managing the Group's overall business operations. Given the nature of the Group's businesses which require considerable market expertise, the Board believes that the vesting of the two roles provides the Group with stable and consistent leadership and allows for more effective planning and implementation of long term business strategies. The Board will continuously review the effectiveness of the structure to balance the power and authority of the Board and the management.

CORPORATE GOVERNANCE REPORT

NON-EXECUTIVE DIRECTORS

The Non-Executive Directors of the Company, except one of them, are not appointed for a specific term as is stipulated in Code provision A.4.1, but all 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 A.4.2, as the Board considered that the continuity of office of the Chairman provides the Group a strong and consistent leadership and is of great importance to the smooth operations of the Group. Mr. CHAN Shing, Mr. HOONG Cheong Thard, Mr. CHAN Ming Fai and Mr. CUI Shuming are subject to retirement by rotation at the forthcoming Annual General Meeting in accordance with the Company's Bye-laws.

REMUNERATION COMMITTEE

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

Two meetings of the Remuneration Committee were held during the year ended 31 December 2008. Details of the attendance of the Remuneration Committee Meeting are as follows:

	Members' Attendance
Mr. HUANG Shenglan (Chairman of Remuneration Committee)	2/2
Mr. CHAN Ming Fai	2/2
Ms. LAU Ting*	1/1
Mr. HOONG Cheong Thard*	1/1

* Ms. LAU Ting was nominated as a member of the Remuneration Committee in replacement of Mr. HOONG Cheong Thard with effect from 29 February 2008.

CORPORATE GOVERNANCE REPORT

NOMINATION OF DIRECTORS

One of the responsibilities of the Board is to consider the suitability of a candidate to act as a director, and to approve and terminate the appointment of a director. 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 (i) the appointment of Ms. LAU Ting as the Chairman of the Company and the appointment of Mr. CUI Shuming as an Independent Non-Executive Director following the resignation of Mr. LI Xiaojun; (ii) the re-designation of Mr. HOONG Cheong Thard from an Executive Director to a Non-Executive Director; and (iii) the resignation of Mr. WANG Taoguang as a Non-Executive Director were held. Details of the attendance of the meetings are as follows:

	Directors' Attendance
Executive Directors:	
Ms. LAU Ting	3/3
Mr. CHAN Shing	3/3
Mr. WU Jingwei	3/3
Mr. LIAO Yuang-whang	3/3
Non-Executive Directors:	
Mr. HOONG Cheong Thard	2/3
Mr. Paulus Johannes Cornelis Aloysius KARSKENS	0/3
Mr. WANG Taoguang	0/3
Independent Non-Executive Directors:	
Mr. HUANG Shenglan	0/3
Mr. CHAN Ming Fai	0/3
Mr. CUI Shuming	0/2
Mr. LI Xiaojun	0/1

AUDIT COMMITTEE

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

The Audit Committee's functions include:

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

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE *(Cont'd)*

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

	Members' Attendance
Mr. HUANG Shenglan	3/4
Mr. CHAN Ming Fai	3/4
Mr. CUI Shuming#	2/2
Mr. LI Xiaojun#	2/2

Mr. LI Xiaojun resigned and Mr. CUI Shuming was appointed as a member of the Audit Committee both with effect from 18 June 2008.

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 2008 have been reviewed by the Audit Committee. The terms of reference of the Audit Committee has been revised in accordance with the recent amendments to the GEM Listing Rules on 9 March 2009 and has been posted on the Company's website and is made available on request.

AUDITORS' REMUNERATION

For the year ended 31 December 2008, 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	
	2008	2007
	HK$	HK$
Types of Services		
Audit for the Group	**600,000**	590,000
Non-audit services		
– Professional services on acting as reporting accountants	**–**	356,300

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 32.

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.

CORPORATE GOVERNANCE REPORT

INVESTOR RELATIONS

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

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

INDEPENDENT AUDITORS' REPORT

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 34 to 104, which comprise the consolidated and company balance sheets as at 31 December 2008, 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 2008 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

Hong Kong, 9 March 2009

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Turnover	5	**117,377**	310,267
Costs of sales and services		**(62,232)**	(50,917)
Gross profit		**55,145**	259,350
Other income and gains	6	**46,532**	116,770
General and administrative expenses		**(118,476)**	(72,744)
Other expenses		**(2,007)**	(8,536)
Finance costs	7	**(25,238)**	(14,329)
Impairment of goodwill	17	**(854,725)**	–
Share option expenses		**(12,940)**	(20,327)
Operating (loss)/profit		**(911,709)**	260,184
Share of losses of jointly-controlled entities	19	**(15,323)**	–
Share of loss of an associate		**–**	(13,217)
(Loss)/Profit before income tax		**(927,032)**	246,967
Income tax	9	**580**	(1,034)
(Loss)/Profit for the year		**(926,452)**	245,933
Attributable to:			
Equity holders of the Company		**(930,729)**	132,094
Minority interests		**4,277**	113,839
		(926,452)	245,933
(Loss)/Earnings per share for (loss)/profit attributable to the equity holders of the Company during the year			
– basic	11	**(12.5) HK cents**	1.8 HK cents
– diluted	11	**(12.5) HK cents**	1.8 HK cents

BALANCE SHEETS

At 31 December 2008

		Group		Company	
		2008	2007	**2008**	2007
	Notes	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Non-current assets					
Property, plant and equipment	14	**114,263**	141,974	**480**	647
Leasehold land	15	**–**	97,548	**–**	–
Investment property	16	**127,000**	–	**–**	–
Intangible assets	17	**337,153**	1,183,681	**–**	–
Investments in subsidiaries	18	**–**	–	**13,909**	13,909
Investments in jointly-controlled entities	19	**80,184**	90,954	**–**	–
Investment in an associate	20	**–**	–	**–**	–
Available-for-sale financial assets	22	**33,940**	–	**–**	–
Deferred income tax assets	33	**1,660**	1,030	**–**	–
Prepaid rentals		**5,771**	6,334	**–**	–
Total non-current assets		**699,971**	1,521,521	**14,389**	14,556
Current assets					
Inventories	23	**13,625**	12,159	**–**	–
Accounts receivable	24	**14,060**	74,740	**–**	–
Prepayments, deposits and other receivables		**12,699**	16,203	**1,573**	7,017
Amounts due from subsidiaries	18	**–**	–	**1,454,222**	2,231,291
Amount due from a jointly-controlled entity	19	**7,857**	7,877	**1,124**	–
Amounts due from related companies	25	**21,854**	24,289	**–**	–
Financial assets at fair value through profit or loss	26	**292,185**	192,294	**246,791**	143,814
Income tax refundable		**603**	–	**–**	–
Deposit with a financial institution	27	**–**	17,287	**–**	–
Cash and bank balances	28	**747,681**	993,269	**57**	1,456
Total current assets		**1,110,564**	1,338,118	**1,703,767**	2,383,578
Total assets		**1,810,535**	2,859,639	**1,718,156**	2,398,134
Current liabilities					
Accounts payable	29	**4,647**	11,986	**–**	–
Accruals and other payables		**12,722**	26,009	**300**	2,492
Amount due to a jointly-controlled entity	19	**34,033**	44,345	**–**	–
Amounts due to related companies	30	**–**	133	**–**	–
Income tax payable		**1,998**	2,306	**–**	–
Financial liabilities at fair value through profit or loss	31	**191,632**	123,230	**191,632**	123,230
Total current liabilities		**245,032**	208,009	**191,932**	125,722
Net current assets		**865,532**	1,130,109	**1,511,835**	2,257,856
Total assets less current liabilities		**1,565,503**	2,651,630	**1,526,224**	2,272,412

BALANCE SHEETS *(Cont'd)*

At 31 December 2008

	Notes	Group 2008 HK$'000	Group 2007 HK$'000	Company 2008 HK$'000	Company 2007 HK$'000
Non-current liabilities					
Convertible note	32	**562,357**	537,119	**562,357**	537,119
Deferred income tax liabilities	33	**16,334**	13,907	**3,837**	4,507
Total non-current liabilities		**578,691**	551,026	**566,194**	541,626
Net assets		**986,812**	2,100,604	**960,030**	1,730,786
Capital and reserves					
Share capital	34	**18,505**	19,142	**18,505**	19,142
Reserves	36	**1,647,920**	1,753,095	**1,618,600**	1,736,338
(Accumulated losses)/Retained profit	37	**(795,177)**	132,823	**(677,075)**	(24,694)
Capital and reserves attributable to equity holders of the Company		**871,248**	1,905,060	**960,030**	1,730,786
Minority interests		**115,564**	195,544	**–**	–
Total equity		**986,812**	2,100,604	**960,030**	1,730,786

