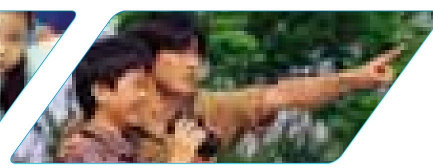
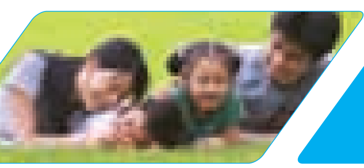
MelcoLot Limited

formerly known as Melco LottVentures Limited

(incorporated in the Cayman Islands with limited liability)

08 *Annual Report*





新濠環彩

MelcoLot

A Hong Kong listed company with stock code : 8198

www.melcolot.com

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

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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

This report, for which the directors of MelcoLot Limited 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 (the "GEM Listing Rules") for the purpose of giving information with regard to MelcoLot Limited. The directors of MelcoLot Limited, 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

BOARD OF DIRECTORS

Executive Directors

Mr. Chan Sek Keung, Ringo *(Chairman)*
Mr. Ko Chun Fung, Henry
(Chief Executive Officer)
Mr. Christos Moumouris

Independent Non-Executive Directors

Mr. David Tsoi
Mr. Pang Hing Chung, Alfred
Mr. So Lie Mo, Raymond

AUDIT COMMITTEE

Mr. David Tsoi *(Chairman)*
Mr. Pang Hing Chung, Alfred
Mr. So Lie Mo, Raymond

REMUNERATION COMMITTEE

Mr. David Tsoi *(Chairman)*
Mr. Chan Sek Keung, Ringo
Mr. So Lie Mo, Raymond

COMPLIANCE OFFICER

Mr. Ko Chun Fung, Henry

COMPANY SECRETARY

Mr. Pang Kin Man, Edmond

QUALIFIED ACCOUNTANT

Mr. Lau Kwok Wing, Frank

AUTHORISED REPRESENTATIVES

Mr. Chan Sek Keung, Ringo
Mr. Pang Kin Man, Edmond

REGISTERED OFFICE

4th Floor, Scotia Centre
P.O. Box 2804
George Town
Grand Cayman KY1-1112
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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60 Wyndham Street
Central
Hong Kong

PRINCIPAL SHARE AND CONVERTIBLE BOND REGISTRAR AND TRANSFER OFFICE

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Butterfield House
68 Fort Street
P.O. Box 705
George Town
Grand Cayman KY1-1107
Cayman Islands

CORPORATE INFORMATION

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong
Investor Services Limited
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKERS

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Limited
4-4A Des Voeux Road Central
Hong Kong

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Corporation Limited
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Hong Kong

The Bank of East Asia, Limited
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WEBSITE ADDRESS

www.melcolot.com

STOCK CODE

8198

CHAIRMAN'S STATEMENT

TO OUR SHAREHOLDERS

For and on behalf of the board of directors (the "Board"), I present the annual results of MelcoLot Limited (the "Company") (formerly known as Melco LottVentures Limited) and its subsidiaries (collectively, "MelcoLot" or the "Group") for the year ended 31 December 2008 (the "Review Period").

During the Review Period, turnover of the Group increased by approximately 67% to approximately HK$607 million (2007: HK$362 million). However, the difficult economic environment in 2008 coupled with a technical application of the accounting rules requiring certain non cash charges for impairment and deemed non-cash expenses on convertible bonds led to the Group reporting a net loss of HK$469.08 million (2007: net loss HK$476.38 million).

These non-cash impairments (loss on goodwill HK$259.94 million and loss on intangible assets HK$98.59 million) and deemed non-cash expenses on convertible bonds (HK$39.50 million) amounted to HK$398.03 million (2007: HK$478.93 million) were also of non-operational nature and will not affect the cash flow or current assets of the Group. As at the end of the Review Period, cash and cash equivalent balance of the Group amounted to HK$156.97 million (2007: HK$143.82 million).

Details of the Group's segmental performance during the Review Period are discussed further in the following pages under the Management Discussion and Analysis section.

FINAL DIVIDEND

The Board does not recommend payment of any dividend for the year ended 31 December 2008 (2007: Nil).

BUSINESS REVIEW

The Group's traditional network system integration business continued to face keen competition in the market. The rapidly declining economic environment, future prospects and credit situation of customers have brought about deferment of decisions in their acquisition, replacement and up-grading of systems. All these have made 2008 a very challenging year for the network system integration business.

The past year was an important one for the lottery business of the Group and the lottery industry was not spared the ill effects of the economic downturn. However, the Group put up strong showing by expanding its product and service offerings in Mainland China. Great efforts were made to streamline the operating structure to gear up for the economic downturn. The Group's performance was notable in the face of the adverse conditions created by natural disasters in the form of snowstorms and mega earthquake that afflicted the Mainland during 2008.

CHAIRMAN'S STATEMENT

The Group's manufacturing entity Wu Sheng turned in a positive performance despite the economic environment by meeting its targets.

Furthermore, the Group was able to expand its geographic footprint in Asia by completing the acquisition of KTeMS Co., Ltd. ("KTeMS") during the year. KTeMS is a 14% stakeholder in the Nanum Lotto consortium. Nanum Lotto is the government authorised consortium that has an exclusive licence to operate the South Korean Welfare Lottery (which presently enjoys average annual sales in excess of US$1.5 billion).

2008 was also a milestone year for the Group as it acquired the capability to service the high value system and technology vertical of the lottery Industry. Global lottery giant Intralot S.A. Integrated Lottery Systems and Services ("Intralot"), reposed its confidence in the Group by injecting cash and a licence to its world leading lottery software into the Company, and taking up strategic stake in the Company. This was a very key strategic move for the company as part of its endeavour to obtain world class capabilities and cutting edge technological capabilities and enable itself to move up the value chain. As per the terms of the agreement approved by the shareholders in an extraordinary general meeting held in December 2008, Intralot would also support the Group by means of a Board seat (appointment approved by the Hong Kong Stock Exchange with effect from 30 January 2009) and by seconding their senior staff for the China market to be the Chief Operations Officer of the Group.

To reflect participation of Intralot as a strategic shareholder, the Company's English name was changed to MelcoLot Limited.

PROSPECTS

For lottery business, the Group is looking at the large and lucrative Asian market. Starting with China, where the group already has a strong presence across the various industry vertical, such as venue management, supply of games, scratch card distribution, and lottery vending terminal manufacturing and distribution.

The China Lottery market has seen a blistering pace of growth in prior years:

- Lottery sales in China grew 15-fold from 1997 to 2006, to reach RMB82 billion.
- In 2007, total lottery sales reached RMB100 billion, a year-on-year growth of 22%.

In 2008, however, growth was a modest 4% year on year. However, this assumes great significance in the face of negative growth seen in other industries due to the adverse economic environment and also the natural disasters that greatly impacted the public in 2008. For 2009, it is anticipated that the economic stimulus efforts taken by the government will support economic growth in general and help to counter the widespread economic malaise experienced by other nations. Specific to the lottery industry, there are encouraging news reports of test launch of single match sports betting by the lottery authorities in certain cities on a trial basis. Should this product be launched, it would provide an exciting new entertainment avenue for players. The Group's well managed retail chain management service is already well positioned to benefit from this potential growth area. The Group's integrated manufacturing capabilities will give it a competitive advantage, providing synergistic support to other areas of the lottery business. Furthermore, with the benefit of having Intralot, one of the largest global lottery companies as a strategic shareholder and having access to Intralot's world leading software, the Group is now enabled to participate in future large scale projects in China.

After establishing operations in South Korea for the first year, Nanum Lotto is expected to gain momentum from 2009 onwards, thus increasing the value of the Group's lottery investment in South Korea. The Group will also carefully evaluate other lottery opportunities in Asia with the objective of securing a diversified operating portfolio.

The Group's comprehensive suite of service has been greatly enhanced with the software licence obtained from Intralot. The Group's positioning in the market remains strong with its existing management team and support from its strategic shareholders.

CONCLUSION

On behalf of the Board of Directors, I would like to take the opportunity to thank all staff members for their contribution in the past year. My thanks also go to our customers, suppliers, bankers, business partners, shareholders for their continued trust and support in the past year. I look forward to building MelcoLot into a successful corporation and growing its business with all staff members in the years ahead.

Last but not least, to my fellow directors, thank you for your wise counsel and support to me personally and your contribution of time and efforts to the Group during the year.

To our faithful shareholders, I would say that the Group's lottery business is consolidating itself well and shows promise. Notwithstanding the economic downturn, the Board and management team remains committed and focussed on the success of the Group.

CHAN Sek Keung, Ringo
Chairman

Hong Kong, 26 March 2009

MANAGEMENT DISCUSSION AND ANALYSIS

SIGNIFICANT EVENTS AND DEVELOPMENTS

Following the acquisition in late 2007 of the lottery business from the Melco Group, 2008 has been a year of execution of its plans in the deepening of its involvements in the lottery market in mainland China, and started to set foot in other parts of Asia.

In September 2008, completion of the Group's acquisition of the entire issued share capital of KTeMS was accomplished. KTeMS has a 14% equity interest in Nanum Lotto Inc. ("Nanum Lotto") which has an exclusive national license to operate off-line lotto games in South Korea. Nanum Lotto is a consortium formed by renowned international and Korean partners.

On 28 September 2008, the Company made an announcement that on 7 September 2008, the Company entered into an asset transfer agreement, as amended by a supplemental agreement dated 26 September 2008, (the "Asset Transfer Agreement") with Intralot International Limited, a wholly owned subsidiary of Intralot, the world's second largest gaming and lottery technology services provider whose shares are traded at the Athens Stock Exchange. At a total consideration of HK$305,130,367.558 the Company would acquire (i) the perpetual exclusive licence right to use and sublicense certain of Intralot's software for the sports lottery projects in China and (ii) the perpetual non-exclusive right to use and sublicense certain of Intralot's software for the welfare lottery projects in China and (iii) HK$50,000,000 in cash. Consideration for the acquisition were to be satisfied by the issue of 28,208,938 shares in the Company at HK$0.991 per share and HK$277,175,310 5-year 0.1% bonds convertible into shares of the Company at HK$0.991 per share. The Asset Transfer Agreement also carries an arrangement where Intralot will be awarded a success payment of HK$75,000,000 when two projects have been secured by the Company after the completion of the acquisition. The success payment will be satisfied by the Company issuing convertible bonds of the same amount convertible into shares of the Company at HK$1.0759 per share.

The acquisition was approved by shareholders at the extraordinary general meeting held on 4 December 2008 and completion took place on 9 December 2008.

To reflect the close business relationship with the Intralot Group, the name of the Company was changed to "MelcoLot Limited 新濠環彩有限公司" and registered in Hong Kong on 13 January 2009.

Backed by the top notch alliance of gaming expertise, forefront technical knowhow, manufacturing leadership and financial strength from a combination of the Melco Group of Hong Kong, Firich Group of Taiwan and Intralot Group of Greece, the Group is confident that our experienced international management team will be able to make MelcoLot one of the top lottery operators in Asia.

MANAGEMENT DISCUSSION AND ANALYSIS

OUTLOOK

The Group has already established its presence in China across various lottery industry verticals, such as venue management, supply of games, scratch card distribution, and lottery vending terminal manufacturing and distribution. The Group will endeavour to consolidate and strengthen its operations. Having acquired the valuable software licence from Intralot in December 2008, it will now seek to enter the area of technology and services where it can utilize this asset.

In terms of general economic environment, 2008 was a difficult year. It is hoped that the China government's stimulus plan will help boost domestic consumption levels and support its gross domestic product growth in 2009.

Specific to the lottery industry, there are reports of test launch of single match sports betting by the lottery authorities in certain cities on a trial basis. Should this product be launched, it would provide an exciting new entertainment avenue for players. The Group will endeavour to capitalise on such market developments through increased revenues from the retail chain management service, increased manufacturing and distribution of lottery point of sales machines and provision of technology/services using its software licences.

The Group will also explore and carefully evaluate other lottery opportunities in Asia with the objective of securing a diversified operating portfolio.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the year under review, the Group was engaged in two main business streams, namely (i) network system integration and (ii) lottery business.

The segmental information shown in Note 7 to the financial statements is reproduced below with some minor re-arrangements:

	Year ended 31-Dec-08 ***HK$'000***	Year ended 31-Dec-07 *HK$'000* (restated)
Segment Result: Network system integration	**1,441**	11,889
Segment Result: Lottery business	**(403,817)**	(480,247)
Group's operating result	**(402,376)**	(468,358)
Unallocated corporate income	**5,555**	812
Unallocated corporate expenses	**(22,300)**	(390)
Share of (losses)/profits of jointly controlled entities	**(15,701)**	691
Finance cost	**(46,088)**	(7,460)
Loss before taxation	**(480,910)**	(474,705)
Taxation	**11,826**	(1,676)
Loss for the year	**(469,084)**	(476,381)
Minority interests	**26,943**	933
Loss for the year attributable to equity holders of the Company	**(442,141)**	(475,448)

Consolidated loss attributable to equity holders of the Company amounted to approximately HK$442.14 million for the Review Period (2007: HK$475.45 million), after charging the following recurrent and non-cash items resulting from the VSA for the Review Period:

(i) A deemed non-cash expense on convertible bonds amounting to HK$39.50 million (2007: HK$1.93 million);

(ii) An impairment loss on intangible assets of HK$98.59 million (2007: HK$1.00 million); and

(iii) An impairment loss on goodwill of HK$259.94 million (2007: HK$476.00 million).

Excluding (i) – (iii) above and other non-cash items, the Group would have recorded a consolidated EBITDA of approximately HK$29.1 million for Review Period, an increase of 23.0% over the previous year (2007: HK$23.7 million), while there was total cash and cash equivalent on hand of approximately HK$157.0 million at the end of the year (2007: 143.8 million).

EBITDA stripping out non-cash items from the segment of network system integration amounted to approximately HK$18.5 million (2007: HK$25.4 million). For the segment of lottery business, EBITDA stripping out non-cash items from this segment amounted to approximately HK$10.6 million (2007: loss of HK$1.7 million).

Network System Integration Business

This segment generated revenue of approximately HK$426.30 million (2007: HK$361.65 million), an increase of 17.9% over the previous year. A breakdown of the sales by main business segments is set out as follows:

	Year ended 31-Dec-08 *HK$'000*	Year ended 31-Dec-07 *HK$'000*
Network infrastructure solutions	**346,766**	299,124
Network professional services	**74,847**	58,781
Sales of network software	**4,687**	3,740
Total	**426,300**	361,645

Contribution from Network System Integration decreased from approximately HK$11.9 million to approximately HK$1.4 million, an decrease of 88.2% over the previous year.

Lottery Business

The Group's lottery business is conducted via 80%-owned PAL Development Limited ("PAL") and 60%-owned Wu Sheng Computer Technology (Shanghai) Co., Limited ("Wu Sheng"). PAL manages one of the largest lottery retail sales networks in China, while Wu Sheng is a Shanghai-based manufacturer of lottery vending terminals.

For the year ended 31 December 2008, losses from this segment amounted to approximately HK$403.8 million (2007: HK$480.2 million). Such losses were primarily due to certain non-cash charges for impairment and amortization required by the accounting rules. By stripping out non-cash items, lottery business had positive EBITDA amounted to HK$10.6 million (2007: loss of HK$1.7 million).

Unallocated Corporate Income

During the Review Period, other income amounted to HK$5,555,000 (2007: HK$812,000), the bulk of which was attributable to bank interests which amounted to HK$845,000 (2007: HK$523,000).

Unallocated Corporate Expenses

During the Review Period, unallocated corporate expenses amounted to HK$22,300,000 (2007: HK$390,000).