LAU TING
Director

LIAO YUANG-WHANG
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

	Attributable to equity holders of the Company				
	Share capital HK$'000 *(Note 34)*	Reserves HK$'000 *(Note 36)*	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 STATEMENT OF CHANGES IN EQUITY *(Cont'd)*

For the year ended 31 December 2008

	Attributable to equity holders of the Company				
	Share capital HK$'000 *(Note 34)*	Reserves HK$'000 *(Note 36)*	(Accumulated losses)/ Retained profit HK$'000	Minority interests HK$'000	Total HK$'000
Balance at 1 January 2008	**19,142**	**1,753,095**	**132,823**	**195,544**	**2,100,604**
Currency translation differences	**–**	**13,449**	**–**	**5,364**	**18,813**
Net income recognised directly in equity	**–**	**13,449**	**–**	**5,364**	**18,813**
(Loss)/Profit for the year	**–**	**–**	**(930,729)**	**4,277**	**(926,452)**
Total recognised income/(expense) for the year	**–**	**13,449**	**(930,729)**	**9,641**	**(907,639)**
Repurchase of shares	**(637)**	**(127,949)**	**–**	**–**	**(128,586)**
Share option scheme:					
– value of employee services	**–**	**13,332**	**–**	**–**	**13,332**
– value of other participants' services	**–**	**(392)**	**–**	**–**	**(392)**
– vested share options cancelled	**–**	**(2,729)**	**2,729**	**–**	**–**
Surplus on revaluation of property	**–**	**14,340**	**–**	**–**	**14,340**
Deferred tax arising from revaluation of property	**–**	**(2,366)**	**–**	**–**	**(2,366)**
Fair value loss on available-for-sale financial assets	**–**	**(12,860)**	**–**	**–**	**(12,860)**
Deregistration of a subsidiary	**–**	**–**	**–**	**(15,764)**	**(15,764)**
Dividends paid to minority shareholders	**–**	**–**	**–**	**(73,857)**	**(73,857)**
	(637)	**(118,624)**	**2,729**	**(89,621)**	**(206,153)**
Balance at 31 December 2008	**18,505**	**1,647,920**	**(795,177)**	**115,564**	**986,812**

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Cash flows from operating activities			
Net cash generated from operating activities	38	**7,527**	104,299
Income tax paid		**(2,504)**	–
Income tax refunded		**1,573**	–
		6,596	104,299
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	41	**(14,798)**	(137,158)
Purchase of property, plant and equipment		**(10,803)**	(80,041)
Prepaid operating lease payment for leasehold land		**–**	(98,172)
Purchase of available-for-sale financial assets		**(46,800)**	–
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		**20**	(7,877)
Dividend received from listed securities		**1,011**	–
Interest income from bank deposits		**16,616**	29,758
Increase in short-term bank deposits with maturity more than three months		**(51,934)**	–
Net cash used in investing activities		**(106,688)**	(249,973)
Cash flows from financing activities			
Repurchase of shares		**(128,586)**	(8,510)
Proceeds from issue of shares		**–**	316,304
Share issue expenses		**–**	(6,635)
Proceeds from issue of convertible note		**–**	541,276
Dividends paid to minority shareholders		**(73,857)**	(24,860)
Net cash (used in)/generated from financing activities		**(202,443)**	817,575
Net (decrease)/increase in cash and cash equivalents		**(302,535)**	671,901
Cash and cash equivalents at beginning of the year		**993,269**	310,620
Effect of foreign exchange rate changes		**3,538**	10,748
Cash and cash equivalents at end of the year *(Note)*	28	**694,272**	993,269

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

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 of the Company (the "Board") on 9 March 2009.

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 ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and by the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment property, 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 HKFRSs 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.

In the current year, the Group has applied, for the first time, the following amendments and interpretations ("new HKFRSs") issued by the HKICPA, which are effective for the Group's accounting periods beginning on or after 1 January 2008.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The application of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

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

2.1 Basis of preparation *(Cont'd)*

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs	*1*
HKAS 1 (Revised)	Presentation of Financial Statements	*2*
HKAS 23 (Revised)	Borrowing Costs	*2*
HKAS 27 (Revised)	Consolidated and Separate Financial Statements	*3*
HKAS 32 & HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation	*2*
HKAS 39 (Amendment)	Eligible Hedged Items	*3*
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	*2*
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations	*2*
HKFRS 3 (Revised)	Business Combinations	*3*
HKFRS 8	Operating Segments	*2*
HK(IFRIC)-Int 13	Customer Loyalty Programmes	*4*
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate	*2*
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation	*5*
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners	*3*
HK(IFRIC)-Int 18	Transfers of Assets from Customers	*6*

Notes:

1. Effective for accounting periods beginning on or after 1 January 2009 except for the amendments to HKFRS 5, effective for accounting periods beginning on or after 1 July 2009
2. Effective for accounting periods beginning on or after 1 January 2009
3. Effective for accounting periods beginning on or after 1 July 2009
4. Effective for accounting periods beginning on or after 1 July 2008
5. Effective for accounting periods beginning on or after 1 October 2008
6. Effective for transfers of assets from customers received on or after 1 July 2009

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in subsidiary. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

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 2008

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 at 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 consolidated income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary in the consolidated financial statements 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 for by the Company on the basis of dividend received and receivable.

(b) Transactions with 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 and 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 using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss. See note 2.7 for the impairment of non-financial assets including goodwill.

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated 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 2008

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

2.2 Consolidation *(Cont'd)*

(c) Associates *(Cont'd)*

Dilution gains and losses in investments 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 consolidated 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 the Group's presentation currency.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

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

2.4 Foreign currency translation *(Cont'd)*

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. 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 consolidated income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated income statement within finance cost. All other foreign exchange gains and losses are presented in the consolidated income statement.

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 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 consolidated 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

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

2.5 Intangible assets

(a) CLO Contract

The acquired CLO Contract (Note 17) has a finite useful life and is carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of the CLO Contract over the period of the contract.

(b) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates 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.

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 consolidated 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%
Building	2.5%
Leasehold improvements	20% – 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% – 20%

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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

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, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets 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

2.8.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available-for-sale 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. The Group's loans and receivables comprise trade and other receivables and cash and bank balances in the balance sheet.

(c) Available-for-sale financial assets

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

2.8.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date (the date on which the Group commits to purchase or sell the asset). Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated 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 2008

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

2.8 Financial assets *(Cont'd)*

2.8.2 Recognition and measurement *(Cont'd)*

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the consolidated 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 consolidated 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 consolidated 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 consolidated income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the consolidated 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 established 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 profit or loss) is removed from equity and recognised in the consolidated income statement. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

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

2.9 Investment property

Investment property, principally comprising leasehold land and office buildings, is held for long-term rental yields and is not occupied by the Group. Investment property is carried at fair value, representing open market value determined annually by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are reviewed annually by valuers, changes in fair values are recorded in the consolidated income statement as part of other income.

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 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 consolidated income statement. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited to the consolidated income statement.

2.12 Cash and cash equivalents

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

2.13 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.

2.14 Trade payables

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

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

2.15 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 consolidated 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.

2.16 Current and deferred income tax

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

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 and its subsidiaries, associates and jointly-controlled entities operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

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

2.17 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 a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted, excluding the impact of any non-market service and performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision of original estimates, if any, in the consolidated 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 2008

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

2.17 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.

2.18 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.

2.19 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 consultancy services is recognised when services are rendered.

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

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

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

(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 2008

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

2.20 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), including upfront payment made for leasehold land and leasehold land use rights, are charged to the consolidated income statement on a straight-line basis over the period of the lease.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

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

(a) Market risk

(i) Foreign exchange risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. Approximately 81% (2007: 98%) of the Group's turnover and approximately 78% (2007: 100%) of costs are denominated in the operating units' functional currency. The Group manages the foreign exchange exposure arising from its normal course of business activities and investments in foreign operations by funding its local operations and investments through cash flow generated from business transactions locally. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure closely and will consider hedging significant foreign currency exposure should the need arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

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

3.1 Financial risk factors *(Cont'd)*

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

(i) Foreign exchange risk (Cont'd)

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

	Increase/ (decrease) in RMB %	**Decrease/ (increase) in loss after income tax HK$'000**	**Increase/ (decrease) in equity HK$'000**
2008			
If Hong Kong dollar weakens against RMB	**5**	**51**	**12,734**
If Hong Kong dollar strengthens against RMB	**(5)**	**(77)**	**(11,646)**

	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)

(ii) Price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group is exposed to equity price risk arising from individual equity investments classified as available-for-sale financial assets (Note 22) and trading equity investments (Note 26) as at 31 December 2008. The Group's listed investments are listed in Hong Kong and overseas, and are valued at quoted market prices at the balance sheet date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

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

3.1 Financial risk factors *(Cont'd)*

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

(ii) Price risk (Cont'd)

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$'000	**Decrease/ (increase) in loss after income tax HK$'000**	**Increase/ (decrease) in equity HK$'000**
2008			
5% increase in equity price	**3,967**	**2,270**	**3,967**
5% decrease in equity price	**(3,967)**	**(2,270)**	**(3,967)**

	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)

(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 32). 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 2008 (2007: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

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 a jointly-controlled entity and related companies, 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 11% (2007: 91%) and 100% (2007: 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 24 to the consolidated financial statements.

(c) Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves 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 2008, the Group had an outstanding guarantee and indemnity for HK$30 million (2007: 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 2008 (2007: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

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, is 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**
2008					
Accounts payable	**4,647**	**4,647**	**4,647**	**–**	**–**
Amount due to a jointly-controlled entity	**34,033**	**34,033**	**34,033**	**–**	**–**
Convertible note	**562,357**	**755,032**	**–**	**–**	**755,032**
	601,037	**793,712**	**38,680**	**–**	**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
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

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 and amounts due to related companies as shown in the consolidated balance sheet. Adjusted capital comprises convertible note and all components of equity (including share capital, reserves, accumulated losses/retained profit and minority interests as shown in the consolidated balance sheet).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

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

3.2 Capital risk management *(Cont'd)*

During 2008, the Group's strategy, which was unchanged from 2007, was to maintain a debt-to adjusted capital ratio within 3% to 6%. The debt-to-adjusted capital ratios at 31 December 2008 and 2007 are as follows:

	2008	2007
	HK$'000	HK$'000
Total debt	**51,402**	82,473
Convertible note *(Note 32)*	**562,357**	537,119
Total equity	**986,812**	2,100,604
Adjusted capital	**1,549,169**	2,637,723
Debt-to-adjusted capital ratio	**3.3%**	3.1%

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 values 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

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

(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.

(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 is as follows:

	2008	2007
	HK$'000	HK$'000
Turnover		
Income from provision of lottery terminals	**99,162**	284,162
Income from sales of equipment	**17,711**	26,038
Income from provision of consultancy services	**504**	67
	117,377	310,267

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 2008 and 2007, over 90% of the Group's revenues were derived from the Group's 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

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

(b) Secondary reporting format – geographical segments

For the years ended 31 December 2008 and 2007, 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	**2008 HK$'000**	2007 HK$'000
PRC	**634,171**	1,578,896
Hong Kong	**1,096,180**	1,184,550
Other	**–**	5,239
	1,730,351	2,768,685
Investments in jointly-controlled entities	**80,184**	90,954
	1,810,535	2,859,639

Capital expenditure	**2008 HK$'000**	2007 HK$'000
PRC	**10,888**	280,653
Hong Kong	**508**	111,185
	11,396	391,838

6. OTHER INCOME AND GAINS

	2008 HK$'000	2007 HK$'000
Fair value gains/(losses), net:		
– Financial assets at fair value through profit or loss (held for trading)	**(17,772)**	2,884
– Early redemption option embedded in convertible note at fair value	**102,977**	61,528
– Redemption option held by a noteholder embedded in convertible note at fair value	**(68,402)**	(47,300)
	16,803	17,112
Interest income from bank deposits	**16,616**	29,758
Dividend income on financial assets at fair value through profit or loss	**1,011**	–
Fair value gain on investment property *(Note 16)*	**7,000**	–
Net gain on disposal of interest in TIHK *(Note 19(i))*	**–**	69,740
Rental income	**960**	160
Reversal of impairment on other receivables	**4,142**	–
	46,532	116,770

7. FINANCE COSTS

	2008 HK$'000	2007 HK$'000
Accrued interest expense on convertible note *(Note 32)*	**25,238**	14,329

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

8. OPERATING (LOSS)/PROFIT

	2008	2007
	HK$'000	HK$'000
The Group's operating (loss)/profit is arrived at after charging/(crediting):		
Costs of sales and services		
– Depreciation of lottery terminals	**32,882**	17,383
– Business tax	**3,942**	14,836
– Cost of inventories recognised as expense	**6,945**	13,372
– Repairs and maintenance	**11,084**	2,522
– Other costs of sales and services	**7,379**	2,804
	62,232	50,917
Loss on disposal of property, plant and equipment	**638**	1,198
Operating lease rentals in respect of land and buildings	**3,386**	3,815
Auditors' remuneration	**600**	590
Amortisation of intangible assets		
– CLO Contract *(included in general and administrative expenses) (Note 17)*	**6,528**	6,527
Depreciation of other items of property, plant and equipment	**2,809**	1,203
Write-down of inventories to net realisable value	**–**	658
Impairment of other receivables *(included in other expenses)*	**2,007**	8,536
Foreign exchange differences, net	**(1,228)**	(1,170)

9. INCOME TAX

Hong Kong Profits Tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profit for the year. No provision for Hong Kong Profits Tax has been made for the years ended 31 December 2007 and 2008 as the Group had no assessable profits arising in or derived from Hong Kong for both years. 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.

	2008	2007
	HK$'000	HK$'000
Current income tax		
– PRC Enterprise Income Tax	**2,228**	1,262
– Adjustments in respect of prior years	**(2,314)**	–
Total current tax	**(86)**	1,262
Deferred income tax *(Note 33)*	**(494)**	(228)
	(580)	1,034

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

9. INCOME TAX *(Cont'd)*

The tax on the Group's (loss)/profit before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to (losses)/profits of the consolidated entities is as follows:

	2008	2007
	HK$'000	HK$'000
(Loss)/Profit before income tax	**(927,032)**	246,967
Tax calculated at the applicable tax rate of 16.5% (2007: 17.5%)	**(152,960)**	43,219
Income not subject to tax	**(19,824)**	(67,832)
Expenses not deductible for tax purposes	**170,656**	27,548
Tax losses which no deferred income tax asset was recognised	**3,728**	–
Adjustments in respect of prior years	**(2,314)**	–
Remeasurement of deferred tax	**134**	–
Others	**–**	(1,901)
Tax (credit)/charge	**(580)**	1,034

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 and reduced corporate profit tax rate from 17.5% to 16.5% which is effective from the year of assessment 2008/2009.

On 16 March 2007, the PRC promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council issued Implementation Regulation of the New Law. The New Law and Implementation Regulation changed the tax rate of the PRC subsidiaries to 25% from 1 January 2008 onwards.

10. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of approximately HK$655,110,000 (2007: HK$25,423,000).

11. (LOSS)/EARNINGS PER SHARE

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

	2008	2007
(Loss)/Profit attributable to equity holders of the Company *(HK$'000)*	**(930,729)**	132,094
Weighted average number of ordinary shares in issue for the purpose of calculating basic (loss)/earnings per share	**7,445,419,421**	7,360,681,227
Effect of dilutive potential ordinary shares: – Share options	**19,467,783**	141,435,395
Weighted average number of ordinary shares for the purpose of calculating diluted (loss)/earnings per share	**7,464,887,204**	7,502,116,622
Basic (loss)/earnings per share	**(12.5) HK cents**	1.8 HK cents
Diluted (loss)/earnings per share	**(12.5) HK cents**	1.8 HK cents

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

11. (LOSS)/EARNINGS PER SHARE *(Cont'd)*

The computation of diluted (loss)/earnings per share for the years ended 31 December 2008 and 2007 has not assumed the conversion of convertible note because its conversion would reduce/increase the (loss)/earnings per share.