Share of (Losses)/Profits of Jointly Controlled Entities

During the Review Period, the share of losses of jointly controlled entities amounted to HK$15,701,000 (2007: profits HK$691,000). These are made up of the following:

	Year ended 31-Dec-08 ***HK$'000***	Year ended 31-Dec-07 *HK$'000*
Share of (loss)/profit of Beijing Telenet Information Technology Limited ("BTI") (1)	**(141)**	747
Share of loss of PALTECH Company Limited ("PALTECH") (2)	**(15,560)**	(56)
	(15,701)	691

(1) Share of (loss)/profit of BTI

BTI is a jointly controlled entity owned as to 52.5% by PAL. BTI is engaged in the distribution of lottery vending terminals in 22 provinces in China. It is the largest authorized lottery vending terminal supplier approved by Sports Lottery.

During the Review Period, operational loss attributable to the Group amounted to approximately HK$141,000 (2007: profit HK$747,000).

(2) Share of loss of PALTECH

PALTECH is a jointly controlled entity owned as to 60% by PAL. PALTECH is principally engaged in the development of computer systems and software applications and related technologies in connection with the printed lottery and/or online or mobile lottery operations worldwide with a particular focus on Asian market.

During the Review Period, operational loss attributable to the Group amounted to approximately HK$15,560,000 (2007: HK$56,000).

Finance Costs

During the Review Period, finance costs amounted to approximately HK$46.08 million (2007: HK$7.46 million). The increase was primarily attributable to the increase in shareholder loan interest payable amounting to approximately HK$1.7 million as a result of the increased funding needs, and the deemed interest expense on the liability component of convertible bonds amounting to approximately HK$39.50 million. It should be noted that this deemed interest expense is notional and of a non-cash nature.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

During the Review Period, the Group kept its conservative policies in cash and financial management. Surplus funds were placed on interest-bearing deposits with banks. The Group generally financed its operations and serviced its debts with its internal resources, short-term bank loans, other loans and shareholder's loan.

The Group's financial and liquidity position remained healthy. As at 31 December 2008, the Group had net current assets of approximately HK$200.0 million, a 3.8% increase over last year end of HK$192.7 million. The current ratio decreased from 2.18 to 1.75 cash and cash equivalents amounted to approximately HK$157.0 million (2007: HK$143.8 million), total borrowings (including bank and other borrowings, and shareholder's loan) of approximately HK$115.4 million (2007: HK$82.9 million) of which, HK$35.4 million (2007: 77.3 million) is due within 1 year while HK$80 million (2007: HK$5.6 million) is due after 1 year. The increase in bank and cash during the year was mainly due to HK$50 million cash acquired from the assets transfer in 2008.

As at 31 December 2008, all assets and liabilities of the Group were denominated in U.S. dollars, Hong Kong dollars, Renminbi and Korean Won.

As at 31 December 2008, the total number of issued ordinary shares of the Group was 499,430,433 of HK$0.01 each (2007: 432,198,495 of HK$0.01 each). The increase in issued shares was due to the allotment of 35,700,000 consideration shares for the acquisition of the available-for-sale investment, 28,208,938 consideration share for acquisition of software license right, as well as the exercise of share options.

MANAGEMENT DISCUSSION AND ANALYSIS

ORDER BOOK AND PROSPECTS OF NEW BUSINESS

As at 31 December 2008, the Group had contracts on hand for sales amounting to approximately HK$29.9 million (2007: HK$38.3 million) which would be booked as revenue upon delivery and implementation.

SIGNIFICANT INVESTMENT HELD

The Group did not hold any significant investment at the beginning of the Review Period. Acquisitions during the Review Period are detailed below under the heading "Acquisitions, disposals and significant investments".

SEGMENTAL INFORMATION

The segmental information of the Group is covered in note 7 to the financial statements.

CHARGES ON GROUP ASSETS

As at 31 December 2008, the Group had a pledged bank deposit of approximately HK$15.31 million (2007: HK$12.42 million) for securing certain banking facilities.

As at 31 December 2008, the Group had charged (i) 90% of its shareholdings in Oasis Rich International Ltd. and in Precious Success Holdings Ltd. (ii) its entire shareholdings in KTeMS to ensure the performance of its obligations under the convertible bonds due 2012 and convertible bonds due 2013, respectively.

Save as disclosed above, the Group did not have any significant charges on assets.

GEARING RATIO

As at 31 December 2008, the gearing ratio, expressed as total liabilities over total assets, increased to approximately 0.82 times from approximately 0.52 times as at 31 December 2007.

FOREIGN EXCHANGE EXPOSURE

During the Review Period, the Group earned revenue and incurred costs and expenses mainly in U.S. dollars, Hong Kong dollars and Renminbi. As the impact of foreign exchange exposure has been insignificant and positive, no hedging or other alternatives have been implemented.

ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENT

During the Review Period, the Group had completed the following acquisitions:

1. KTeMS Acquisition

In September 2008, completion of the Group's acquisition of the entire issued share capital of KTeMS was accomplished. KTeMS has a 14% equity interest in Nanum Lotto Inc. ("Nanum Lotto") which has an exclusive national license to operate off-line lotto games in South Korea. Nanum Lotto is a consortium formed by renowned international and Korean partners.

One part of this acquisition had involved the Group acquiring debts totaling HK$78.72 million owing by KTeMS and its major shareholder and director to PAL Development Limited, an 80% indirectly owned subsidiary of the Company and from LottVision Limited. HK$39.36 million of the loans acquired were satisfied by the Company issuing 5% promissory notes and the balance HK$15.60 million were applied to set off the purchase consideration of the KTeMS shares described in the following paragraph.

The other part of this acquisition had involved the Group acquiring the entire issued share capital of KTeMS at a total consideration of US$12 million (approximately HK$93,600,000), which was satisfied by the payment of HK$27.3 million in cash, HK$50.7 million by the issue of 35,700,000 shares of the Company at HK$1.42 per shares and HK$15.6 million set off part of the acquired loan described in the previous paragraph.

Details of the KTeMS acquisition are contained in the circular of the Company dated 27 March 2008.

2. Intralot Asset Transfer

On 9 December 2008, the acquisition of assets from Intralot International Limited, a wholly own subsidiary of Intralot, was completed.

At a total consideration of HK$305,130,367.558, this acquisition involves the Group acquiring (i) the perpetual exclusive licence right to use and sublicense certain of Intralot's software for the sports lottery projects in China and (ii) the perpetual, non-exclusive right to use and sublicense certain of Intralot's software for the welfare lottery projects in China and (iii) HK$50,000,000 in cash. Consideration for the acquisition were to be satisfied by the issue of 28,208,938 shares in the Company at HK$0.991 per share and HK$277,175,310 5-year 0.1% bonds convertible into shares of the Company at HK$0.991 per share.

MANAGEMENT DISCUSSION AND ANALYSIS

The agreement for this acquisition also carries an arrangement where Intralot will be awarded a success payment of HK$75,000,000 when two projects have been secured by the Company after the completion of the acquisition. The success payment will be satisfied by the Company issuing convertible bonds of the same amount convertible into shares of the Company at HK$1.0759 per share.

Details of the Intralot Assets Transfer are contained in the circular of the Company dated 11 November 2008.

FUTURE PLANS FOR INVESTMENTS OR CAPITAL ASSETS AND SOURCES OF FUNDING

There are no immediate plans for any signification investments in capital assets. However, the Group will continuously search and identify investment opportunities which will add to the synergetic well being of the Group in the lottery business sector, to be financed from internal funds or by the bring in strategic business partners.

EMPLOYEE INFORMATION

As at 31 December 2008, the Group had 322 employees comprising 31 employees based in Hong Kong and 291 employees based in mainland China. Total employee expense, excluding for directors and advisors, was approximately HK$46.77 million (2007: HK$22.51 million) during the Review Period. The Group continues to provide remuneration package to employees according to market practices and past performance. In addition to basic remuneration, the Group also provides employees with other benefits such as a mandatory provident fund, medical insurance scheme, share option schemes and staff training program. There has been no major change on staff remuneration policies during the year.

CONTINGENT LIABILITIES

As at 31 December 2008, the Company has not issued corporate guarantees to banks in respect of their general banking facilities granted to the wholly owned subsidiaries of the Company (2007: HK$77.47 million).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Chan Sek Keung, Ringo, aged 49, is the founder and Chairman of the Company and of the Group. He was first appointed to the Board in 1998 and is also a member of the Remuneration Committee of the Board.

Mr. Chan founded the Group in November 1998 and is responsible for the overall management, strategic planning and development of the Group. He has over 25 years of experience in the data and network communication industry and oversees the network system integration business of the Group.

Mr. Chan holds a Bachelor of Science degree in Electrical Engineering from the University of Hong Kong. He is a Fellow Member of the Hong Kong Institute of Directors, and a deputy of the Chinese People's Political Consultative Conference (CPPCC) for both cities of Jinan, Shandong Province and of Chengdu, Sichuan Province, China.

Mr. Ko Chun Fung, Henry, aged 49, is an executive director and Chief Executive Officer of the Company and the Group. He was first appointed to the Board in January 2008.

Mr. Ko is a seasoned professional with a strong track record of successful senior positions in Asia. He has led various high profile ventures in the telecom industry. Prior to entering the lottery industry, he was a founder of iAsia Online Systems, and in his capacity as CEO and executive director, nurtured its growth into a leading financial trading solutions vendor in Hong Kong and mainland China. Mr. Ko then went on the set up the lottery business which was subsequently acquired by the Group in late 2007, in his capacity as CEO and Executive Director of PAL Development Limited. Upon the acquisition of the lottery business, Mr. Ko was appointed to the Board and CEO of the Company and continues to lead the lottery business of the Group.

Mr. Ko obtained a Bachelor of Engineering degree (first class honours) in 1982. In 1990 he received an Australian Postgraduate Course Award to study at the Australian Graduate School of Management, where he obtained his Master of Business Administration degree.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Christos Moumouris, aged 40, is an executive director of the Company. Mr. Moumouris was appointed as an executive director of the Company since January 2009.

Mr. Moumouris graduated from the University of Westminster in London, England with a BEng Honours Degree in Electronic Engineering. In 1992 he was awarded an MEng in Electronic Engineering from the Eindhoven University of Technology in the Netherlands.

Mr. Moumouris was previously a research engineer for the Philips Research Laboratories in The Netherlands, and a product manager for intellectual technology products for Hitachi in Greece. Mr. Moumouris had worked for the IT Products and Systems Solutions divisions of Hitachi Europe Ltd (England), initially as Regional Marketing & Sales Manager for the South East Mediterranean and Middle East region and later as Strategy & Business Development Manager for Europe and the Middle East.

Mr. Moumouris is currently the sales director of Intralot S.A. He set up and is managing the international sales department of Intralot S.A. and was involved in securing the Intralot projects in the Netherlands, the Philippines, Taiwan, Malaysia, South Korea, New Zealand, Australia, Israel, Nigeria and South Africa. He has participated as a member in the project implementation steering and executive committees for the Intralot projects in Malaysia and South Africa. He has served or is serving as a non-executive director in the boards of Intralot Korea, Intralot Netherlands, Intralot South Africa, Gidani (the South Africa National Lottery Operator) and Nqoba Gaming. Since 2008 he has been the chief executive officer of Intralot Asia Pacific.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. David Tsoi, aged 61, is an independent non-executive director and chairman of both the Audit Committee and Remuneration Committee of the Board. Mr. Tsoi was appointed as an independent non-executive director of the Company since October 2001.

A Certified Public Accountant by profession Mr. Tsoi currently practises as Managing Director of Alliott, Tsoi CPA Limited. He is a Fellow Member of the Chartered Association of Certified Accountants, the Hong Kong Institute of Certified Public Accountants and an Associate Member of the Association of Certified General Accountants of Canada and Institute of Chartered Accountants of England & Wales. He is also a Fellow Member of the Hong Kong Institute of Directors. Mr. Tsoi holds a Master's degree in Business Administration from the University of East Asia, Macau.

Mr. Tsoi is currently also an independent non-executive director of China South Locomotive & Rolling Stock Corporation Limited (Stock Code: 1766) & Enviro Energy International Holdings Limited (Stock Code: 8182), both listed companies on the Stock Exchange of Hong Kong.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Pang Hing Chung, Alfred, aged 47, is an independent non-executive director and a member of the Audit Committee of the Board. Mr. Pang was appointed as an independent non-executive Director of the Company in March 1999.

Mr. Pang is a Managing Director and Vice Chairman of the Investment Banking Division of BOC International. Mr. Pang holds a Bachelor of Arts degree in economics from Cornell University and also an MBA degree from the Stanford Graduate School of Business.

Mr. So Lie Mo, Raymond, aged 59, is an independent non-executive director and a member of both the Audit and Remuneration Committee of the Board. Mr. So was appointed as an independent non-executive director of the Company since September 2007.

Mr. So is an all round businessman with a wealth of experience and connections in the information technology ("IT") industry in Asia, and particularly in greater China. He has a long and successful track record especially in the IT services industry. Mr. So has over 30 years experience in the IT industry and served in senior executive positions in Asia at various multinational corporations. Mr. So holds a bachelor degree in business administration from The Chinese University of Hong Kong.

SENIOR MANAGEMENT

Mr. Georgios Derempeoglou, aged 42, joined the Group in January 2009 as its Chief Operations Officer.

Mr. Derempeoglou is responsibility for the efficient operation of the Group and to ensure meeting its goals in revenue, market penetration and operational efficiency. He reports and works closely to the CEO also in the development of the overall strategy and objectives in the lottery business of the Group.

Mr. Derempeoglou has held various senior managerial positions in multi-national corporations, including over 10 years based in China. Prior to joining the Group, Mr. Derempeoglou was the General Manager of Intralot (Beijing) Computer Technology & Services Co., Ltd., a wholly owned subsidiary of Intralot SA of Greece, a major shareholder of the Company and the world's second largest conglomerate in the provision of integrated gaming transaction processing systems.

Born in Germany and received the bulk of his education in Greece and Sweden, Mr. Derempeoglou graduated from the University of Mallardalens HogSkola as an Electric Telecommunications Expert and an Automatic Control Engineer, and from the Network Authorized School Date Construction of Sweden as a Network Specialist Engineer.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Ling Wai Man, Edgar, aged 49, joined the Group in November 2008 as its Marketing Director.

Mr. Ling is responsible for the retail management, overall planning, direction, implementation and control of the marketing activities in alignment with the business objectives of the Group's lottery business in China.

Mr. Ling is a seasoned professional in advertising, marketing, public relations and communications, having held key positions at international 4A agencies including DDB, McCann Erickson and Publicis. He has a long working history of marketing and event management experience in Hong Kong and mainland China with a sound record of achievements. Prior to joining the commercial world, he was a journalist, news anhorman and executive producer of sports programme.

Mr. Ling graduated with a diploma in journalism from Shue Yan University, Hong Kong.

Mr. Hussain, Aziz Zahid, aged 35, joined the Group in March 2007 and is the Director – Special Projects of the Group.

Mr. Hussain is responsible for business development and strategic new initiatives for the Group. As Director – Special Projects, Mr. Hussain is in charge of developing and leading implementation of strategies which shape future business delivery. A Chartered Accountant by qualification, Mr. Hussain comes from a "Big 4" multinational accounting firm background. He has several years of experience, across various countries in Asia, structuring local and cross border transactions.

Mr. Hussain holds a Bachelor of Commerce degree from University of Mumbai and is a professional Chartered Accountant and a member of the Institute of Chartered Accountant of India.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Ms. Chan Lai Shan, Camily, aged 38, joined the Group in November 2006, is the Senior Finance Manager of the Group. She has been responsible for the planning, budgeting and monitoring of the financial matters of the lottery business of the Group from the start up stage.