The weighted average number of ordinary shares for the purpose of basic earnings per share has been adjusted for the Share Subdivision on 7 August 2007 (Note 34(i)).

12. STAFF COSTS

Staff costs (including directors' emoluments) comprise:

	2008	2007
	HK$'000	HK$'000
Wages and salaries	**53,382**	32,170
Employee share option benefits	**13,332**	17,699
Social security costs	**1,464**	274
Pension costs – defined contribution plans	**738**	620
Other staff welfare	**1,473**	504
	70,389	51,267

13. COMPENSATION TO KEY MANAGEMENT PERSONNEL

	2008	2007
	HK$'000	HK$'000
Short-term employee benefits	**28,522**	20,417
Post-employment benefits	**272**	242
Employee share option benefits	**9,435**	13,249
	38,229	33,908

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

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

(a) Directors' emoluments

The remuneration of every director of the Company for the year ended 31 December 2008 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	–	4,977	2,000	87	229	7,293
Mr. Chan Shing	–	4,951	2,000	87	12	7,050
Mr. Wu Jingwei	–	2,784	2,000	5,387	10	10,181
Mr. Liao Yuang-whang	–	3,350	2,000	6,049	12	11,411
Non-executive directors						
Mr. Hoong Cheong Thard *(Notes (i) and (x))*	145	3,345	–	(2,403)	9	1,096
Mr. Paulus Johannes Cornelis Aloysius Karskens *(Note (xi))*	–	–	–	–	–	–
Mr. Wang Taoguang *(Note (ii))*	304	–	–	–	–	304
Independent non-executive directors						
Mr. Huang Shenglan	263	–	–	87	–	350
Mr. Chan Ming Fai	263	–	–	87	–	350
Mr. Cui Shuming *(Note (iii))*	84	–	–	–	–	84
Mr. Li Xiaojun *(Note (iv))*	56	–	–	54	–	110
	1,115	19,407	8,000	9,435	272	38,229

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

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

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

The remuneration of every director of the Company for the year ended 31 December 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 (v))*	–	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 (v))*	–	1,264	421	2,044	–	3,729
Mr. Liao Yuang-whang *(Note (vi))*	–	833	200	826	2	1,861
Mr. Chen Aizheng *(Note (vii))*	–	486	32	1,714	7	2,239
Mr. Ng Man Fai, Matthew *(Note (vii))*	–	222	34	128	7	391
Non-executive directors						
Mr. Paulus Johannes Cornelis Aloysius Karskens *(Note (v))*	110	–	–	–	–	110
Mr. Wang Taoguang *(Note (viii))*	46	654	–	–	–	700
Mr. Sun Ho *(Note (ix))*	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:

(i) Re-designated from an executive director to a non-executive director on 12 September 2008.
(ii) Resigned on 13 November 2008.
(iii) Appointed on 18 June 2008.
(iv) Resigned on 18 June 2008.
(v) Appointed on 16 July 2007.
(vi) Appointed on 13 November 2007.
(vii) Resigned on 16 July 2007.
(viii) Re-designated from an executive director to a non-executive director on 23 October 2007.
(ix) Re-designated from an executive director to a non-executive director on 16 July 2007 and resigned on 23 October 2007.
(x) During the year ended 31 December 2008, employee share option benefits attributable to Mr. Hoong Cheong Thard was approximately HK$1,372,000. Moreover, 35,200,000 share options were cancelled by forfeiture during the vesting period, which resulted in a credit of approximately HK$3,775,000 to the consolidated income statement for the year ended 31 December 2008.
(xi) During the year ended 31 December 2008, Mr. Paulus Johannes Cornelis Aloysius Karskens waived emoluments of approximately HK$350,000.

During the year ended 31 December 2008, 16,000,000 share options were granted to certain directors of the Company under the Company's share option scheme (2007: 95,200,000 share options, which have been adjusted for Share Subdivision (Note 34(i)).

Except for Mr. Paulus Johannes Cornelis Aloysius Karskens, none of the other directors of the Company waived or agreed to waive any emoluments during the year ended 31 December 2008 (2007: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

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

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group during the year ended 31 December 2008 included four (2007: five) directors of the Company, whose emoluments are set out above. The emoluments payable to the remaining one non-director, highest paid individual for the year ended 31 December 2008 are as follows:

	2008	2007
	HK$'000	HK$'000
Basic salaries, other allowances and benefits in kind	**936**	–
Discretionary bonuses	**100**	–
Employee share option benefits	**1,192**	–
Employer's contributions to pension schemes	**12**	–
	2,240	–

(c) During the year ended 31 December 2008, 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 (2007: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

14. PROPERTY, PLANT AND EQUIPMENT

	Group								
	Building HK$'000	**Lottery terminals leased to third parties under operating leases** HK$'000	**Lottery terminals under construction** HK$'000	**Leasehold improvements** HK$'000	**Plant and equipment** HK$'000	**Computer equipment and software** HK$'000	**Office equipment and furniture** HK$'000	**Motor vehicles** HK$'000	**Total** HK$'000
At 1 January 2007									
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
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 41)*	–	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
Year ended 31 December 2008									
Opening net book amount	**8,634**	**108,791**	**9,917**	**4,833**	**4,682**	**2,053**	**1,527**	**1,537**	**141,974**
Exchange differences	**–**	**5,255**	**563**	**12**	**256**	**93**	**67**	**73**	**6,319**
Acquisition of a subsidiary *(Note 41)*	**–**	**–**	**–**	**–**	**–**	**56**	**20**	**–**	**76**
Additions	**–**	**–**	**3,690**	**5,268**	**20**	**85**	**551**	**1,706**	**11,320**
Transfers	**–**	**2,801**	**(2,801)**	**–**	**–**	**–**	**–**	**–**	**–**
Transfer to investment property	**(22,920)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(22,920)**
Disposals	**–**	**–**	**–**	**(629)**	**–**	**(1)**	**(126)**	**–**	**(756)**
Surplus on revaluation *(Note 36)*	**14,340**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**14,340**
Depreciation	**(54)**	**(32,882)**	**–**	**(1,320)**	**(368)**	**(508)**	**(447)**	**(511)**	**(36,090)**
Closing net book amount	**–**	**83,965**	**11,369**	**8,164**	**4,590**	**1,778**	**1,592**	**2,805**	**114,263**
At 31 December 2008									
Cost	**–**	**176,231**	**11,369**	**9,438**	**5,706**	**7,660**	**3,379**	**3,848**	**217,631**
Accumulated depreciation	**–**	**(92,266)**	**–**	**(1,274)**	**(1,116)**	**(5,882)**	**(1,787)**	**(1,043)**	**(103,368)**
Net book amount	**–**	**83,965**	**11,369**	**8,164**	**4,590**	**1,778**	**1,592**	**2,805**	**114,263**

Note: Depreciation of lottery terminals leased to third parties under operating leases of approximately HK$32,882,000 (2007: HK$17,383,000) has been charged in costs of sales and services. Depreciation of approximately HK$399,000 (2007: HK$347,000) has been capitalised in lottery terminals under construction. Depreciation of other items of property, plant and equipment of approximately HK$2,809,000 (2007: HK$1,203,000) has been charged in general and administrative expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

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

	Company			
	Leasehold improvments HK$'000	Computer equipment and software HK$'000	Office equipment and furniture HK$'000	Total HK$'000
At 1 January 2007				
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
Year ended 31 December 2008				
Opening net book amount	**207**	**81**	**359**	**647**
Additions	**160**	**–**	**29**	**189**
Disposals	**(175)**	**–**	**–**	**(175)**
Depreciation	**(45)**	**(24)**	**(112)**	**(181)**
Closing net book amount	**147**	**57**	**276**	**480**
At 31 December 2008				
Cost	**160**	**120**	**576**	**856**
Accumulated depreciation	**(13)**	**(63)**	**(300)**	**(376)**
Net book amount	**147**	**57**	**276**	**480**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

15. LEASEHOLD LAND – GROUP

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

	2008 HK$'000	2007 HK$'000
In Hong Kong held on:		
Leases of over 50 years	**–**	97,548
Opening net book amount	**97,548**	–
Addition	**–**	98,172
Amortisation	**(468)**	(624)
Transfer to investment property	**(97,080)**	–
Closing net book amount	**–**	97,548

16. INVESTMENT PROPERTY – GROUP

	2008 HK$'000	2007 HK$'000
Transfer from owner-occupied property	**120,000**	–
Fair value gain *(Note 6)*	**7,000**	–
At 31 December	**127,000**	–

The investment property is valued on an open market basis by the Comparison Approach at 31 December 2008 by an independent, professional qualified valuer, BMI Appraisals Limited.

The following amounts have been recognised in the consolidated income statement:

	2008 HK$'000	2007 HK$'000
Rental income	**720**	–
Direct operating expenses arising from investment property that generate rental income	**219**	–

The Group's interest in investment property at its net book value is analysed as follows:

	2008 HK$'000	2007 HK$'000
In Hong Kong held on:		
Leases of over 50 years	**127,000**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

16. INVESTMENT PROPERTY – GROUP *(Cont'd)*

The future aggregate minimum rentals receivables under non-cancellable operating leases are as follows:

	2008 HK$'000	2007 HK$'000
Not later than 1 year	**800**	–

17. INTANGIBLE ASSETS – GROUP

	Goodwill HK$'000	**CLO Contract** HK$'000	**Total** HK$'000
At 1 January 2007			
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 41)*	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
Year ended 31 December 2008			
Opening net book amount	**1,134,722**	**48,959**	**1,183,681**
Acquisition of a subsidiary *(Note 41)*	**14,725**	**–**	**14,725**
Impairment charge	**(854,725)**	**–**	**(854,725)**
Amortisation charge	**–**	**(6,528)**	**(6,528)**
Closing net book amount	**294,722**	**42,431**	**337,153**
At 31 December 2008			
Cost	**1,149,447**	**60,382**	**1,209,829**
Accumulated amortisation and impairment	**(854,725)**	**(17,951)**	**(872,676)**
Net book amount	**294,722**	**42,431**	**337,153**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

17. INTANGIBLE ASSETS – GROUP *(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 41).

(ii) Amortisation of the CLO Contract of approximately HK$6,528,000 for the year ended 31 December 2008 is included in general and administrative expenses (2007: HK$6,527,000).

(iii) Impairment tests of goodwill

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

	2008 **HK$'000**	2007 HK$'000
Provision of video lottery terminals ("VLT")	**95,319**	935,319
Provision of traditional computer lottery system and equipment	**199,403**	199,403
Provision of internet information services	**–**	–
	294,722	1,134,722

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

(a) Provision of VLT

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

Since February 2008, China Lottery Online video lottery, which is distributed nationally in the PRC, made major adjustments to its game offerings, operating hours, payout ratio, etc. Being the exclusive provider of terminal equipment for China Lottery Online video lottery, the Group's business performance relating to the provision of VLT has been adversely affected. The recoverable amount of goodwill allocated to the CGU of provision of VLT at 31 December 2008 has been reassessed and an impairment of goodwill of HK$840,000,000 was charged to the consolidated income statement (2007: Nil).

The value-in-use calculation uses pre-tax cash flow projections based on financial budgets approved by management covering the remaining term of the CLO Contract of 7 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 18.19%, which reflects the specific risks relating to this CGU.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

17. INTANGIBLE ASSETS – GROUP *(Cont'd)*

Notes: (Cont'd)

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

(b) Provision of traditional computer lottery system and equipment

The value-in-use calculation uses pre-tax cash flow projections based on financial budgets approved by management covering a 5-year period. The key assumptions used for the cash flow projections include the budgeted turnover and expenses during each of the forecasting periods, which are determined by management based on past performance and its expectation of market development. All cash flows are discounted at a discount rate of 17.54%, 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 2008 as the recoverable amount exceeded the carrying amount (2007: Nil).

(c) Provision of internet information services

On 10 March 2008, the Group entered into a series of agreements to acquire control of 北京網人互聯科技有限公司 ("網人互聯"). The related goodwill arising from the aforesaid transactions amounted to approximately HK$14,725,000 (Note 41). The recoverable amount of goodwill allocated to the CGU of the provision of internet information services at 31 December 2008 has been reassessed and an impairment of goodwill of approximately HK$14,725,000 was charged to the consolidated income statement.

The value-in-use calculation uses pre-tax cash flow projections based on financial budgets approved by management covering a 5-year period. The key assumptions used for the cash flow projections include the budgeted turnover and expenses during each of the forecasting periods, which are determined by management based on past performance and its expectation of market development. All cash flows are discounted at a discount rate of 18%, which reflects the specific risks relating to this CGU.

18. INVESTMENTS IN AND AMOUNTS DUE FROM SUBSIDIARIES

	2008 HK$'000	2007 HK$'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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

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

The following is a list of the principal subsidiaries at 31 December 2008:

Name	Place of incorporation/ establishment, Kind of legal entity *(Note (ix))*	Particulars of issued share capital/ registered capital	Interest held	Principal activities
Held directly:				
Harrogate Group Limited	British Virgin Islands, Limited liability company	United States dollars ("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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

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

Name	Place of incorporation/ establishment, Kind of legal entity *(Note (ix))*	Particulars of issued share capital/ registered capital	Interest held	Principal activities
Held indirectly: (cont'd)				
China LotSynergy Group Limited ("CLG")	Hong Kong, Limited liability company	HK$1	100%	Investment holding
Corich International Limited ("Corich")	British Virgin Islands, Limited liability company	US$2,000,000	50% *(Note (x))*	Investment holding
East Grand Enterprises Limited	Hong Kong, Limited liability company	HK$1	50% *(Note (x))*	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
Willstrong Investments Limited	British Virgin Islands, Limited liability company	US$1	80%	Provision of lottery system and equipment
東莞天意*(Note (i))*	PRC, Wholly foreign owned enterprise	HK$8,000,000	50% *(Note (x))*	Provision of VLT
北京靈彩科技有限公司 (「北京靈彩」)*(Note (ii))*	PRC, Wholly foreign owned enterprise	HK$1,200,000	50% *(Note (x))*	Research and development of lottery system and equipment in the PRC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

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

Name	Place of incorporation/ establishment, Kind of legal entity *(Note (ix))*	Particulars of issued share capital/ registered capital	Interest held	Principal activities
Held indirectly: (cont'd)				
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
廣州市三環永新科技有限公司 (Guangzhou San Huan Yong Xin Technology Company Limited) ("GZSH") *(Note (iv))*	PRC, Sino-foreign equity joint venture enterprise	RMB10,000,000	80%	Provision of lottery system and equipment in the PRC
華彩之家科技發展(北京)有限公司(「華彩之家」) *(Note (v))*	PRC, Wholly foreign owned enterprise	HK$10,000,000	100%	Research and development of lottery system and equipment in the PRC
華彩世紀科技發展(北京)有限公司(「華彩世紀」) *(Note (vi))*	PRC, Wholly foreign owned enterprise	HK$10,000,000	100%	Research and development of lottery system and equipment in the PRC
網人互聯*(Note (vii))*	PRC, Limited liability company	RMB30,000,000	100%	Provision of internet information services
北京華彩贏通科技有限公司(「華彩贏通」) *(Note (viii))*	PRC, Limited liability company	RMB30,000,000	100%	Research and development of lottery system and equipment in the PRC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

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

Notes:

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

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

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

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

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

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

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

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

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

(x) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

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

	Group 2008 HK$'000	2007 HK$'000
Investments in jointly-controlled entities	**80,184**	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 US$0.85633 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 as extracted from unaudited management accounts:

	2008 HK$'000	2007 HK$'000
Share of the jointly-controlled entities' assets and liabilities:		
Non-current assets	**26,228**	26,367
Current assets	**55,136**	54,812
Current liabilities	**(14,547)**	(3,592)
Net assets	**66,817**	77,587
Share of the jointly-controlled entities' results:		
Revenue	**260**	–
Total expenses	**(15,583)**	–
Results	**(15,323)**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

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 and 2008, the Group was committed to contribute to the capital of IGT Synergy Holding Limited in the amount of approximately US$13,500,000 (equivalent to approximately HK$105,300,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