Ms. Chan possesses a wealth of experience in financial and project management gained from sizeable projects in China.

A qualified accountant by profession, she is a member of both the Hong Kong Institute of Certified Accountants and a Certified Practicing Accountant of CPA Australia. She also holds a Master of Business Administration degree from the Hong Kong University of Science and Technology.

Mr. Lai Man Chi, Allen, aged 33, joined the Group in April 2007. As Project Controller, he works closely with and monitors the operation and business development units of the Group.

Mr. Lai has extensive experience in strategic investments, corporate mergers and acquisitions, state-owned assets privatization and non-performing assets disposal in the PRC. Before working in the investment industry, he practiced in one of the "big 4" international accounting firms and specialized in corporate restructuring projects, include several large scale cross-boarder and Hong Kong listed company assignments. Mr. Lai holds a Bachelor of Science degree in Accounting from the University of Liverpool, England.

Mr. Lau Kwok Wing, Frank, aged 34, joined the Group in July 1999. As Group Finance Manager and qualified accountant, Mr. Lau oversees the financial and internal control matters of the Group.

Mr. Lau holds a Postgraduate Diploma in Corporate Finance from The Hong Kong Polytechnic University. Mr. Lau is a Fellow Member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants.

Mr. Pang Kin Man, Edmond, aged 61, joined the Group in August 2001. As company secretary, Mr. Pang co-ordinates the work of the Board and its committees and assists the board of directors in the corporate governance and compliance matters of the Group. Mr. Pang is a Fellow Member of the Institute of Chartered Secretaries of UK and Hong Kong Institute of Chartered Secretaries. He is also a Fellow Member of the Hong Kong Institute of Directors. Mr. Pang holds a Master of Science degree in corporate governance and directorship from the Baptist University of Hong Kong.

CORPORATE GOVERNANCE REPORT

(a) Corporate governance practices

The Company applies the principles set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 15 to the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited ("GEM Listing Rules") to provide a sound system of checks and balance in the leadership, executive management and business operations of the Group.

In practising corporate governance in line with, sometimes exceeding, the Code provisions, the board of directors of the Company ("Directors" or "the Board") are conscientious as to the need for transparency of operations of the Company for the benefits of its shareholders and the investing public.

During the year ended 31 December 2008 under review, the Company complied with all the Code provisions except that the roles of the Chairman and Chief Executive Officer of the Company were performed by the same individual, Mr. Chan Sek Keung, Ringo, until to 30 April 2008. This is discussed in more details under paragraph (d) below.

(b) Directors' securities transactions

The Company has adopted a code of conduct on terms no less exacting than that required in Rules 5.48 and 5.68 of the GEM Listing Rules on directors' transactions in the securities of the Company.

Specific enquiries have been made to all directors and they, except for Mr. Chan Sek Keung, Ringo, have confirmed their compliance with the Company's code of conduct throughout the year.

Mr. Chan confirmed his compliance with the Company's code during the year except for one incident on 17 April 2008 when he, inadvertently and unintentionally, purchased 60,000 shares of the Company in the open market at an average price of HK$1.012 per share. This action breached the code that a director should not deal in the shares of the Company during the "blackout period", that is within 1 month from the date which the Company announces its results. Mr. Chan reported this mishap to the Stock exchange on 21 April 2008 in his covering letter filing his disclosure of interests on the purchase.

(c) Board of directors

The Board was made up of the following directors who, unless otherwise indicated, served throughout the year under review:

Executive director:

Mr. Chan Sek Keung, Ringo
Mr. Ko Chun Fung, Henry (appointed on 7 January 2008)

Independent non-executive directors:

Mr. David Tsoi
Mr. Pang Hing Chung, Alfred
Mr. So Lie Mo, Raymond

During the year, he Board met ten times with respective attendance as follows:

Director	**Attendance (rate)**
Mr. Chan Sek Keung, Ringo	10 (100%)
Mr. Ko Chun Fung, Henry	10 (100%)
Mr. David Tsoi	10 (100%)
Mr. Pang Hing Chung, Alfred	10 (100%)
Mr. So Lie Mo, Raymond	9 (90%)

The Board operated along the guidelines of the Code during the year. It met regularly and when required to discuss and formulate overall policy and business strategy of the Group. During the year, ten board meetings were held to set the annual budget, monitor performance, discuss annual and quarterly results and to discuss other matters of importance and not delegated to management.

The division of decision making responsibilities between the Board and management is set out in the written guidelines while the day-to-day operational matters of the Group have been delegated to management in accordance with such written guidelines.

Throughout the year, the Company has complied with the requirements of the GEM Listing Rules by having three independent non-executive directors on the board, one of whom is a practicing certified public accountant, who chairs the Audit Committee.

During the year, all independent non-executive directors re-confirmed their respective independence and compliance with the guidelines of rule 5.09 of the GEM Listing Rules.

CORPORATE GOVERNANCE REPORT

(d) Chairman and chief executive officer

Until 30 April 2008, the roles of both the Chairman and Chief Executive Officer of the Company were performed by the same individual, Mr. Chan Sek Keung, Ringo, executive director. The Board considered that, given the board structure and scope of business of the Group, there was no immediate need to divide the two roles into two individuals and that Mr. Chan was able to perform these two roles to the satisfaction of the Board. However, the Board has kept the situation under review.

On 1 May 2008, Mr. Chan vacated the office of Chief Executive Officer while retaining the office as Chairman of the Board and Mr. Ko Chun Fung, Henry, executive director, assumed the position as Chief Executive Officer. This change in compliance of the relevant Code provision has been the result of the Board's continuous review of its structure and made the change when the need arose.

(e) Non-executive directors

All non-executive directors of the Company have been appointed for a term of two years.

(f) Remuneration of directors

In determining the remuneration levels and remuneration packages of the directors, the Company took into account the prevailing practices and trends and reflected on the time commitment, duties and responsibilities of the directors and their contributions as well as the profitability of Group. Long-term inducements in the form of share options and performance bonuses were also employed.

The Remuneration Committee of the Board was set up in February 2004 with written terms of reference which were up-dated from time to time and approved by the Board.

The functions of the Remuneration Committee are to advise the Board on matters of policy relating to the organization and human resources matters of the Group. It also determines the remuneration and compensation level and package of individual directors and senior management staff members.

CORPORATE GOVERNANCE REPORT

Members of the Remuneration Committee during the year include the following directors:

Mr. David Tsoi	***(Chairman)***
Mr. Chan Sek Keung, Ringo	
Mr. So Lie Mo, Raymond	
Mr. Pang Hing Chung, Alfred	(1 January to 9 April 2008)

The Remuneration Committee was made up of Mr. David Tsoi (Chairman), Mr. Chan Sek Keung, Ringo and Mr. So Lie Mo, Raymond who served the full year, and Mr. Pang Hing Chung, Alfred who served from 1 January to 9 April 2008.

During the year, the Remuneration Committee met three times with attendance as follows:

Director	**Attendance (Rate)**
Mr. David Tsoi	3 (100%)
Mr. Chan Sek Keung, Ringo	3 (100%)
Mr. So Lie Mo, Raymond	3 (100%)
Mr. Pang Hing Chung, Alfred *	1 (100%)

*Note:**

Mr. Pang did not serve the Committee for the whole year under review. The number and rate of attendance represent the number of committee meetings he was entitled to attend during their term of service.

During the year, the Remuneration Committee reviewed the organization of the Group and its remuneration policy with reference to industry and market conditions.

In respect of the directors, the Remuneration Committee reviewed the service agreement terms of all directors, including that of the Chairman, the Chief Executive Officer, and made recommendations to the Board on the renewal terms of the respective appointment agreements when they fall due.

The Remuneration Committee also determined the remuneration levels of the senior management staff.

CORPORATE GOVERNANCE REPORT

(g) Nomination of directors

A nomination committee of the Board has not been set up.

During the year Mr. Ko Chun Fung, Henry was appointed to the Board on 7 January 2008. The decision for an additional executive director of the Company was arrived at by the unanimous consensus of all the directors. The nomination and appointment of Mr. Ko to the Board took place over a single board meeting by way of a board resolution subscribed by all the then directors, viz. Mr. Chan Sek Keung, Ringo, Mr. David Tsoi, Mr. Pang Hing Chung, Alfred and Mr. So Lie Mo, Raymond.

The Board plans to set up the nomination committee during the year 2009 with the appropriate nomination procedure and process and determine the policy for the nomination committee.

(h) Auditors' remuneration

CCIF CPA Limited was re-appointed auditors of the Group at the Annual General Meeting of the Company held on 28 April 2008 at a fee to be agreed by the Directors. However, the level of audit fees was not agreed and they tendered their resignation.

No fee was paid or payable to CCIF CPA Limited as they had not commenced any audit work of the Company and the Group during the year under review.

At the extra-ordinary general meeting of the Company held on 23 December 2008, the resignation of CCIF CPA Limited was approved and Deloitte Touche Tohmatsu were appointed to fill the vacancy till the conclusion of the next annual general meeting at a fee to be agreed by the Directors. A fee of HK$1,330,000 has been agreed for the audit of the accounts of the Company and the Group for the year ended 31 December 2008.

For the sake of independence, the external auditors were not engaged in any other substantial non-audit services for the Group.

(i) Audit Committee

The Audit Committee of the Board was established in 2002, adopting the terms of reference as contained in "A Guide for Effective Audit Committee" published by the Hong Kong Institute of Certified Public Accountants.

Members of the Committee during the year include the following independent non-executive directors:

Mr. David Tsoi ***(Chairman)***
Mr. Pang Hing Chung, Alfred
Mr. So Lie Mo, Raymond

During the year, the Audit Committee met four times with attendance as follows:

Director	**Attendance (Rate)**
Mr. David Tsoi	4 (100%)
Mr. Pang Hing Chung, Alfred	4 (100%)
Mr. So Lie Mo, Raymond	4 (100%)

During the year, the Audit Committee held meetings to discuss and review annual as well as quarterly results. It also discussed with the external auditors on significant audit, accounting and internal control issues arising from the external auditor's audit of the annual accounts for 2008. A review on the effectiveness of the system of internal control of the Group was conducted during the year.

(j) Directors duty to prepare accounts

The Directors acknowledge that it is their responsibility for preparing the accounts of the Company and the Group to give a true and fair view of the state of affairs at the end of the financial year and of the profit or loss of the Company and the Group for the year.

For and on behalf of the Board

CHAN Sek Keung, Ringo
Chairman

Hong Kong, 26 March 2009

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company while its subsidiaries are principally engaged in the business of lottery business and network system integration solutions.

The principal activities of the Company's principal subsidiaries are set out in note 43 to the financial statements.

RESULTS

The results of the Group for the year ended 31 December 2008 are set out in the consolidated income statement on page 40 of this annual report.

The Directors do not recommend the payment of a dividend.

SHARE CAPITAL

Details of share capital of the Company are set out in note 30 to the financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company had no reserves available for cash distribution/or distribution in specie (2007: HK$322.1 million) as at 31 December 2008. Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the distribution or dividend the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's Articles of Association, dividends shall be distributed out of the retained profits or other reserves, including the share premium account, of the Company.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group spent approximately HK$5,961,000 in the acquisition of property, plant and equipment which mainly comprised computer equipment and tools. Details of such acquisition and other movements in property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

DIRECTORS AND SERVICE CONTRACTS

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

Executive directors:

Mr. Chan Sek Keung, Ringo	***(Chairman)***
Mr. Ko Chun Fung, Henry	(Chief Executive Officer) (appointed on 7 January 2008)
Mr. Christos Moumouris	(appointed on 30 January 2009)

Independent non-executive directors:

Mr. David Tsoi
Mr. Pang Hing Chung, Alfred
Mr. So Lie Mo, Raymond

The Company entered into a service contract with Mr. Chan Sek Keung, Ringo, executive director, for a term of three years from 1 January 2006 and subject to retirement by rotation in accordance with the Articles of Association of the Company. The service contract was renewed, on 18 December 2008, for a further term of three years from 1 January 2009.

Mr. Ko Chun Fung, Henry was appointed an executive director of the Company with effect from 7 January 2008. A service contract was entered into between the Company and Mr. Ko in April 2008 in which no definite term was specified and that both Mr. Ko and the Company are entitled to terminate the contract at any time by giving the other party no less than 6 months' notice.

Mr. Christos Moumouris was appointed an executive director of the Company with effect from 30 January 2009. No service contract has been entered into between Mr. Moumouris and the Company in relation to his appointment. Both Mr. Moumouris and the Company are entitled to terminate his appointment at any time by giving notice to the other in writing.

Each of independent non-executive directors were appointed for a term of two years and are subject to retirement by rotation as required by the Articles of Association of the Company. According to the respective appointment letters, the appointment term of Mr. David Tsoi and Mr. Alfred Pang will expire on 31 March 2010, while that for Mr. So Lie Mo, Raymond will expire on 4 September 2009.

In accordance with Article 87 of the Company's Articles of association, Mr. Pang Hing Chung, Alfred and Mr. So Lie Mo, Raymond will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The respective service contracts of Mr. Pang Hing Chung, Alfred and Mr. So Lie Mo, Raymond, who are now proposed for re-election at the forthcoming annual general meeting, are terminable by the Group within one year without payment of compensation other than statutory compensation.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS OR SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2008, the interests and short positions of the directors, the chief executive and their respective associates in the shares, underlying shares and debentures or short positions and share options of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Exchange pursuant to Rule 5.46 of the GEM Listing Rules, were as follows:

Long positions:

(a) Long positions in ordinary shares of HK$0.01 each of the Company

Name of director	Capacity	Number of issued ordinary shares held	Approximate percentage of the issued share capital of the Company *(Note 1)*
Mr. Chan Sek Keung, Ringo	Beneficial owner	18,876,000	3.78%
	Interest through a controlled corporation *(Note 2)*	56,400,000	11.29%
Mr. David Tsoi	Beneficial owner	413,500	0.08%
Mr. Pang Hing Chung, Alfred	Beneficial owner	1,500,000	0.30%
		77,189,500	15.45%

Notes:

1. As at 31 December 2008, the total number of issued shares of the Company was 499,430,433.

2. Such shares in the Company are held by Woodstock Management Limited ("Woodstock"), a company wholly-owned by Mr. Chan Sek Keung, Ringo, who is deemed, by virtue of the SFO, to have an interest in these shares.

(b) *Long positions in the underlying shares in the Company*

Name of director	Capacity	Number of share options held	Number of underlying shares
Mr. Chan Sek Keung, Ringo	Beneficial owner	4,200,000	4,200,000
Mr. Ko Chun Fung, Henry	Beneficial owner	4,354,000	4,354,000
Mr. David Tsoi	Beneficial owner	762,500	762,500
Mr. Pang Hing Chung, Alfred	Beneficial owner	200,000	200,000
Mr. So Lie Mo, Raymond	Beneficial owner	750,000	750,000
		10,266,500	10,266,500

Save as disclosed above, none of the directors, chief executive and their respective associates, had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2008.

SUBSTANTIAL SHAREHOLDERS

As at 31 December, 2008, the following persons or corporations, in addition to the directors stated under the paragraph headed "Directors' and chief executive's interests or short positions in shares and underlying shares", has relevant interests in the issued share capital of the Company which were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

DIRECTORS' REPORT

Long positions in ordinary shares of HK$0.01 each of the Company

Name	Capacity	Number of Share interested	Number of underlying Shares interested	Approximate shareholding percentage *(Note 1)*
Melco LottVentures Holdings Limited ("Melco LV")	Beneficial owner	51,977,024	419,059,095 *(Note 5)*	94.31%
Melco Leisure and Entertainment Group Limited ("Melco Leisure")	Interest through controlled corporations	51,977,024 *(Note 2)*	419,059,095 *(Note 2)*	94.31%
Melco International Development Limited ("Melco International")	Interest through controlled corporations	51,977,024 *(Note 3)*	419,059,095 *(Note 3)*	94.31%
Mr. Ho, Lawrence Yau Lung ("Mr. Ho")	Interest through controlled corporations	51,977,024 *(Note 4)*	419,059,095 *(Note 4)*	94.31%
	Beneficial owner	–	4,354,000 *(Note 6)*	0.87%
Intralot International Limited *(Note 7)*	Beneficial owner	47,632,938 *(Note 7)*	349,401,622 *(Note 7)*	79.50%
Intralot S.A. Integrated Lottery Systems and Services ("Intralot") *(Note 7)*	Interest through a controlled corporation	47,632,938 *(Note 7)*	349,401,622 *(Note 7)*	79.50%
Global Crossing Holdings Limited ("Global Crossing") *(Note 8)*	Beneficial owner	20,787,042	206,104,195 *(Note 5)*	45.43%
Toprich Company Limited ("Toprich") *(Note 8)*	Beneficial owner	9,712,000	–	1.94%
Firich Enterprises Co., Ltd. *(Note 8)*	Interest through controlled corporations	30,499,042	206,104,195 *(Note 5)*	47.37%
LottVision Limited ("LottVision")	Beneficial owner	8,947,934	46,366,121 *(Note 5)*	11.08%
Mr. Ng Lai Yick *(Note 9)*	Beneficial owner	3,134,744	–	0.63%
	Interest through a controlled corporation	36,900,000	–	7.39%
North 22 Nominees Limited *(Note 9)*	Beneficial owner	36,900,000	–	7.39%
Legg Mason, Inc.	Interest through controlled corporations	27,304,000	–	5.47%

Notes:

1 As at 31 December 2008, the total number of issued shares of the Company was 499,430,433.

2. Melco Leisure is deemed to be interested in the 51,977,024 Shares and the underlying 419,059,095 Shares from convertible bonds in the Company as described in (5) below by virtue of its controlling interests in its wholly-owned subsidiary, Melco LottVentures Holdings Limited.

3. Melco International is deemed to be interested in the 51,977,024 Shares and the underlying 419,059,095 Shares from convertible bonds in the Company as described in (5) below by virtue of its controlling interests in its wholly-owned subsidiary, Melco Leisure.

4. Mr. Ho is deemed to be interested in the 51,977,024 Shares and the underlying 419,059,095 Shares from convertible bonds in the Company as described in (5) below by virtue of his controlling interests in Melco International together with Melco LV, which are held by his controlled corporations.

5. Convertible bonds in the principal amount of HK$606,800,000 carrying the rights to subscribe for Shares at an initial conversion price of HK$0.85 per Share was issued by the Company to Power Way Group Limited ("**Power Way**") on 13 December 2007 to satisfy part of the consideration for the acquisition of the entire issued share capital of Precious Success Holdings Limited and 60% of the entire issued share capital of Oasis Rich International Limited, ("**Oasis Rich**"). Under the agreement dated 8 October 2007 entered into among the Company, Rising Move International Limited (a wholly-owned subsidiary of the Company), Power Way, LottVision Limited, Melco International and Firich Enterprises Co., Ltd. If Power Way exercises the conversion rights attaching to the said convertible bonds in full at the initial conversion price, a total of 713,882,352 Shares will be issued to Power Way. However, no conversion of the convertible bonds shall be made, if immediately upon such conversion, (1) Power Way and its parties acting in concert (as defined under the Takeovers Code) with it will be under an obligation to make a general offer under the Code; (2) each of (i) any of the existing Shareholders holding more than 20% or more of the voting rights of the Company as at the date of the Agreement; and (ii) Power Way and its parties acting in concert (as defined under the Takeovers Code) will hold 20% or more of the voting rights of the Company respectively; or (3) the public float of the Shares falls below 25% (or any given percentage as required by the GEM Listing Rules) of the issued Shares.

   These convertible Bonds in the principal sum HK$606,800,000 had been, as at 31 December 2008, distributed to the shareholders of Power Way as to Melco LV HK$356,200,231, Global Crossing HK$175,188,566 and LottVision Limited HK$75,411,203. With LottVision Limited transferring HK$36,000,000 to three independent third parties, it held the balance of the convertible bonds in the principal amount of HK$39,411,203.

6. Mr. Ho is an advisor of the Company and the Group without receiving any compensation. He was granted the share options in recognition of his contributions in the past and for the future for the benefits of the Company and the Group.

DIRECTORS' REPORT

7. Pursuant to an agreement dated 7 September 2008 (as amended by a supplemental agreement dated 26 September 2008) and entered into between the Company and Intralot International Limited (the "**Assets Transfer Agreement**"), the Company has agreed to acquire the Assets (as defined in the Assets Transfer Agreement) at the consideration of HK$305,130,367.558, as disclosed in the announcement of the Company on 28 September 2008. The consideration will be satisfied by the Company by allotting and issuing 28,208,938 Shares and issuing the convertible bonds in the principal amount of HK$277,175,310 which is convertible into 279,692,542 new Shares at the conversion price I of HK$0.991 per Share. In addition, upon obtaining two agreements in connection with the CSLA Projects and/or CWL Projects in the PRC, the Company shall pay the success payment to Intralot International Limited. The success payment will be satisfied by way of the convertible bonds II, which are convertible into 69,709,080 new Shares in the Company at the conversion price II of HK$1.0759. Intralot is therefore deemed interested in the Shares and underlining Shares held by Intralot International Limited, a wholly owned subsidiary of Intralot.

8. Firich Enterprises Co., Ltd. is deemed to be interested in the 30,499,042 Shares and the underlying 206,104,195 Shares from convertible bonds in the Company as described in (5) above by virtue of its controlling interests in its wholly-owned subsidiary, Global Crossing and Toprich.

9. Mr. Ng Lai Yick is deemed, by virtue of the SFO, to be interested in the 36,900,000 Shares held by North 22 Nominees Limited, a company wholly-owned by him, in addition to the 3,134,744 Shares held by him personally.

Save as disclosed above, the Company had not been notified of any other relevant interests or short positions in the shares or underlying shares in the Company as at 31 December, 2008.

SHARE OPTION

Details of the movements in the Company's share option scheme are set out in note 31 to the financial statements.

ARRANGEMENTS TO PURCHASE SHARES OF DEBENTURES

Other than the option holdings disclosed in note 31 to the financial statements, at no time during the year was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

None of the directors or the management shareholders (as defined in the GEM Listing Rules) of the Company or their respective associates had any interest in any business which competes with or may compete with the business of the Group.

EMOLUMENT POLICY

The emolument policy regarding the employees of the Group is set up by the management and is based on their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual duties, responsibilities, experience, performance and comparable market standards.

The Company has adopted a share option scheme as an incentive to eligible participants including directors, advisors, employees, etc., details of the scheme is set out in note 31 to the financial statements.

FIVE YEARS'/PERIODS' FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the past five financial years/periods is set out in page 121 of this report.

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

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

DIRECTORS' REPORT

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers all of the independent non-executive directors are independent.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 24% of the Group's total sales, while the sales attributable to the Group's largest single customer was approximately 11% of the Group's total sales.

The aggregate purchases during the year attributable to the Group's five largest suppliers comprised approximately 85% of the Group's total purchases, while the purchases attributable to the Group's largest single supplier was approximately 36% of the Group's total purchases.

None of the directors, their associates or any shareholder, which to the knowledge of the Directors, owned more than 5% of the Company's issued share capital, had any interest in the share capital of any of the five largest customers or suppliers of the Group.

CONNECTED TRANSACTIONS

The Group entered into the following significant connected transactions during the year ended 31 December 2008.

Continuing connected transactions exempt from reporting, announcement and the independent shareholders' approval requirement

On 9 January 2008, Wu Sheng Computer Technology (Shanghai Co. Ltd.) ("Wu Sheng") entered into a Purchase Agreement with Firich Enterprises Co. Ltd. for a term of three years ending 31 December 2010 whereby the Wu Sheng will purchase from the Firich Group certain materials/unfinished parts for the manufacture of POS and lottery vending terminals. On the same day, Wu Sheng entered into the Supply Agreement with Firich for a term of three years ending 31 December 2010 whereby Wu Sheng will sell and deliver POS and lottery vending terminals and accessory products. For each of the three years, the Purchase Cap will be HK$265 million, HK$275 million and HK$350 million, respectively and the Sales Cap will be HK$115 million, HK$200 million and HK$260 million, respectively.

As Wu Sheng is an indirect non-wholly owned subsidiary of the Company while Firich is a substantial shareholders of Oasis Rich International Limited, an indirect non-wholly owned subsidiary of the Company, contemplated transactions resulting from the Purchase Agreement and Supply Agreement are continuing connected transactions under the GEM Listing Rules.

DIRECTORS' REPORT

During the year, Wu Sheng purchased materials of approximately HK$117.2 million from Firich under the Purchase Agreement while materials of approximately HK$21.7 million were sold by Wu Sheng to a subsidiary of Firich under the Supply Agreement.

Details of the transaction were set out in the circular of the Company dated 28 January 2008.

AUDIT COMMITTEE

The Audit Committee was established for the purposes of reviewing and providing supervision over the financial reporting process and internal controls of the Group.

SUFFICIENCY OF PUBLIC FLOAT

The Group has maintained a sufficient public float throughout the year ended 31 December 2008.

DONATIONS

During the year, the Group made charitable and other donations accounting to approximately HK$38,000.

AUDITOR

CCIF CPA Limited resigned as auditor of the Company with effect from 23 December 2008 and Messrs. Deloitte Touche Tohmatsu were appointed as auditor of the Company to fill the casual vacancy with effect from 23 December 2008.

The financial statement accompanying this Annual Report have been audited by Messrs. Deloitte Touche Tohmatsu. A resolution for their re-appointment will be submitted to the forthcoming annual general meeting of the Company to be held on 8 May 2009.

CCIF CPA Limited was appointed as auditor of the Company, to fill the casual vacancy resulting from the resignation of Deloitte Touch Tohmatsu, with effect from 30 December 2006. Save as aforesaid, there have been no other changes of the auditor in the past three years.

On behalf of the Board

CHAN Sek Keung, Ringo
Chairman

Hong Kong, 26 March 2009

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

德勤·關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

TO THE SHAREHOLDERS OF MELCOLOT LIMITED
(FORMERLY KNOWN AS MELCO LOTTVENTURES LIMITED)
新濠環彩有限公司
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of MelcoLot Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 40 to 120 which comprise the consolidated balance sheet as at December 31, 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 consolidated 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 the consolidated 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.

Auditor's 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 our agreed terms of engagement, 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 consolidated financial statements are free from material misstatement.

INDEPENDENT AUDITOR'S REPORT

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at December 31, 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.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong, March 26, 2009

CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2008

	Notes	2008 HK$'000	2007 HK$'000 (Restated)
Revenue	6	**607,016**	361,936
Changes in inventories of finished goods and work-in-progress		**56,740**	6,455
Purchase of inventories and raw materials consumed		**(502,161)**	(286,078)
Other income and gains		**5,555**	812
Employee benefits costs		**(53,369)**	(24,470)
Depreciation and amortisation		**(58,442)**	(7,331)
Impairment loss on goodwill	15	**(259,943)**	(476,000)
Impairment loss on intangible assets	16	**(98,587)**	(1,001)
Share of (losses) profits of jointly controlled entities		**(15,701)**	691
Other expenses		**(115,930)**	(42,259)
Finance costs	8	**(46,088)**	(7,460)
Loss before taxation	9	**(480,910)**	(474,705)
Taxation	11	**11,826**	(1,676)
Loss for the year		**(469,084)**	(476,381)
Attributable to:			
Equity holders of the Company		**(442,141)**	(475,448)
Minority interests		**(26,943)**	(933)
		(469,084)	(476,381)
Loss per share	13		
Basic		**(98.89) HK cents**	(159.09) HK cents

CONSOLIDATED BALANCE SHEET

As at December 31, 2008

	Notes	2008 HK$'000	2007 HK$'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	14	**30,809**	32,051
Goodwill	15	**283,632**	508,918
Intangible assets	16	**121,121**	194,711
Interests in jointly controlled entities	17	**11,519**	27,220
Available-for-sale investment	18	**132,502**	–
Loan receivables – due after one year	19	**–**	4,286
		579,583	767,186
CURRENT ASSETS			
Inventories	20	**70,878**	12,057
Trade and other receivables	21	**174,591**	148,571
Loan receivables – due within one year	19	**3,890**	7,400
Amounts due from jointly controlled entities	22	**44,458**	1,431
Amount due from a shareholder of a jointly controlled entity	23	**–**	30,348
Amount due from a related company	24	**148**	–
Pledged bank deposits	25	**15,310**	12,424
Bank balances and cash	25	**156,967**	143,816
		466,242	356,047
CURRENT LIABILITIES			
Trade and other payables	26	**213,478**	81,774
Amount due to a jointly controlled entity	22	**–**	2,140
Amount due to a shareholder	24	**1,695**	–
Amounts due to related companies	24	**1,098**	–
Tax payable		**14,541**	2,163
Bank and other borrowings – due within one year	27	**35,408**	77,277
		266,220	163,354
NET CURRENT ASSETS		**200,022**	192,693
TOTAL ASSETS LESS CURRENT LIABILITIES		**779,605**	959,879

CONSOLIDATED BALANCE SHEET

As at December 31, 2008

	Notes	2008 HK$'000	2007 HK$'000 (Restated)
NON-CURRENT LIABILITIES			
Other borrowings – due after one year	27	**80,000**	5,600
Convertible bonds	28	**501,331**	380,030
Deferred tax liabilities	29	**8,535**	33,982
		589,866	419,612
NET ASSETS		**189,739**	540,267
CAPITAL AND RESERVES			
Share capital	30	**4,994**	4,322
Reserves		**154,521**	479,756
Equity attributable to equity holders of the Company		**159,515**	484,078
Minority interests		**30,224**	56,189
TOTAL EQUITY		**189,739**	540,267

The consolidated financial statements on pages 40 to 120 were approved and authorised for issue by the Board of Directors on March 26, 2009 and are signed on its behalf by:

CHAN Sek Keung, Ringo
DIRECTOR

KO Chun Fung, Henry
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2008

	Attributable to equity holders of the Company									
	Share capital *HK$'000*	Share premium *HK$'000*	Share-based payment reserve *HK$'000*	PRC statutory reserves *HK$'000* *(note)*	Convertible bonds equity reserve *HK$'000*	Exchange reserve *HK$'000*	Retained profits (accumulated losses) *HK$'000*	Sub-total *HK$'000*	Minority interests *HK$'000*	Total equity *HK$'000*
At January 1, 2007	2,900	55,824	643	2,007	-	1,196	2,643	65,213	-	65,213
Exchange differences arising on translation of foreign operations recognised directly in equity	-	-	-	-	-	3,287	-	3,287	-	3,287
Loss for the year (restated)	-	-	-	-	-	-	(475,448)	(475,448)	(933)	(476,381)
Total recognised income and expense for the year	-	-	-	-	-	3,287	(475,448)	(472,161)	(933)	(473,094)
Recognition of equity-settled share-based payments	-	-	157	-	-	-	-	157	-	157
Issue of ordinary shares upon exercise of share options	122	4,305	(441)	-	-	-	-	3,986	-	3,986
Issue of convertible bonds	-	-	-	-	611,692	-	-	611,692	-	611,692
Shares issued	580	103,555	-	-	-	-	-	104,135	-	104,135
Transaction costs attributable to issue of new shares	-	(2,464)	-	-	-	-	-	(2,464)	-	(2,464)
Shares issued on acquisition of subsidiaries	720	172,800	-	-	-	-	-	173,520	-	173,520
Minority interests arising from acquisition of subsidiaries (restated)	-	-	-	-	-	-	-	-	57,122	57,122