20. INVESTMENT IN AN ASSOCIATE

	Group	
	2008	2007
	HK$'000	HK$'000
Beginning of the year	**–**	54,016
Share of loss	**–**	(13,217)
Exchange difference *(Note 36)*	**–**	6,361
Transferred to jointly-controlled entity *(Note 19(i))*	**–**	(47,160)
End of the year	**–**	–

21. FINANCIAL INSTRUMENTS BY CATEGORY

	Loans and receivables	**Financial assets at fair value through profit or loss (held for trading)**	**Available-for-sale financial assets**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
2008				
Financial assets as per consolidated balance sheet				
Available-for-sale financial assets	**–**	**–**	**33,940**	**33,940**
Accounts receivable	**14,060**	**–**	**–**	**14,060**
Amount due from a jointly-controlled entity	**7,857**	**–**	**–**	**7,857**
Amounts due from related companies	**21,854**	**–**	**–**	**21,854**
Financial assets at fair value through profit or loss	**–**	**292,185**	**–**	**292,185**
Cash and bank balances	**747,681**	**–**	**–**	**747,681**
	791,452	**292,185**	**33,940**	**1,117,577**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

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

	Financial liabilities at amortised cost	**Financial liabilities at fair value through profit or loss (held for trading)**	**Total**
	HK$'000	HK$'000	HK$'000
2008			
Financial liabilities as per consolidated balance sheet			
Accounts payable	**4,647**	**–**	**4,647**
Amount due to a jointly-controlled entity	**34,033**	**–**	**34,033**
Financial liabilities at fair value through profit or loss	**–**	**191,632**	**191,632**
Convertible note	**562,357**	**–**	**562,357**
	601,037	**191,632**	**792,669**

	Loans and receivables	Financial assets at fair value through profit or loss (held for trading)	Total
	HK$'000	HK$'000	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
	1,117,462	192,294	1,309,756

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

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

	Financial liabilities at amortised cost HK$'000	Financial liabilities at fair value through profit or loss (held for trading) HK$'000	Total HK$'000
2007			
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
	593,583	123,230	716,813

22. AVAILABLE-FOR-SALE FINANCIAL ASSETS – GROUP

	2008 **HK$'000**	2007 HK$'000
Addition	**46,800**	–
Net loss transfer to equity	**(12,860)**	–
At 31 December	**33,940**	–

Available-for-sale financial assets including the following:

	2008 **HK$'000**	2007 HK$'000
Unlisted equity investment, at fair value	**33,940**	–

Available-for-sale financial assets are denominated in United States dollars.

23. INVENTORIES

Inventories consist of electronic parts and components of lottery equipment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

24. 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 2008, the ageing analysis of the accounts receivable is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
0 – 30 days	**9,020**	38,842
31 – 60 days	**2,330**	35,898
61 – 90 days	**1,284**	–
Over 90 days	**1,426**	–
	14,060	74,740

None of the Group's accounts receivable at balance sheet date were impaired. As of 31 December 2008, accounts receivable of approximately HK$5,040,000 (2007: Nil) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these accounts receivable is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
0 – 30 days	**2,330**	–
31 – 60 days	**1,284**	–
61 – 90 days	**38**	–
Over 90 days	**1,388**	–
	5,040	–

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

	Group	
	2008	2007
	HK$'000	HK$'000
RMB	**8,604**	72,482
US$	**5,456**	2,258
	14,060	74,740

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

25. 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 (2007: HK$24,289,000).

26. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Listed securities:				
– Equity securities – Hong Kong	**37,975**	48,480	**–**	–
– Equity securities – Elsewhere	**7,419**	–	**–**	–
Early redemption option embedded in convertible note at fair value *(Note 32)*	**246,791**	143,814	**246,791**	143,814
	292,185	192,294	**246,791**	143,814
Market value of listed securities	**45,394**	48,480	**–**	–

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

27. DEPOSIT WITH A FINANCIAL INSTITUTION

The balance represents a deposit (denominated in RMB) 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 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 during the year ended 31 December 2008 as the liquidation of the non-wholly owned subsidiary was completed on 16 January 2008.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

28. CASH AND BANK BALANCES

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at bank and in hand	**82,519**	193,664	**57**	1,456
Short-term bank deposits	**665,162**	799,605	**–**	–
Maximum exposure to credit risk	**747,681**	993,269	**57**	1,456
Less: Short-term bank deposits with maturity more than three months	**(53,409)**	–	**–**	–
Cash and cash equivalents	**694,272**	993,269	**57**	1,456

At 31 December 2008, the Group had cash and bank balances of approximately HK$63,765,000 (2007: HK$141,029,000) 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.

29. ACCOUNTS PAYABLE

At 31 December 2008, the ageing analysis of the accounts payable is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
0 – 30 days	**681**	2,842
31 – 60 days	**758**	3,401
61 – 90 days	**869**	2,246
Over 90 days	**2,339**	3,497
	4,647	11,986

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

30. AMOUNTS DUE TO RELATED COMPANIES

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

31. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group and Company	
	2008	2007
	HK$'000	HK$'000
Redemption option held by a noteholder embedded in convertible note at fair value *(Note 32)*	**191,632**	123,230

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

32. CONVERTIBLE NOTE

	Group and Company	
	2008	2007
	HK$'000	HK$'000
Principal amount of convertible note issued (net of issue costs)	**541,276**	541,276
Early redemption option held by the Company	**82,286**	82,286
Redemption option held by a noteholder	**(75,930)**	(75,930)
Equity component (net of issue costs)	**(24,842)**	(24,842)
Liability component on initial recognition (net of issue costs)	**522,790**	522,790
Accrued interest	**39,567**	14,329
Liability component	**562,357**	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".

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 balance sheet dates 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 at 31 December 2008 were as follows:

(i) Risk free rate of between 0.90% and 1.18% 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 36.73% and 44.57% which was determined based on the historical interest rate under the same period as the excepted 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 2008 was approximately HK$700,137,000 (2007: HK$593,374,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

33. DEFERRED INCOME TAX

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

Deferred tax liabilities:

	Group				Company
	Intangible assets	**Convertible note**	**Fair value gain on property**	**Total**	**Convertible note**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2007	9,400	–	–	9,400	–
Credited to the income statement	–	(255)	–	(255)	(255)
Charged directly to equity *(Note 36)*	–	4,762	–	4,762	4,762
At 31 December 2007	**9,400**	**4,507**	**–**	**13,907**	**4,507**
(Credited)/Charged to the income statement	**(424)**	**(670)**	**1,155**	**61**	**(670)**
Charged directly to equity *(Note 36)*	**–**	**–**	**2,366**	**2,366**	**–**
At 31 December 2008	**8,976**	**3,837**	**3,521**	**16,334**	**3,837**

Deferred tax assets:

	Group Decelerated tax depreciation
	HK$'000
At 1 January 2007	–
Charged to the income statement	(27)
Acquisition of subsidiaries *(Note 41)*	1,025
Exchange differences	32
At 31 December 2007	**1,030**
Credited to the income statement	**555**
Exchange differences	**75**
At 31 December 2008	**1,660**

At 31 December 2008, the Group had unused tax losses of approximately HK$22,682,000 (2007: 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

34. SHARE CAPITAL

	Authorised ordinary shares Number of shares	HK$'000
At 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 i))*	12,000,000,000	–
At 31 December 2007 and 2008	**16,000,000,000**	**40,000**

	Issued and fully paid ordinary shares Number of shares	HK$'000
At 1 January 2007	1,772,582,000	17,726
New issue of shares *(Note (ii))*	93,400,000	934
Subdivision of one share of HK$0.01 each into four shares of HK$0.0025 each *(Note (i))*	5,597,946,000	–
New issue of shares *(Note (iii))*	67,200,000	168
Share options exercised *(Note (iv))*	135,320,000	338
Repurchase of shares *(Note (v))*	(9,688,000)	(24)
At 31 December 2007	**7,656,760,000**	**19,142**
Repurchase of shares *(Note (vi))*	**(254,596,000)**	**(637)**
At 31 December 2008	**7,402,164,000**	**18,505**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

34. SHARE CAPITAL *(Cont'd)*

Notes:

(i) 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.

(ii) 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.