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2008

	Attributable to equity holders of the Company									
	Share capital *HK$'000*	Share premium *HK$'000*	Share-based payment reserve *HK$'000*	PRC statutory reserves *HK$'000* *(note)*	Convertible bonds equity reserve *HK$'000*	Exchange reserve *HK$'000*	Retained profits (accumulated losses) *HK$'000*	Sub-total *HK$'000*	Minority interests *HK$'000*	Total equity *HK$'000*
At December 31, 2007 (restated)	4,322	334,020	359	2,007	611,692	4,483	(472,805)	484,078	56,189	540,267
Exchange differences arising on translation of foreign operations recognised directly in equity	-	-	-	-	-	32,701	-	32,701	603	33,304
Loss for the year	-	-	-	-	-	-	(442,141)	(442,141)	(26,943)	(469,084)
Total recognised income and expense for the year	-	-	-	-	-	32,701	(442,141)	(409,440)	(26,340)	(435,780)
Recognition of equity-settled share-based payments	-	-	15,979	-	-	-	-	15,979	-	15,979
Transfer	-	-	-	3,582	-	-	(3,582)	-	-	-
Issue of ordinary shares upon exercise of share options	33	825	(94)	-	-	-	-	764	-	764
Issue of convertible bonds	-	-	-	-	33,800	-	-	33,800	-	33,800
Shares issued	639	33,695	-	-	-	-	-	34,334	-	34,334
Minority interests arising from acquisition of a subsidiary	-	-	-	-	-	-	-	-	375	375
At December 31, 2008	4,994	368,540	16,244	5,589	645,492	37,184	(918,528)	159,515	30,224	189,739

Note: The People's Republic of China, other than Hong Kong (the "PRC") statutory reserves represent the appropriation of 10% of profit after taxation determined based on the PRC accounting standards and the relevant PRC laws applicable to the Group's PRC subsidiaries. The appropriation may cease to apply if the balance of the PRC statutory reserves has reached 50% of the registered capital of the respective PRC subsidiaries.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31, 2008

	2008 *HK$'000*	2007 *HK$'000* (Restated)
OPERATING ACTIVITIES		
Loss before taxation	**(480,910)**	(474,705)
Adjustments for:		
Impairment loss on goodwill	**259,943**	476,000
Impairment loss on intangible assets	**98,587**	1,001
Impairment loss on amount due from a jointly controlled entity	**1,788**	–
Impairment loss on trade receivables	**9,521**	6,829
Impairment loss on loan receivable	**396**	–
Allowance for inventories	**1,322**	854
Depreciation and amortisation	**58,442**	7,331
Loss on disposal of property, plant and equipment	**1,879**	2
Interest expenses	**46,088**	7,460
Interest income	**(1,405)**	(601)
Equity-settled share-based payment expenses	**15,979**	157
Share of losses (profits) of jointly controlled entities	**15,701**	(691)
Operating cash flows before movements in working capital	**27,331**	23,637
Increase in inventories	**(60,143)**	(7,309)
Increase in trade and other receivables	**(35,121)**	(10,178)
Increase in amounts due from jointly controlled entities	**(44,815)**	–
Increase (decrease) in trade and other payables	**126,018**	(16,018)
Cash generated from (used in) operations	**13,270**	(9,868)
Income taxes paid	**(1,243)**	(1,061)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	**12,027**	(10,929)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31, 2008

	Notes	2008 HK$'000	2007 HK$'000 (Restated)
INVESTING ACTIVITIES			
Acquisition of assets through acquisition of a subsidiary (net of cash and cash equivalents acquired)	33	**(66,588)**	–
Purchase of property, plant and equipment		**(5,961)**	(3,303)
Capital expenditure on intangible assets		**(5,936)**	(3,342)
Increase in pledged bank deposits		**(2,886)**	(7,411)
(Advance to) repayment from a shareholder of a jointly controlled entity		**(1,612)**	1,995
Advance to a related company		**(148)**	–
Proceeds from disposal of intangible assets		**3,420**	–
Interest received		**1,405**	601
Proceeds from disposal of property, plant and equipment		**1,215**	70
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	34	**206**	11,391
NET CASH (USED IN) FROM INVESTING ACTIVITIES		**(76,885)**	1
FINANCING ACTIVITIES			
Bank and other borrowings raised		**204,106**	214,435
Cash proceeds from issuance of shares and convertible bonds	16(b)	**50,000**	–
Advance from a shareholder		**1,695**	–
Advances from related companies		**1,098**	–
Proceeds from exercise of share options		**764**	3,986
Repayment of bank and other borrowings		**(171,575)**	(210,817)
Interest paid		**(7,192)**	(5,532)
Proceeds from issue of shares		**–**	101,671
(Repayment to) advance from a jointly controlled entity		**(2,140)**	2,140
NET CASH FROM FINANCING ACTIVITIES		**76,756**	105,883
NET INCREASE IN CASH AND CASH EQUIVALENTS		**11,898**	94,955
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**143,816**	47,276
EFFECTS OF FOREIGN EXCHANGE RATE CHANGES		**1,253**	1,585
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash		**156,967**	143,816

1. GENERAL

The Company is a public limited company incorporated in the Cayman Islands and its shares are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since May 12, 2002. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information attached to the annual report.

The consolidated financial statements are presented in Hong Kong dollars ("HKD"), which is the same as the functional currency of the Company.

The Company acts as an investment holding company. Its subsidiaries are principally engaged in (i) the provision of network system integration in Hong Kong and the PRC; and (ii) lottery business in the PRC.

Pursuant to a special resolution passed at an extraordinary general meeting held on December 4, 2008, the name of the Company was changed from Melco LottVentures Limited 新濠環彩有限公司 to MelcoLot Limited 新濠環彩有限公司 with effect from December 5, 2008.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are or have become effective.

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 adoption 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.

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

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

HKFRSs (Amendments)	Improvement 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 & 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 7 (Amendment)	Improving Disclosures about Financial Instruments[2]
HKFRS 8	Operating Segments[2]
HK(IFRIC) – Int 9 & HKAS 39 (Amendments)	Embedded Derivatives[4]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[5]
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[6]
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners[3]
HK(IFRIC) – Int 18	Transfers of Assets from Customers[7]

1 Effective for annual periods beginning on or after January 1, 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after July 1, 2009

2 Effective for annual periods beginning on or after January 1, 2009

3 Effective for annual periods beginning on or after July 1, 2009

4 Effective for annual periods ending on or after June 30, 2009

5 Effective for annual periods beginning on or after July 1, 2008

6 Effective for annual periods beginning on or after October 1, 2008

7 Effective for transfers on or after July 1, 2009

The adoption of HKFRS 3 (Revised) may affect the Group's accounting for business combinations for which the acquisition date is on or after January 1, 2010. HKAS 27 (Revised) will affect the Group's accounting treatment for changes in a parent's ownership interest in a subsidiary.

The directors of the Company anticipate that the application of these standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. PRIOR YEAR ADJUSTMENTS

The consolidated financial statements for the year ended December 31, 2007 did not account for the deferred tax effect that resulting from the fair value adjustments on intangible assets in respect of the acquisition of subsidiaries in 2007 in accordance with HKAS 12 "Income Taxes". Additional impairment loss on goodwill of HK$60,000,000 was recognised in accordance with HKAS 36 "Impairment of Assets". Accordingly, comparative amounts in the consolidated financial statements have been restated.

The financial effects of the restatements on the consolidated income statement for the year ended December 31, 2007:

	HK$'000
Increase in impairment loss on goodwill	60,000
Increase in loss for the year, attributable to equity holders of the Company	60,000

The financial effects of the restatements on the consolidated balance sheet as at December 31, 2007:

	As at December 31, 2007 (originally stated)	**Prior year adjustments**	**As at December 31, 2007 (restated)**
	HK$'000	*HK$'000*	*HK$'000*
Effect on asset:			
Goodwill	485,026	23,892	508,918
Effect on liability:			
Deferred tax liabilities	–	33,982	33,982
Effect on equity:			
Minority interests	76,692	(20,503)	56,189
Accumulated losses	412,805	60,000	472,805

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2008

3. PRIOR YEAR ADJUSTMENTS *(Continued)*

The financial effects of the restatements on the Group's basic loss per share for the year ended December 31, 2007:

Impact on basic loss per share

	HK cents
Reported figure before adjustments	139.02
Prior year adjustments	20.07
Restated	159.09

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of the subsidiaries to bring the accounting policies used in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combinations

The acquisition of business is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 "Business Combinations" are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Goodwill

Goodwill arising on an acquisition of a business represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a business is presented separately in the consolidated balance sheet.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted by post-acquisition changes in the Group's share of net assets of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity, the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

When a group entity transacts with a jointly controlled entity of the Group, profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from sales of goods is recognised when goods, including lottery terminals and Point-of-sales ("POS") machines, are delivered and title has passed.

Revenue from the network infrastructure solutions is recognised when the integration works have been completed and the customers have accepted the solutions.

Revenue from the provision of network professional services are recognised when the services are rendered.

Income from the electronic gaming machine is recognised when the gaming products are sold from the Group's own machines placed in various lounges.

Commission income from agency service on sales of gaming products is recognised when the service is rendered and when the right to receive the income has been established.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment, over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the assets (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transitions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on an acquisition of a foreign operation on or after January 1, 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the exchange reserve.

Borrowing costs

All borrowing costs are recognised and included in finance costs in the consolidated income statement in the period in which they are incurred.

Retirement benefit costs

Payments to defined contribution retirement benefit schemes, including Mandatory Provident Fund Scheme and state-managed retirement benefit schemes, are charged as expenses when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets *(Continued)*

Intangible assets acquired separately (Continued)

Alternatively intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Subsequent to initial recognition, the resultant intangible asset is reported at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on a straight-line basis over its estimated useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment losses on tangible and intangible assets other than goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of lottery terminals and POS machines are calculated using the weighted average cost method whereas the cost of other inventories are calculated using the first-in, first-out methods. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets

The Group's financial assets are classified into loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from jointly controlled entities/a shareholder of a jointly controlled entity/a related company, loan receivables, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale investments

Available-for-sale investments are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition (see accounting policy on impairment loss on financial assets below).

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investments, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period of 30 to 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets *(Continued)*

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and amounts due from jointly controlled entities, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity (Continued)

Convertible bonds

Convertible bonds issued by the Company that contain both liability and equity components are classified separately into respective liability and equity components on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest rate of similar non-convertible debts. The difference between the gross proceeds or fair value, where convertible bonds are issued as consideration in a business combination, of the issue of the convertible bonds and the fair value assigned to the liability component, representing the conversion option for the holder to convert the bonds into equity, is included in equity (convertible bonds equity reserve).

In subsequent periods, the liability component of the convertible notes is carried at amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in convertible bonds equity reserve until the option is exercised (in which case the balance stated in convertible bonds equity reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible bonds equity reserve will be released to the retained profits (accumulated losses). No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the gross proceeds or their relative fair values, where applicable. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the relevant period of the convertible bonds using the effective interest method.

Other financial liabilities

Other financial liabilities including trade and other payables, amount due to a jointly controlled entity/a shareholder/related companies and bank and other borrowings are subsequently measured at amortised cost, using the effective interest method.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity (Continued)

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Share-based payment transactions

Share options granted and vested before November 7, 2002, or granted after November 7, 2002 and vested before January 1, 2005

The financial impact of share options granted is not recorded in the consolidated financial statements until such time as the options are exercised, and no charge is recognised in the consolidated income statement in respect of the value of options granted. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company as share premium. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payment transactions *(Continued)*

Share options granted to employees and advisors after November 7, 2002 and vested on or after January 1, 2005

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share-based payment reserve). At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss with a corresponding adjustment to share-based payment reserve. At the time when the share options are exercised, the amount previously recognised in share-based payment reserve will be transferred to share premium. When the share options are forfeited after vesting date or are still not exercised at the expiry date, the amount previously recognised in share-based payment reserve will be transferred to retained profits (accumulated losses).

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the directors of the Company are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value.

As at December 31, 2008, the carrying amount of goodwill is HK$283,632,000 (2007: HK$508,918,000), net of accumulated impairment loss of HK$767,083,000 (2007: HK$476,000,000). Details of the impairment loss calculation are disclosed in note 15.

Estimated impairment of intangible assets

Determining whether intangible assets are impaired requires an estimation of the future cash flows expected to arise from the lottery business and a suitable discount rate in order to calculate present values. Since the lottery business is in the preliminary stage, significant estimation is required in determining the future cash flows expected to arise from the lottery business. The directors of the Company are of the view that there is great potential for its lottery business as there are not many companies providing such similar service. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at December 31, 2008, the carrying amount of intangible assets related to lottery business is HK$114,647,000 (2007: HK$187,110,000), net of accumulated loss of HK$95,958,000 (2007: Nil).

5. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Allowance for inventories

Inventories are stated at the lower of cost and net realisable value. The cost of lottery terminals and point-of-sales ("POS") machines are calculated using the weighted average cost method whereas the cost of other inventories are calculated using the first-in, first-out methods. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of change in customer taste and competitor actions in response to severe industry cycle. The Group reassesses these estimates at each balance sheet date.

Where the Group identifies items of inventories which have a market price that is lower than its carrying amount, the Group accounts for the inventory loss in the consolidated income statement as allowance for inventories. Included in other expenses is an amount of HK$1,322,000 (2007: HK$854,000) in respect of write-down of raw materials, work-in-progress and finished goods to estimated net realisable values. As at December 31, 2008, the carrying amount of inventories is HK$70,878,000 (2007: HK$12,057,000).

Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at December 31, 2008, the carrying amount of trade receivables is HK$127,790,000 (2007: HK$102,441,000) net of accumulated impairment loss of HK$18,895,000 (2007: HK$10,562,000).

6. REVENUE

An analysis of the Group's revenue for the year is as follows:

	2008	2007
	HK$'000	*HK$'000*
Network system integration		
Network infrastructure solutions	**346,766**	299,124
Network professional services	**74,847**	58,781
Sales of network software	**4,687**	3,740
	426,300	361,645
Lottery business		
Income from electronic gaming machine in various lounges	**6,250**	161
Commission income from agency service	**16,574**	130
Manufacturing and sales of lottery terminals and POS machines	**157,892**	–
	180,716	291
	607,016	361,936

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

For management purposes, the Group is currently organised into two operating divisions. These divisions are the basis on which the Group reports its primary segment information.

Business segment

During the year, the Group has presented its business by the following segments:

– Network system integration; and

– Lottery business

For the year ended December 31, 2008
CONSOLIDATED INCOME STATEMENT

	Network system integration *HK$'000*	Lottery business *HK$'000*	Consolidated *HK$'000*
REVENUE			
External sales	426,300	180,716	607,016
RESULT			
Segment result	1,441	(403,817)	(402,376)
Unallocated corporate income			5,555
Unallocated corporate expenses			(22,300)
Share of losses of jointly controlled entities	–	(15,701)	(15,701)
Finance costs			(46,088)
Loss before taxation			(480,910)
Taxation			11,826
Loss for the year			(469,084)

7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segment *(Continued)*

As at December 31, 2008
CONSOLIDATED BALANCE SHEET

	Network system integration *HK$'000*	Lottery business *HK$'000*	Consolidated *HK$'000*
ASSETS			
Segment assets	216,577	508,485	725,062
Interests in jointly controlled entities	–	11,519	11,519
Unallocated corporate assets			309,244
			1,045,825
LIABILITIES			
Segment liabilities	118,196	92,746	210,942
Unallocated corporate liabilities			645,144
			856,086

OTHER INFORMATION

	Network system integration *HK$'000*	Lottery business *HK$'000*	Consolidated *HK$'000*
Capital additions	4,570	80,020	84,590
Depreciation and amortisation	3,852	54,590	58,442
Impairment loss on goodwill	–	259,943	259,943
Impairment loss on intangible assets	2,629	95,958	98,587
Impairment loss on trade receivables	9,521	–	9,521
Impairment loss on amount due from a jointly controlled entity	–	1,788	1,788
Loss on disposal of property, plant and equipment	–	1,879	1,879
Allowance for inventories	1,068	254	1,322

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2008

7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segment *(Continued)*

For the year ended December 31, 2007
CONSOLIDATED INCOME STATEMENT

	Network system integration *HK$'000*	Lottery business *HK$'000*	Consolidated *HK$'000* (Restated)
REVENUE			
External sales	361,645	291	361,936
RESULT			
Segment result	11,889	(480,247)	(468,358)
Unallocated corporate income			812
Unallocated corporate expenses			(390)
Share of profits of jointly controlled entities	–	691	691
Finance costs			(7,460)
Loss before taxation			(474,705)
Taxation			(1,676)
Loss for the year			(476,381)

7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segment *(Continued)*

As at December 31, 2007

CONSOLIDATED BALANCE SHEET

	Network system integration *HK$'000*	Lottery business *HK$'000*	Consolidated *HK$'000* (Restated)
ASSETS			
Segment assets	147,533	748,613	896,146
Interests in jointly controlled entities	–	27,220	27,220
Unallocated corporate assets			199,867
			1,123,233
LIABILITIES			
Segment liabilities	54,015	26,865	80,880
Unallocated corporate liabilities			502,086
			582,966

OTHER INFORMATION

	Network system integration *HK$'000*	Lottery business *HK$'000*	Consolidated *HK$'000* (Restated)
Capital additions	5,283	1,362	6,645
Depreciation and amortisation	4,785	2,546	7,331
Impairment loss on goodwill	–	476,000	476,000
Impairment loss on intangible assets	1,001	–	1,001
Impairment loss on trade receivables	6,829	–	6,829
Loss on disposal of property, plant and equipment	2	–	2
Allowance for inventories	854	–	854

7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Geographical segment

The Group's two divisions operate in two principal geographical areas - the PRC and Hong Kong. The following table provides an analysis of the Group's sales by geographical markets based on location of customer, irrespective of the origin of the goods and services:

	Revenue from external customers	
	2008	2007
	HK$'000	*HK$'000*
PRC	**537,296**	230,022
Hong Kong	**69,720**	131,914
	607,016	361,936

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment and intangible assets	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
PRC	**607,876**	748,613	**84,531**	6,518
Hong Kong	**117,186**	147,533	**59**	127
	725,062	896,146	**84,590**	6,645

8. FINANCE COSTS

	2008	2007
	HK$'000	*HK$'000*
Interest on:		
Bank borrowings wholly repayable within five years	**2,674**	3,054
Other borrowings wholly repayable within five years	**3,911**	2,478
Effective interest expenses on convertible bonds	**39,503**	1,928
	46,088	7,460

9. LOSS BEFORE TAXATION

Loss before taxation has been arrived at after charging:

	2008	2007
	HK$'000	*HK$'000*
Amortisation of intangible assets	**51,380**	5,410
Depreciation of property, plant and equipment	**7,062**	1,921
Total depreciation and amortisation	**58,442**	7,331
Directors' emoluments	**6,559**	1,958
Other staff costs:		
Salaries and other benefits	**35,650**	19,459
Retirement benefit scheme contributions	**4,839**	2,917
Share-based payments	**6,321**	136
Total employee benefit expenses	**53,369**	24,470
Auditor's remuneration	**1,330**	990
Impairment loss on amount due from a jointly controlled entity	**1,788**	–
Impairment loss on trade receivables	**9,521**	6,829
Impairment loss on loan receivable	**396**	–
Loss on disposal of property, plant and equipment	**1,879**	2
Operating lease rentals in respect of land and buildings	**8,085**	2,929
Net foreign exchange losses	**–**	50
Research and development costs	**385**	361
Allowance for inventories	**1,322**	854

and after crediting:

Bank interest income	**845**	523
Loan and other interest income	**560**	78
Net foreign exchange gain	**2,849**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2008

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

The emoluments paid or payable to the directors were as follows:

	Chan Sek Keung, Ringo HK$'000	Ko Chun Fung, Henry HK$'000 (note i)	David Tsoi HK$'000	Pang Hing Chung, Alfred HK$'000	So Lie Mo, Raymond HK$'000	Total HK$'000
2008						
Fees	–	–	138	120	120	378
Other emoluments						
Salaries and other benefits	1,530	1,673	–	–	–	3,203
Contributions to retirement benefit schemes	12	12	–	–	–	24
Share-based payments	–	1,794	205	201	754	2,954
Total emoluments	1,542	3,479	343	321	874	6,559

	Chan Sek Keung, Ringo HK$'000	Alasdair Gordon Nagle HK$'000 (note ii)	Clara Ho HK$'000 (note ii)	Kwan Kit Tong, Kevin HK$'000 (note iii)	David Tsoi HK$'000	Pang Hing Chung, Alfred HK$'000	Yu Zhonghou HK$'000 (note iv)	Chan Tze Ngon HK$'000 (note v)	So Lie Mo, Raymond HK$'000	Total HK$'000
2007										
Fees	–	–	–	–	120	120	6	41	39	326
Other emoluments										
Salaries and other benefits	1,599	–	–	–	–	–	–	–	–	1,599
Contributions to retirement benefit schemes	12	–	–	–	–	–	–	–	–	12
Share-based payments	1	–	–	–	19	1	–	–	–	21
Total emoluments	1,612	–	–	–	139	121	6	41	39	1,958

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

Notes:

(i) Ko Chun Fung, Henry was appointed as a director of the Company on January 7, 2008.

(ii) Alasdair Gordon Nagle and Clara Ho resigned as directors of the Company on April 13, 2007.

(iii) Kwan Kit Tong, Kevin resigned as a director of the Company on August 26, 2007.

(iv) Yu Zhonghou resigned as a director of the Company on February 1, 2007.

(v) Chan Tze Ngon resigned as a director of the Company on September 4, 2007.

Of the five individuals with the highest emoluments in the Group, three (2007: one) were directors of the Company whose emoluments are included in the disclosures as above. The emoluments of the remaining two (2007: four) individuals were as follows:

	2008 ***HK$'000***	2007 *HK$'000*
Salaries and other benefits	**1,241**	2,393
Contributions to retirement benefit schemes	**64**	72
Share-based payments	**1,241**	59
	2,546	2,524

Their emoluments were within the following bands:

	2008 **No. of** **employees**	2007 No. of employees
Nil to HK$1,000,000	**1**	4
HK$1,000,001 to HK$1,500,000	**–**	–
HK$1,500,001 to HK$2,000,000	**1**	–

During the year ended December 31, 2008 and 2007, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the two years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2008

11. TAXATION

	2008	2007
	HK$'000	*HK$'000*
PRC Enterprise Income Tax		
– Current year	**13,621**	1,676
Deferred taxation		
– Current year	**(25,447)**	–
	(11,826)	1,676

On June 26, 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profit for the year. No tax is payable on the profit for the year arising in Hong Kong since the Hong Kong subsidiaries have incurred losses from operations that resulting tax losses for the year.

PRC Enterprise Income Tax is calculated at the applicable rates to the PRC subsidiaries. Certain subsidiaries of the Company operating in the PRC are eligible to exemption from income tax for two years commencing from the first profit-making year and thereafter entitled to 50% relief from income tax for the next three years ("Tax Holidays") and were exempted from PRC income taxes for the years of 2008 and 2007. The maximum Tax Holidays period is 5 years from the first taxable profit year.

On March 16, 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No.63 of the President of the PRC. On December 6, 2007, the State Council of the PRC issued Implementation Regulation of the New Law. Under the New Law and Implementation Regulation, the Enterprise Income Tax rate of the Company's PRC subsidiaries was reduced from 33% to 25% from January 1, 2008 onwards.

11. TAXATION *(Continued)*

The taxation for the year can be reconciled to the loss before taxation per the consolidated income statement as follows:

	2008	2007
	HK$'000	*HK$'000*
		(Restated)
Loss before taxation	**(480,910)**	(474,705)
Hong Kong Profits Tax at the rate of 16.5% (2007: 17.5%)	**(79,350)**	(83,073)
Tax effect of income not taxable for tax purposes	**(724)**	(128)
Tax effect of expenses not deductible for tax purposes	**56,391**	85,721
Tax effect of tax losses not recognised	**8,285**	1,669
Utilisation of tax losses previously not recognised	**–**	(206)
Tax effect of different tax rates of subsidiaries operating under tax regulations in the PRC	**981**	(2,117)
Tax effect of share of results of jointly controlled entities	**2,591**	(121)
Others	**–**	(69)
Taxation for the year	**(11,826)**	1,676

At December 31, 2008, the Group has unused tax losses of approximately HK$57,441,000 (2007: HK$22,763,000) available to offset against future profits. No deferred tax asset has been recognised in respect of unused tax losses due to the unpredictability of future profit streams.

12. DIVIDENDS

No dividend was declared or proposed during 2008, nor has any dividend been proposed since the balance sheet date (2007: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2008

13. LOSS PER SHARE

The calculation of the basic loss per share for the year is based on the loss attributable to equity holders of the Company of HK$442,141,000 (2007: HK$475,448,000) and on the weighted average number of 447,094,096 (2007: 298,846,213) ordinary shares in issued during the year.

No diluted loss per share has been presented since assuming the conversion and exercise of the Company's outstanding convertible bonds and share options would result in a decrease in loss per share.

14. PROPERTY, PLANT AND EQUIPMENT

	Lottery terminals	Machinery and equipment	Furniture, fixtures and equipment	Motor vehicles	Tools	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST						
At January 1, 2007	–	9,593	1,859	1,157	6,506	19,115
Exchange adjustments	386	531	723	61	425	2,126
Additions	–	1,563	852	–	888	3,303
Disposals	–	(483)	(107)	–	(591)	(1,181)
Acquisition of subsidiaries	13,479	1,476	12,614	–	47	27,616
At December 31, 2007	13,865	12,680	15,941	1,218	7,275	50,979
Exchange adjustments	981	847	795	43	313	2,979
Additions	–	2,438	3,025	–	498	5,961
Disposals	(40)	(1,264)	(2,683)	–	(14)	(4,001)
Acquisition of a subsidiary	–	–	1,164	–	–	1,164
At December 31, 2008	14,806	14,701	18,242	1,261	8,072	57,082
DEPRECIATION						
At January 1, 2007	–	8,967	1,722	731	5,663	17,083
Exchange adjustments	4	484	117	43	385	1,033
Provided for the year	95	628	358	90	750	1,921
Eliminated on disposals	–	(450)	(107)	–	(552)	(1,109)
At December 31, 2007	99	9,629	2,090	864	6,246	18,928
Exchange adjustments	155	508	220	37	270	1,190
Provided for the year	2,244	1,506	2,633	160	519	7,062
Eliminated on disposals	(8)	(691)	(194)	–	(14)	(907)
At December 31, 2008	2,490	10,952	4,749	1,061	7,021	26,273
CARRYING AMOUNTS						
At December 31, 2008	12,316	3,749	13,493	200	1,051	30,809
At December 31, 2007	13,766	3,051	13,851	354	1,029	32,051

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For the year ended December 31, 2008

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The above items of property, plant and equipment are depreciated on a straight-line basis after taking into account of their estimated residual value, if any, at the following rates per annum:

Lottery terminals	20%
Machinery and equipment	20% – 33 1/3%
Furniture, fixtures and equipment	33 1/3%
Motor vehicles	33 1/3%
Tools	33 1/3%

15. GOODWILL

	Notes	2008 HK$'000	2007 HK$'000 (Restated)
COST			
At January 1	*(a)*	**984,918**	–
Exchange adjustments		**64,434**	–
Acquired on acquisition of subsidiaries	*(b)*	**1,363**	901,026
As previously stated		**1,050,715**	901,026
Prior year adjustment		**–**	83,892
As restated		**1,050,715**	984,918
At December 31		**1,050,715**	984,918
IMPAIRMENT			
At January 1		**476,000**	–
Exchange adjustments		**31,140**	–
Impairment loss recognised in the year		**259,943**	416,000
As previously stated		**767,083**	416,000
Prior year adjustment		**–**	60,000
As restated		**767,083**	476,000
At December 31		**767,083**	476,000
CARRYING AMOUNTS			
At December 31		**283,632**	508,918

15. GOODWILL *(Continued)*

Notes:

(a) In 2007, the Group acquired a 80% equity interest in PAL Development Limited ("PAL") and a 60% equity interest in Oasis Rich International Limited ("Oasis") for a consideration of approximately HK$1,163,314,000 of which approximately HK$984,918,000 was resulted as goodwill as further detailed in note 34(b).

(b) During the year 2008, the Group made a capital contribution of RMB3,500,000 (equivalent to approximately HK$3,990,000) into 上海智珏網絡科技有限公司 ("上海智珏") in return for a 87.5% equity interest in 上海智珏, as further detailed in note 34(a).

As explained in note 7, the Group uses business segments as its primary segment for reporting segment information. For the purpose of impairment testing, goodwill with indefinite useful lives has been allocated to the cash generating unit ("CGU") of lottery business only.

During the year, the directors of the Company considered that in light of the decrease in operating results of the relevant subsidiaries, the Group performed an impairment review for goodwill with reference to the valuation carried out by Vigers Appraisal & Consulting Limited ("Vigers"), independent qualified professional valuers not connected with the Group. The valuation is based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management of the Group covering one year period, and a discount rate of 14% (2007: 14%) per annum. Cash flows beyond that one year period have been extrapolated using a steady 7% (2007: 5%) growth rate. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

The management of the Group determined the budgeted gross margin based on past performance. The weighted average growth rate used is consistent with the forecasts in the relevant industry. The discount rate used reflects specific risks relating to the relevant segment. The recoverable amount of the CGU based on value-in-use calculation is less than its carrying amount, accordingly, an impairment loss of HK$259,943,000 (2007: HK$476,000,000) was recognised during the year.

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16. INTANGIBLE ASSETS

	Software product development costs	Lottery software licences	License rights	Technology know-how	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(note a)	*(note b)*	*(note c)*	*(note d)*	
COST					
At January 1, 2007	18,440	–	–	–	18,440
Exchange adjustments	991	–	–	–	991
Additions	3,342	–	–	–	3,342
Acquisition of subsidiaries	–	–	164,166	25,252	189,418
At December 31, 2007	22,773	–	164,166	25,252	212,191
Exchange adjustments	731	–	840	–	1,571
Additions	3,594	75,035	–	–	78,629
Disposals	–	–	(3,420)	–	(3,420)
At December 31, 2008	27,098	75,035	161,586	25,252	288,971
AMORTISATION AND IMPAIRMENT					
At January 1, 2007	10,687	–	–	–	10,687
Exchange adjustments	382	–	–	–	382
Provided for the year	3,102	–	2,036	272	5,410
Impairment loss recognised	1,001	–	–	–	1,001
At December 31, 2007	15,172	–	2,036	272	17,480
Exchange adjustments	284	–	119	–	403
Provided for the year	2,539	–	42,532	6,309	51,380
Impairment loss recognised	2,629	–	77,287	18,671	98,587
At December 31, 2008	20,624	–	121,974	25,252	167,850
CARRYING AMOUNTS					
At December 31, 2008	6,474	75,035	39,612	–	121,121
At December 31, 2007	7,601	–	162,130	24,980	194,711

16. INTANGIBLE ASSETS *(Continued)*

Notes:

(a) The Group's software product development costs are internally generated and amortised on a straight-line basis over the estimated useful life of 3 years. During the year, the directors considered that in view of those outdated software products, an impairment loss of HK$2,629,000 (2007: HK$1,001,000) was recognised.