(iii) Pursuant to the two conditional sale and purchase agreements dated 10 September 2007 (Note 41), 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.

(iv) 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.

(v) 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.

(vi) The Company repurchased 254,596,000 of its own shares of HK$0.0025 each on the Stock Exchange during the year ended 31 December 2008. The highest and lowest price paid per share were HK$0.96 and HK$0.35 respectively. The total amount paid for the repurchase of shares was approximately HK$128,586,000 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 2008

35. SHARE OPTION SCHEME

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

Under the Option Scheme, the Company may grant options to employees (including executive directors) of the Group and other participants to subscribe for shares in the Company, subject to a maximum of 30% of the issued share capital of the Company from time to time excluding for this purpose shares issued on exercise of options. The subscription price will be determined by the Board and will not be less than the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheets on the date of the grant of the option, which must be a business day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of the grant of the option; and (iii) the nominal value of the shares. A nominal consideration at HK$1 is payable for each 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 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 2007 and 2008 are as follows:

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 34(i))*	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

35. 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 34(i))*	Cancelled	Exercised	Lapsed	At 31 December 2007
30 June 2006	0.285	16 August 2008 to 29 June 2016	4,400,000	–	13,200,000	–	–	–	17,600,000
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

35. 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 34(i))*	Cancelled	Exercised	Lapsed	At 31 December 2007
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
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

35. 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 34(i))*	Cancelled	Exercised	Lapsed	At 31 December 2007
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
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

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

Year ended 31 December 2008

			Number of options					
Date of grant	Exercise Price HK$	Exercisable period	At 1 January 2008	Granted	Cancelled	Exercised	Lapsed	At 31 December 2008
15 December 2005	0.675	15 December 2006 to 14 December 2008	4,000,000	–	(4,000,000)	–	–	–
8 June 2006	0.305	8 June 2007 to 7 June 2011	13,000,000	–	(2,600,000)	–	–	10,400,000
8 June 2006	0.305	8 June 2008 to 7 June 2011	21,600,000	–	(4,200,000)	–	–	17,400,000
8 June 2006	0.305	8 June 2009 to 7 June 2011	21,600,000	–	(4,200,000)	–	–	17,400,000
8 June 2006	0.305	8 June 2010 to 7 June 2011	21,600,000	–	(4,200,000)	–	–	17,400,000
30 June 2006	0.285	16 August 2007 to 29 June 2016	17,600,000	–	–	–	–	17,600,000
30 June 2006	0.285	16 August 2008 to 29 June 2016	17,600,000	–	–	–	–	17,600,000
30 June 2006	0.285	16 August 2009 to 29 June 2016	17,600,000	–	(17,600,000)	–	–	–
30 June 2006	0.285	16 August 2010 to 29 June 2016	17,600,000	–	(17,600,000)	–	–	–
11 January 2007	0.445	1 January 2008 to 31 December 2011	2,000,000	–	–	–	–	2,000,000
11 January 2007	0.445	1 January 2009 to 31 December 2011	2,000,000	–	–	–	–	2,000,000
11 January 2007	0.445	1 January 2010 to 31 December 2011	2,000,000	–	–	–	–	2,000,000
11 January 2007	0.445	1 January 2011 to 31 December 2011	2,000,000	–	–	–	–	2,000,000
11 May 2007	0.775	2 May 2008 to 1 May 2014	1,800,000	–	–	–	–	1,800,000
11 May 2007	0.775	2 May 2009 to 1 May 2014	1,800,000	–	–	–	–	1,800,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

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

Year ended 31 December 2008

			Number of options					
Date of grant	Exercise Price HK$	Exercisable period	At 1 January 2008	Granted	Cancelled	Exercised	Lapsed	At 31 December 2008
11 May 2007	0.775	2 May 2010 to 1 May 2014	1,800,000	–	–	–	–	1,800,000
11 May 2007	0.775	2 May 2011 to 1 May 2014	1,800,000	–	–	–	–	1,800,000
11 May 2007	0.775	2 May 2012 to 1 May 2014	1,800,000	–	–	–	–	1,800,000
11 May 2007	0.775	2 May 2013 to 1 May 2014	3,000,000	–	–	–	–	3,000,000
4 July 2007	0.975	4 July 2008 to 3 July 2012	400,000	–	–	–	–	400,000
4 July 2007	0.975	4 July 2009 to 3 July 2012	400,000	–	–	–	–	400,000
4 July 2007	0.975	4 July 2010 to 3 July 2012	400,000	–	–	–	–	400,000
4 July 2007	0.975	4 July 2011 to 3 July 2012	400,000	–	–	–	–	400,000
4 July 2007	0.975	1 January 2008 to 31 December 2013	1,200,000	–	–	–	–	1,200,000
4 July 2007	0.975	1 January 2009 to 31 December 2013	1,200,000	–	–	–	–	1,200,000
4 July 2007	0.975	1 January 2010 to 31 December 2013	1,200,000	–	–	–	–	1,200,000
4 July 2007	0.975	1 January 2011 to 31 December 2013	1,200,000	–	–	–	–	1,200,000
4 July 2007	0.975	1 January 2012 to 31 December 2013	3,200,000	–	–	–	–	3,200,000
4 July 2007	0.975	1 January 2013 to 31 December 2013	3,200,000	–	–	–	–	3,200,000
18 September 2007	0.904	18 September 2008 to 17 September 2011	3,200,000	–	–	–	–	3,200,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

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

Year ended 31 December 2008

Date of grant	Exercise Price HK$	Exercisable period	At 1 January 2008	Granted	Cancelled	Exercised	Lapsed	At 31 December 2008
			Number of options					
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)	–	–	–
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	–	(10,000,000)	–	–	9,000,000
13 November 2007	0.960	1 January 2009 to 31 December 2011	19,000,000	–	(10,000,000)	–	–	9,000,000
13 November 2007	0.960	1 January 2010 to 31 December 2011	19,000,000	–	(10,000,000)	–	–	9,000,000
13 November 2007	0.960	1 January 2011 to 31 December 2011	19,000,000	–	(10,000,000)	–	–	9,000,000
13 November 2007	0.960	18 September 2008 to 17 September 2012	8,000,000	–	–	–	–	8,000,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

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

Year ended 31 December 2008

			Number of options					
Date of grant	Exercise Price HK$	Exercisable period	At 1 January 2008	Granted	Cancelled	Exercised	Lapsed	At 31 December 2008
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
25 August 2008	0.500	25 August 2009 to 24 August 2013	–	7,100,000	(400,000)	–	–	6,700,000
25 August 2008	0.500	25 August 2010 to 24 August 2013	–	7,100,000	(400,000)	–	–	6,700,000
25 August 2008	0.500	25 August 2011 to 24 August 2013	–	7,100,000	(400,000)	–	–	6,700,000
25 August 2008	0.500	25 August 2012 to 24 August 2013	–	7,100,000	(400,000)	–	–	6,700,000
25 August 2008	0.500	11 March 2009 to 10 March 2013	–	600,000	–	–	–	600,000
25 August 2008	0.500	11 March 2010 to 10 March 2013	–	600,000	–	–	–	600,000
25 August 2008	0.500	11 March 2011 to 10 March 2013	–	600,000	–	–	–	600,000
25 August 2008	0.500	11 March 2012 to 10 March 2013	–	600,000	–	–	–	600,000
			313,400,000	30,800,000	(98,400,000)	–	–	245,800,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

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

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

The fair value of the options granted during the year ended 31 December 2008 was estimated as at the date of grant using the Black-Scholes options pricing model with the following assumptions:

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

(ii) Expected volatility of share price – annualised standard deviations of continuously compounded rates of return on the Company and the 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.

According to Black-Scholes options pricing model, the fair value of the options granted during the year ended 31 December 2008 was approximately HK$4,180,000 (2007: HK$44,382,000) of which the Group recognised a share option expense of approximately HK$617,000 (2007: HK$6,388,000) for the year ended 31 December 2008.

At 31 December 2008, the Company had 245,800,000 options outstanding under the Option Scheme. The exercise in full of the remaining options would, under the present capital structure of the Company, result in the issue of 245,800,000 additional ordinary shares of the Company and additional share capital of approximately HK$615,000 and share premium of approximately HK$150,099,000 (before issue expenses).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

36. RESERVES

	Group							
	Share premium	**Convertible note**	**Capital reserve**	**Currency translation reserve**	**Share-based compensation reserve**	**Revaluation reserve**	**Available-for-sale investments**	**Total**
	HK$'000	HK$'000	HK$'000 *(Note (b))*	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balance at 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 32)*	–	24,842	–	–	–	–	–	24,842
Deferred tax on convertible note *(Note 33)*	–	(4,762)	–	–	–	–	–	(4,762)
Balance at 31 December 2007	**1,674,115**	**20,080**	**15,158**	**17,808**	**25,934**	**–**	**–**	**1,753,095**
Repurchase of shares	**(127,949)**	**–**	**–**	**–**	**–**	**–**	**–**	**(127,949)**
Share option scheme:								
– value of employee services	**–**	**–**	**–**	**–**	**13,332**	**–**	**–**	**13,332**
– value of other participants' services	**–**	**–**	**–**	**–**	**(392)**	**–**	**–**	**(392)**
– vested share options cancelled	**–**	**–**	**–**	**–**	**(2,729)**	**–**	**–**	**(2,729)**
Surplus on revaluation of property *(Note 14)*	**–**	**–**	**–**	**–**	**–**	**14,340**	**–**	**14,340**
Deferred tax arising from revaluation of property *(Note 33)*	**–**	**–**	**–**	**–**	**–**	**(2,366)**	**–**	**(2,366)**
Fair value loss on available-for-sale financial assets *(Note 22)*	**–**	**–**	**–**	**–**	**–**	**–**	**(12,860)**	**(12,860)**
Currency translation differences								
– overseas subsidiaries	**–**	**–**	**–**	**8,896**	**–**	**–**	**–**	**8,896**
– overseas jointly-controlled entities	**–**	**–**	**–**	**4,553**	**–**	**–**	**–**	**4,553**
Balance at 31 December 2008	**1,546,166**	**20,080**	**15,158**	**31,257**	**36,145**	**11,974**	**(12,860)**	**1,647,920**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

36. 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 2007	1,346,562	–	16,209	49,588	1,412,359
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)
Convertible note – equity component *(Note 32)*	–	24,842	–	–	24,842
Deferred tax on convertible note *(Note 33)*	–	(4,762)	–	–	(4,762)
Balance at 31 December 2007	**1,674,115**	**20,080**	**16,209**	**25,934**	**1,736,338**
Repurchase of shares	**(127,949)**	**–**	**–**	**–**	**(127,949)**
Share option scheme:					
– value of employee services	**–**	**–**	**–**	**13,332**	**13,332**
– value of other participants' services	**–**	**–**	**–**	**(392)**	**(392)**
– vested share options cancelled	**–**	**–**	**–**	**(2,729)**	**(2,729)**
Balance at 31 December 2008	**1,546,166**	**20,080**	**16,209**	**36,145**	**1,618,600**

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 2008

37. ACCUMULATED LOSSES

	Company 2008 HK$'000	2007 HK$'000
At 1 January	**(24,694)**	(87,346)
Reduction of share premium	**–**	87,346
Vested share options cancelled and lapsed	**2,729**	729
Loss for the year	**(655,110)**	(25,423)
At 31 December	**(677,075)**	(24,694)

38. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of (loss)/profit before income tax to net cash generated from operating activities:

	2008 HK$'000	2007 HK$'000
Cash flows from operating activities		
(Loss)/Profit before income tax:	**(927,032)**	246,967
Adjustments for:		
Depreciation	**35,691**	18,586
Amortisation of prepaid operating lease payment	**468**	624
Amortisation of intangible assets	**6,528**	6,527
Impairment of other receivables	**2,007**	8,536
Impairment of goodwill	**854,725**	–
Write-down of inventories to net realisable value	**–**	658
Loss on disposal of property, plant and equipment	**638**	1,198
Share option expenses	**12,940**	20,327
Fair value gain on investment property	**(7,000)**	–
Net fair value gain on financial assets and financial liabilities at fair value through profit or loss	**(16,803)**	(17,112)
Net gain on disposal of interest in TIHK	**–**	(69,740)
Dividend received from listed securities	**(1,011)**	–
Interest income from bank deposits	**(16,616)**	(29,758)
Interest expense on convertible note	**25,238**	14,329
Share of losses of jointly-controlled entities	**15,323**	–
Share of loss of an associate	**–**	13,217
Operating cash flows before changes in working capital	**(14,904)**	214,359
– Prepaid rentals	**897**	(6,334)
– Inventories	**(754)**	10,759
– Accounts receivable	**62,983**	(44,410)
– Prepayments, deposits and other receivables	**2,202**	(4,311)
– Amounts due from related companies	**2,435**	(3,005)
– Financial assets at fair value through profit or loss	**(14,686)**	(45,596)
– Accounts payable	**(7,741)**	5,628
– Accruals and other payables	**(12,567)**	(9,764)
– Amount due to a jointly-controlled entity	**(10,201)**	(2,862)
– Amounts due to related companies	**(137)**	(9,792)
– Amount due to a director	**–**	(373)
Net cash generated from operating activities	**7,527**	104,299

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

39. OPERATING LEASE COMMITMENTS

At 31 December 2008, the Group had aggregate future minimum lease payments under non-cancellable operating leases in respect of rented premises as follows:

	2008 HK$'000	2007 HK$'000
No later than one year	**3,877**	1,924
Later than one year and no later than five years	**6,027**	302
	9,904	2,226

The Company did not have significant operating lease commitments at 31 December 2008 (2007: Nil).

40. 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$738,000 (2007: HK$620,000), with no (2007: Nil) deduction of forfeited contributions. At 31 December 2008, 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 2008 amounted to approximately HK$68,000 (2007: HK$26,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

41. BUSINESS COMBINATIONS

(a) For the year ended 31 December 2008

On 10 March 2008, the Group entered into a series of agreements to acquire control of 網人互聯.

Details of net assets acquired and goodwill were as follows:

	HK$'000
Purchase consideration:	
Cash paid	14,917
Fair value of net assets acquired – shown as below	(192)
Goodwill *(Note 17)*	14,725

The assets and liabilities as of 10 March 2008 arising from the acquisition of 網人互聯 were as follows:

	Fair value HK$'000	**Acquiree's carrying amount** HK$'000
Cash and bank balances	119	119
Property, plant and equipment *(Note 14)*	76	76
Prepayments and other receivables	358	358
Accruals and other payables	(310)	(310)
Income tax payable	(51)	(51)
Net assets	192	192

	HK$'000
Purchase consideration settled in cash	14,917
Cash and cash equivalents in the subsidiary acquired	(119)
Cash outflow on acquisition	14,798

Goodwill arising from acquisition of 網人互聯 was attributable to the anticipated profitability and future development of 網人互聯 in the provision of internet information services and the anticipated future operating synergy from the business combinations.

網人互聯 contributed net loss of approximately HK$767,000 to the Group for the period from the date of acquisition to 31 December 2008. If the acquisition had occurred on 1 January 2008, the Group's revenue would have been approximately HK$117,968,000 and loss after tax would have been approximately HK$926,254,000. 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 2008, nor is it intended to be a projection of future results.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

41. BUSINESS COMBINATIONS *(Cont'd)*

(b) For the year ended 31 December 2007

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 were as follows:

	HK$'000
Purchase consideration:	
Fair value of CMIL Consideration Shares issued *(Note 34(iii))*	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

41. BUSINESS COMBINATIONS *(Cont'd)*

(b) For the year ended 31 December 2007 *(Cont'd)*

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

	Fair value HK$'000	**Acquiree's carrying amount** HK$'000
Cash and bank balances	22,508	22,508
Property, plant and equipment *(Note 14)*	13,875	13,875
Deferred income tax assets *(Note 33)*	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	
Fair value of 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 was attributable to the anticipated profitability and future development of the CMIL Group in the provision of traditional computer lottery system and equipment business in the PRC and the anticipated future operating synergy from the business 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 2008

42. 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 2008:

Nature of transactions

	2008 **HK$'000**	2007 HK$'000
Income from provision of consultancy services to a jointly-controlled entity	**–**	67
Rental income from a subsidiary of a substantial shareholder of the Company	**960**	160
Sales of equipment to a jointly-controlled entity	**–**	23,280