(b) In September 2008, the Group entered into an asset transfer agreement to acquire (i) a perpetual, exclusive license right to use and sublicense the software in connection with projects initiated by China Sports Lottery Administration; (ii) a perpetual, non-exclusive license right to use and sublicense the software in connection with projects initiated by China Welfare Lottery Issuance; and (iii) HK$50,000,000 cash at a consideration of approximately HK$305 million. The consideration was satisfied by the issue of 28,208,938 ordinary shares of HK$0.01 each in the Company and convertible bonds with principal amount of HK$277,175,000. The legal fee incurred for the acquisition was HK$2,342,000. The transaction was completed in December 2008.

The lottery software licence ("Software") is a system platform to support the sales of lottery and gaming operations. Since the determination of the fair value of the Software involved the estimation of the future cash flows expected to arise from the lottery market in the PRC and the use of numerous assumptions that cannot be easily quantified, the fair value of the Software was measured by reference to the fair value of the shares which amounted to HK$6,488,000 and convertible bonds amounted to HK$116,205,000 which issued by the Company on the acquisition date.

During the year, the Group performed an impairment review for Software with reference to the valuation carried out by Vigers. The valuation is based on value-in-use calculations. The key assumptions for the value-in-use calculations are those regarding the discount rates, growth rates, expected revenue generated by the Software and operating costs to be incurred. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the lottery business. The growth rates are based on industry growth forecasts. Expected revenue and operating costs are based on past practices of other subsidiary of the Group after adjusting for the situation of lottery market in the PRC.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the coming year and extrapolates cash flows for the coming year with a steady growth rate of 7%, using a discount rate of 14%. The directors are of the opinion that, with reference to the valuation carried out by Vigers, no impairment is recognised.

16. INTANGIBLE ASSETS *(Continued)*

Notes: (Continued)

(c) The Group's license rights included certain rights of operating lottery games, sales of gaming products and the right to manufacture lottery machines in the PRC. During the year, the directors considered that in light of the decrease in operating results from operating lottery games due to the change in the government policy for lottery games in the PRC, an impairment loss of HK$77,287,000 (2007: Nil) was recognised to write down to zero carrying amounts of those license rights which have been adversely affected by the changes in the government policy. The license rights are amortised on a straight-line basis over their estimated useful life of 5 years.

(d) The Group's technology know-how represents online betting technology to be used for lottery business. During the year, the directors considered that the income to be generated from online betting game is uncertain due to such online betting game has not been approved by the PRC government, a full impairment loss of HK$18,671,000 (2007: Nil) was recognised accordingly.

The amortisation charge for the year is included in depreciation and amortisation in the consolidated income statement.

17. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2008	2007
	HK$'000	*HK$'000*
		(Restated)
Cost of unlisted investment in jointly controlled entities	**26,529**	26,529
Share of post-acquisition accumulated (loss) profits	**(15,010)**	691
	11,519	27,220

17. INTERESTS IN JOINTLY CONTROLLED ENTITIES *(Continued)*

As at December 31, 2008 and 2007, the Group had interests in the following jointly controlled entities:

Name of jointly controlled entity	Place of incorporation/ establishment and operations	Class of shares held	Proportion of nominal value of issued capital/registered capital held by the Group	Proportion of voting power held	Principal activities
PALTECH Company Limited ("PALTECH")	Hong Kong	Ordinary	60% *(note a)*	60%	Research and development
Beijing Telenet Information Technology Limited 北京電信達信息技術有限公司 ("BTI")	PRC, wholly-owned foreign enterprise for a term of 30 years commencing August 10, 2006	Ordinary	52.5% *(note b)*	52.5%	Distribution of POS system and operation of betting hall

Notes:

(a) The Group indirectly owns a 60% equity interest in PALTECH. Pursuant to certain terms and conditions given in the shareholders' agreement, the financial and operating policies of PALTECH require approval from 75% of the equity holders, as such, it is accounted for as a jointly controlled entity of the Group.

(b) The Group indirectly owns a 52.5% equity interest in BTI. Pursuant to the shareholders' agreement, the financial and operating policies of BTI require approval from two-third of the directors, while the Group has the right to appoint only three-fifth of the directors. Therefore, BTI is classified as a jointly controlled entity of the Group.

17. INTERESTS IN JOINTLY CONTROLLED ENTITIES *(Continued)*

The summarised financial information in respect of the Group's interests in the jointly controlled entities attributable to the Group's interest therein which are accounted for using the equity method is set out below:

	2008	2007
	HK$'000	*HK$'000*
Current assets	**44,890**	61,644
Non-current assets	**614**	16,189
Current liabilities	**33,985**	50,613
Group's share of net assets of jointly controlled entities	**11,519**	27,220
Revenue	**56,182**	6,002
Expenses	**71,883**	5,311
Group's share of (losses) profits of jointly controlled entities for the year	**(15,701)**	691

The Group has discontinued the recognition of its share of losses of a jointly controlled entity. The amount of unrecognised share of losses of this jointly controlled entity both for the year and cumulatively, are as follows:

	2008	2007
	HK$'000	*HK$'000*
Unrecognised share of losses of a jointly controlled entity for the year	**147**	–
Accumulated unrecognised share of losses of a jointly controlled entity	**147**	–

18. AVAILABLE-FOR-SALE INVESTMENT

The available-for-sale investment represents an investment in unlisted equity securities issued by a limited liability company incorporated in Korea. It is measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair value cannot be measured reliably.

Details of the acquisition of available-for-sale investment are disclosed in note 33.

19. LOAN RECEIVABLES

	Notes	**2008** ***HK$'000***	2007 *HK$'000*
The amounts bear interest at the following rates:			
0.1% per month	*(a)*	**3,890**	3,890
5% per annum	*(b)*	**–**	7,400
5% per annum	*(c)*	**–**	396
Total amount		**3,890**	11,686
Less: Amount due within one year shown under current assets		**(3,890)**	(7,400)
Amount due after one year		**–**	4,286
Analysed as:			
Secured		**3,890**	3,890
Unsecured		**–**	7,796
		3,890	11,686

19. LOAN RECEIVABLES *(Continued)*

Notes:

(a) The loan was advanced to a subsidiary of a shareholder of a jointly controlled entity. It was of a non-trade nature, secured by corporate guarantee from the shareholder of a jointly controlled entity and repayable on July 19, 2009.

(b) The loan was advanced to a shareholder of a jointly controlled entity. It was of a non-trade nature and was used to set off part of the consideration for the acquisition of assets through the acquisition of a subsidiary, as disclosed in note 33.

(c) The loan was advanced to a third party. It was of a non-trading nature, unsecured and fully impaired during the year.

20. INVENTORIES

	2008	2007
	HK$'000	*HK$'000*
Raw materials	**2,081**	–
Work-in-progress	**32,201**	–
Finished goods	**36,596**	12,057
	70,878	12,057

21. TRADE AND OTHER RECEIVABLES

	2008	2007
	HK$'000	*HK$'000*
Trade receivables	**146,685**	113,003
Less: allowance for doubtful debts	**(18,895)**	(10,562)
	127,790	102,441
Retention money receivables *(note)*	**7,806**	11,596
Other receivables	**30,559**	27,621
Prepayments and deposits	**8,436**	6,913
	174,591	148,571

Note: Retention money receivables represent the progress payments receivable on the contract works of network infrastructure with age over 180 days.

21. TRADE AND OTHER RECEIVABLES *(Continued)*

The Group generally allows credit periods ranging from 30 to 90 days to its trade customers. The aging analysis of trade receivables is as follows:

	2008	2007
	HK$'000	*HK$'000*
Within 30 days	63,041	25,265
31 – 90 days	24,120	24,929
91 – 180 days	23,768	23,970
181 – 365 days	16,861	28,277
	127,790	102,441

Before accepting any new customers, the Group reviews the credit quality and defines credit limits by customer. Limits attributed to customers are reviewed once a year. The Group maintains a defined credit policy to assess the credit quality of the trade customers. The collection is closely monitored to minimise any credit risk associated with these trade debtors.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK$40,629,000 (2007: HK$52,249,000) which are past due at the reporting date but not considered as impaired. Majority of the trade receivables that are neither past due nor impaired have no default repayment history.

Aging of trade receivables which are past due but not impaired

	2008	2007
	HK$'000	*HK$'000*
91 – 180 days	23,768	23,970
181 – 365 days	16,861	28,279
	40,629	52,249

The directors of the Company consider that there has not been a significant change in credit quality of the trade debtors and there is no recent history of default, therefore the amounts are considered recoverable. The Group does not hold any collateral over these balances.

21. TRADE AND OTHER RECEIVABLES *(Continued)*

Movement in the allowance for doubtful debts

	2008	2007
	HK$'000	*HK$'000*
Balance at beginning of the year	10,562	3,319
Exchange adjustments	753	570
Amounts written off during the year	(1,941)	(156)
Reversal of impairment loss recognised in prior year	(7,877)	–
Increase in allowance recognised in profit or loss	17,398	6,829
Balance at end of the year	18,895	10,562

The Group has provided fully for receivables over 365 days because the directors are of opinion that these receivables are not recoverable.

22. AMOUNTS DUE FROM (TO) JOINTLY CONTROLLED ENTITIES

	2008	2007
	HK$'000	*HK$'000*
Amounts due from jointly controlled entities	46,246	1,431
Impairment loss recognised in the year	(1,788)	–
	44,458	1,431

The amounts are unsecured and interest-free. Amounts due from jointly controlled entities are of a trade nature and have a credit period of 90 days. Amount due to a jointly controlled entity is of a non-trade nature and is repayable on demand.

22. AMOUNTS DUE FROM (TO) JOINTLY CONTROLLED ENTITIES *(Continued)*

The aging analysis of amounts due from jointly controlled entities of trade nature is as follows:

	2008	2007
	HK$'000	*HK$'000*
Within 30 days	**40,385**	–
31 – 90 days	**4,073**	–
	44,458	–

The Group reviews the credit quality and defines credit limits of these jointly controlled entities. Limits attributed to these jointly controlled entities are reviewed once a year. The Group maintains a defined credit policy to assess the credit quality of these jointly controlled entities. The collection is closely monitored to minimise any credit risk associated with these jointly controlled entities.

The directors of the Company consider that there has not been a significant change in credit quality of the trade balance and there is no recent history of default, therefore no further impairment is necessary to provide. The Group does not hold any collateral over these balances.

23. AMOUNT DUE FROM A SHAREHOLDER OF A JOINTLY CONTROLLED ENTITY

The amount due from a shareholder of a jointly controlled entity of a non-trade nature was unsecured, bore interest at 5% per annum and was used to set off part of the consideration for the acquisition of assets through the acquisition of a subsidiary, as disclosed in note 33.

24. AMOUNTS DUE FROM (TO) A SHAREHOLDER/RELATED COMPANIES

The amount due to a shareholder is of non-trade nature and is unsecured, interest-free and repayable on demand.

The amounts due from (to) related companies represent amount due from (to) companies controlled by a shareholder.

25. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

(a) Pledged bank deposits

The amounts mainly represent deposits pledged to banks to secure banking facilities granted to the Group.

The deposits carry an average fixed interest rate of 1.69% (2007: 3.77%) per annum. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

(b) Bank balances and cash

Bank balances and cash comprised of bank deposits with maturity of less than three months at prevailing market interest rate of 0.1% (2007: 3.5%) per annum and cash on hand.

26. TRADE AND OTHER PAYABLES

	2008	2007
	HK$'000	*HK$'000*
Trade payables *(note)*	**155,697**	35,264
Other payables	**20,893**	29,543
Accruals	**36,888**	16,967
	213,478	81,774

The aging analysis of trade payables is as follows:

	2008	2007
	HK$'000	*HK$'000*
Within 30 days	**79,928**	23,726
31 – 90 days	**57,157**	6,320
91 – 180 days	**15,156**	1,404
181 – 365 days	**1,115**	1,981
Over 365 days	**2,341**	1,833
	155,697	35,264

Note: Included in trade payables are amounts of HK$64,824,000 (2007: HK$2,308,000) due to minority shareholders of a subsidiary. The amounts are unsecured, interest-free and repayable according to credit terms granted by the minority shareholders.

27. BANK AND OTHER BORROWINGS

	2008 HK$'000	2007 HK$'000
Short-term bank loan	**17,100**	16,050
Trust receipt loans	**–**	29,662
Other loans from a financial institution	**18,308**	37,165
Other loan from a shareholder	**80,000**	–
	115,408	82,877
Analysed as:		
Secured	**–**	29,662
Unsecured	**115,408**	53,215
	115,408	82,877

The bank and other borrowings are repayable as follows:

	2008 HK$'000	2007 HK$'000
Within one year or on demand	**35,408**	77,277
In more than one year but not more than two years	**80,000**	5,600
	115,408	82,877
Less: Amount due within one year shown under current liabilities	**(35,408)**	(77,277)
Amount due after one year	**80,000**	5,600

Short-term bank loan carries interest at fixed market rate ranging from 7.33% to 8.22% (2007: 8.02% to 8.22%) per annum. Trust receipt loans carried interest at prevailing market rates ranging from 4.50% to 7.51% (2007: 6.93% to 8.25%) per annum.

As at December 31, 2008, other loans of HK$18,308,000 (2007: HK$37,165,000) represent loans advanced from a financial institution which is related to a major supplier of the Group and carry interest ranging from 6.00% to 10.02% (2007: 6.69% to 8.06%) per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2008

27. BANK AND OTHER BORROWINGS *(Continued)*

As at December 31, 2008, other loan from a shareholder carries interest at 5% (2007: Nil) per annum and is repayable on July 10, 2010.

The Group's borrowings that are denominated in currencies other the functional currencies of the relevant group entities are set out below:

	2008	2007
	HK$'000	*HK$'000*
United States dollars ("USD")	**18,308**	37,166

28. CONVERTIBLE BONDS

On December 13, 2007, the Company issued convertible bonds (the "Convertible Bonds I") with principal amount of HK$606,800,000 as part of the consideration for the acquisition of subsidiaries, as further detailed in note 34(b). The Convertible Bonds I are recognised in these financial statements at fair value of approximately HK$989,794,000 at the date of completion of the acquisition of subsidiaries in accordance with HKFRS 3 "Business Combinations". The convertible Bonds I are denominated in Hong Kong dollars and entitle the holders to convert them into ordinary shares of the Company within 5 years from the date of issue of the Convertible Bonds I at a conversion price of HK$0.85 per share subject to antidilutive adjustments in accordance with the agreement. The Convertible Bonds I bore interest at 0.1% per annum payable semi-annually in arrears. If the Convertible Bonds I have not been converted, they will be redeemed on maturity date of December 12, 2012 at par plus accrued interest. The Convertible Bonds I contains two components, liability and equity elements. The equity element is presented in equity heading "convertible bonds equity reserve". The effective interest rate of the liability component of the Convertible Bonds I is 10.06% per annum.

On December 9, 2008, the Company issued convertible bonds (the "Convertible Bonds II") with principal amount of HK$277,175,000 as part of the consideration for the acquisition of intangible assets. The Convertible Bonds II are denominated in Hong Kong dollars and entitle the holders to convert them into ordinary shares of the Company within 5 years from the date of issue of the Convertible Bonds II at a conversion price of HK$0.991 per share subject to antidilutive adjustments in accordance with the agreement. The Convertible Bonds II bore interest at 0.1% per annum payable semi-annually in arrears. If the Convertible Bonds II have not been converted, they will be redeemed on maturity date of December 8, 2013 at par plus accrued interest. The Convertible Bonds II contains two components, liability and equity elements. The equity element is presented in equity heading "convertible bonds equity reserve". The effective interest rate of the liability component of the Convertible Bonds II is 26% per annum.

28. CONVERTIBLE BONDS *(Continued)*

The Convertible Bonds I and the Convertible Bonds II are secured by the shares of certain subsidiaries of the Company.

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

	2008	2007
	HK$'000	*HK$'000*
Carrying amount at the beginning of the year	**380,030**	–
Issued during the year	**82,405**	378,102
Interest charged	**39,503**	1,928
Interest paid	**(607)**	–
Carrying amount at the end of the year	**501,331**	380,030

29. DEFERRED TAXATION

The following are the major deferred tax liabilities recognised and movements thereon during the current and prior years:

	Fair value adjustments of intangible assets on business combinations
	HK$'000
	(Restated)
At January 1, 2007	–
Acquisition of subsidiaries *(Note 3)*	
As previously stated	–
Prior year adjustment	33,982
As restated	33,982
At December 31, 2007	33,982
Credit to consolidated income statement	(25,447)
At December 31, 2008	8,535

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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30. SHARE CAPITAL

	Notes	Number of ordinary shares	Amount
			HK$'000
Ordinary shares of HK$0.01 each:			
Authorised:			
At January 1, 2007		500,000,000	5,000
Increase on December 5, 2007	(a)	1,500,000,000	15,000
At December 31, 2007 and December 31, 2008		2,000,000,000	20,000
Issued and fully paid:			
At January 1, 2007		289,944,745	2,900
Shares issued on acquisition of subsidiaries	(b)	72,000,000	720
Issue of new shares	(c)	58,000,000	580
Exercise of share options		12,253,750	122
At December 31, 2007		432,198,495	4,322
Shares issued on acquisition of an available-for-sale investment through an acquisition of a subsidiary	(d)	35,700,000	357
Shares issued on acquisition of intangible assets	(e)	28,208,938	282
Exercise of share options		3,323,000	33
At December 31, 2008		499,430,433	4,994

Notes:

(a) By a special resolution passed at an extraordinary general meeting of the Company held on December 5, 2007, the authorised share capital of the Company was increased from HK$5,000,000 to HK$20,000,000 by the creation of 1,500,000,000 new ordinary shares of HK$0.01 each in the Company.

(b) On December 13, 2007, the Company issued and allotted 72,000,000 ordinary shares of HK$0.01 each at HK$2.41 (being the market price at the date of acquisition) as part of the consideration for the acquisition of subsidiaries, as further detailed in note 34(b). These shares rank pari passu in all respects with other shares in issue.

30. SHARE CAPITAL *(Continued)*

Notes: (Continued)

(c) On December 19, 2007, the Company issued and allotted 58,000,000 ordinary shares of HK$0.01 each at the issue price of HK$1.80 each to certain subscribers, pursuant to the subscription agreement entered into between the Company and the subscribers. These shares rank pari passu in all respects with other shares in issue.

(d) On September 17, 2008, the Company issued and allotted 35,700,000 ordinary shares of HK$0.01 each at HK$0.78 (being the market price at the date of acquisition) as part of the consideration for the acquisition of an available-for-sale investment through an acquisition of a subsidiary, as further detailed in note 33. These shares rank pari passu in all respects with other shares in issue.

(e) On December 9, 2008, the Company issued and allotted 28,208,938 ordinary shares of HK$0.01 each at HK$0.25 (being the market price at the date of acquisition) as part of the consideration for the acquisition of intangible assets. These shares rank pari passu in all respects with other shares in issue.

31. SHARE-BASED PAYMENT TRANSACTIONS

Details of the equity-settled share option schemes adopted by the Group are as follows:

(a) Pre-Initial Public Offering ("IPO") Share Option Scheme

Pursuant to the pre-IPO share option scheme adopted by the Company on April 20, 2002, the Company may grant options to any director, employee, advisor or business consultant of the Company or its subsidiaries, for the primary purpose of providing incentives to them, to subscribe for shares in the Company with the payment of HK$1 per offer. Options granted are exercisable for a period not more than 10 years from the date of grant of the relevant options. Options granted are exercisable as to (i) a maximum of 25% of the total number of options granted six months after May 17, 2002, (the "Listing Date"), (ii) a maximum additional 6.25% of the total number of options granted after the expiry of each successive 3-months period, twelve months after the Listing Date; and (iii) the remaining options granted on or after the third anniversary of the Listing Date until the end of the option period or lapse of an option.

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31. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

(a) Pre-Initial Public Offering ("IPO") Share Option Scheme *(Continued)*

Details of the movements in the number of share options during the year under the Company's pre-IPO share option scheme were as follows:

				Number of share options						
Type of participant	Date of grant	Exercisable period	Exercise price per share	Outstanding at 1/1/2007	Exercised during the year	Forfeited during the year	Outstanding at 12/31/2007	Exercised during the year	Outstanding at 12/31/2008
			HK$						
Directors	4/30/2002 *(note)*	11/17/2002 to 4/29/2012	0.55	3,750,000	(750,000)	–	3,000,000	–	3,000,000
Others	4/30/2002 *(note)*	11/17/2002 to 4/29/2012	0.55	4,560,000	(3,613,000)	(10,000)	937,000	(937,000)	–
				8,310,000	(4,363,000)	(10,000)	3,937,000	(937,000)	3,000,000
Exercisable at the end of the year							3,937,000		3,000,000

Note: The Group had not applied HKFRS 2 "Share-based Payment" to share options granted on or before November 2, 2002 and share options that were granted after November 2, 2007 and had vested before January 1, 2005 in accordance with the relevant transactional provisions.

In respect of the share options exercised during the year, the weighted average share price at the dates of exercise is HK$1.47 (2007: HK$1.91) and the weighted average share price at the dates immediately before exercise dates is HK$1.47 (2007: HK$1.80).

31. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

(b) Post-IPO Share Option Scheme

Pursuant to the post-IPO share option scheme adopted by the Company on April 20, 2002, the Company may grant options to any director, employee, advisor or business consultant of the Company or its subsidiaries ("Participants"), for the primary purpose of providing incentives to them, to subscribe for shares in the Company with the payment of HK$1 per offer. The exercise price of the share option will be determined at the highest of: (i) the average of the closing prices of the Company's shares quoted on the Stock Exchange on the five trading days immediately preceding the date of grant of the options; (ii) the closing price of the shares on the Stock Exchange on the date of grant; and (iii) the nominal value of the shares of the Company.

The total number of shares which may be issued upon exercise of all options to be granted under this scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of shares in issue immediately following completion of the placing unless the Company obtains a fresh approval from its shareholders. Options lapsed in accordance with the terms of this scheme will not be counted for the purpose of calculating such 10% limit.

The Company may seek approval of its shareholders in general meeting for refreshing the 10% limit such that the total number of shares in respect of which options may be granted under this scheme and any other share option schemes of the Company (including the Pre-IPO Share Option Scheme) shall not exceed 10% of the total number of shares in issue as at the date of approval of refresh such limit.

The Company may seek separate approval by its shareholders in general meeting for granting options beyond the 10% limit provided the options in excess of such limit are granted only to Participants specifically identified by the Company before such approval is sought.

Notwithstanding, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under this scheme and any other share option schemes of the Company (including the Pre-IPO Share Option Scheme) shall not exceed 30% of the total number of shares in issue from time to time.

31. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

(b) Post-IPO Share Option Scheme *(Continued)*

No Participant shall be granted an option which, if exercised in full, would result in such Participant becoming entitled to subscribe for such number of shares as, when aggregated with the total number of shares already issued pursuant to all the options previously granted to him which have been exercised, and, issuable pursuant to all the outstanding options previously granted to him which are for the time being subsisting and unexercised, would exceed 1% of the total number of shares in issue in any 12-month period up to the date of grant of the option (the "Individual Limit").

Any further grant of options in excess of the Individual Limit shall be subject to approval by the shareholders of the Company will such Participant and his associates abstaining form voting. In such a case, a circular must be sent to the shareholders of the Company disclosing, amongst other terms, the identified Participant(s), the number and terms of options granted or to be granted. The number and terms of the options to be granted to such Participant shall be fixed before the approval and the date of Board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price.

31. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

(b) Post-IPO Share Option Scheme *(Continued)*

Details of the movements in the number of share options during the year under the Company's post-IPO share option scheme were as follows:

				Number of share options				
Type of participant	Date of grant	Exercisable period	Exercise price per share HK$	Outstanding at 1/1/2008	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 12/31/2008
Directors	2/20/2003 *(note 2)*	2/20/2004 to 2/19/2013	0.138	1,200,000	–	–	–	1,200,000
	1/12/2007 *(note 2)*	1/12/2008 to 1/11/2017	0.088	750,000	–	(187,500)	–	562,500
	12/7/2007 *(note 3)*	6/7/2008 to 12/6/2009	2.720	1,150,000	–	–	–	1,150,000
	3/31/2008 *(note 4)*	10/1/2008 to 3/31/2018	0.890	–	4,354,000	–	–	4,354,000
Employees	7/12/2002 *(note 2)*	7/12/2003 to 7/11/2012	0.384	16,000	–	(16,000)	–	–
	2/20/2003 *(note 2)*	2/20/2004 to 2/19/2013	0.138	25,000	–	(25,000)	–	–
	2/23/2004 *(note 2)*	2/23/2005 to 2/22/2014	0.165	402,500	–	(321,000)	–	81,500
	10/11/2004 *(note 2)*	10/11/2005 to 10/10/2014	0.124	112,750	–	(29,500)	(1,250)	82,000
	1/12/2007 *(note 2)*	1/12/2008 to 1/11/2017	0.088	6,230,000	–	(1,507,000)	(612,500)	4,110,500
	12/7/2007 *(note 3)*	6/7/2008 to 12/6/2009	2.720	3,668,000	–	–	(308,000)	3,360,000
	3/31/2008 *(note 4)*	10/1/2008 to 3/31/2018	0.890	–	7,740,000	–	–	7,740,000
Advisors	2/20/2003 *(note 2)*	2/20/2004 to 2/19/2013	0.138	300,000 *(note 1)*	–	(300,000)	–	–
	3/31/2008 *(note 4)*	10/1/2008 to 3/31/2018	0.890	–	17,906,000 *(note 1)*	–	–	17,906,000
				13,854,250	30,000,000	(2,386,000)	(921,750)	40,546,500
Exercisable at the end of the year				1,627,250				23,874,000

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31. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

(b) Post-IPO Share Option Scheme *(Continued)*

				Number of share options				
Type of participant	Date of grant	Exercisable period	Exercise price per share HK$	Outstanding at 1/1/2007	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 12/31/2007
Directors	2/20/2003 *(note 2)*	2/20/2004 to 2/19/2013	0.138	3,825,000	–	(2,625,000)	–	1,200,000
	1/12/2007 *(note 2)*	1/12/2008 to 1/11/2017	0.088	–	750,000	–	–	750,000
	12/7/2007 *(note 3)*	6/7/2008 to 12/6/2009	2.720	–	1,150,000	–	–	1,150,000
Employees	7/12/2002 *(note 2)*	7/12/2003 to 7/11/2012	0.384	2,025,000	–	(2,009,000)	–	16,000
	2/20/2003 *(note 2)*	2/20/2004 to 2/19/2013	0.138	1,961,000	–	(1,926,000)	(10,000)	25,000
	10/10/2003 *(note 2)*	10/10/2004 to 10/9/2013	0.142	135,000	–	(130,000)	(5,000)	–
	2/23/2004 *(note 2)*	2/23/2005 to 2/22/2014	0.165	1,458,000	–	(1,045,500)	(10,000)	402,500
	10/11/2004 *(note 2)*	10/11/2005 to 10/10/2014	0.124	315,000	–	(155,250)	(47,000)	112,750
	1/12/2007 *(note 2)*	1/12/2008 to 1/11/2017	0.088	–	6,230,000	–	–	6,230,000
	12/7/2007 *(note 3)*	6/7/2008 to 12/6/2009	2.720	–	3,668,000	–	–	3,668,000
Advisors	2/20/2003 *(note 2)*	2/20/2004 to 2/19/2013	0.138	300,000 *(note 1)*	–	–	–	300,000
				10,019,000	11,798,000	(7,890,750)	(72,000)	13,854,250
Exercisable at the end of the year				7,577,250				1,627,250

31. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

(b) Post-IPO Share Option Scheme *(Continued)*

Notes:

(1) These are individuals who rendered consultancy services in respect of the technology development to the Group without receiving any compensation. The Group granted share options to them for recognising their services similar to those rendered by other employees.

(2) These grants under the post-IPO share option scheme are exercisable for a period not later than 10 years from the date of grant, within which there is a total vesting period of four years, starting from the first anniversary of the grant date at stepped annual increments of 25% of the total options granted.

(3) These grants under the post-IPO share option scheme are exercisable for a period not later than 2 years from the date of grant, within which there is a total vesting period of one year, starting from six months of the grant date at stepped six months increments of 50% of the total options granted.

(4) These grants under the post-IPO share option scheme are exercisable for a period not later than 10 years from the date of grant, within which there is a total vesting period of one year, starting from six months of the date at stepped six months increment of 50% of the total options granted.

In respect of the share options exercised during the year, the weighted average share price at the dates of exercise is HK$2.34 (2007: HK$1.28) and the weighted average closing price at the dates immediately before exercise dates is HK$2.34 (2007: HK$1.21).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2008

31. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

(b) Post-IPO Share Option Scheme *(Continued)*

The fair values of share options granted during the year ended December 31, 2007 were calculated using the Black-Scholes pricing model. The inputs into the model were as follows:

	Grant dates of share options	
	1/12/2007	**12/7/2007**
Closing share price immediately before date of grant	HK$0.088	HK$2.60
Exercise price	HK$0.088	HK$2.72
Expected volatility	64.16%	125.92%
Expected option life	5 years	1.25 years
Risk-free interest rate	3.81%	2.59%
Expected dividend yield	N/A	N/A
Fair value of an option	HK$0.0503	HK$1.3402

The fair value of share option granted during the year ended December 31, 2008 was calculated using the binomial pricing model. The inputs into the model were as follows:

	Grant date of share options 3/31/2008
Closing share price immediately before date of grant	HK$0.89
Exercise price	HK$0.89
Exercise multiplier	2.0
Expected volatility	80.00%
Expected option life	5 years
Risk-free interest rate	2.58%
Expected dividend yield	N/A
Fair value of an option	HK$0.436

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 1 year. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations.

The Group recognised the total expense of HK$15,979,000 for the year ended December 31, 2008 (2007: HK$157,000) in relation to share options granted by the Company.

32. COMPANY BALANCE SHEET

Balance sheet information of the Company at the balance sheet date includes:

	2008	2007
	HK$'000	*HK$'000*
Total assets	**760,877**	1,329,683
Total liabilities	**592,516**	391,190
Capital and reserves		
Share capital	**4,994**	4,322
Reserves *(note)*	**163,367**	934,171
Total equity	**168,361**	938,493

32. COMPANY BALANCE SHEET *(Continued)*

Note:

	Share premium HK$'000	Share-based payment reserve HK$'000	Convertible bonds equity reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At January 1, 2007	55,824	643	–	(9,965)	46,502
Loss for the year	–	–	–	(1,935)	(1,935)
Recognition of equity-settled share-based payments	–	157	–	–	157
Issue of ordinary shares upon exercise of share options	4,305	(441)	–	–	3,864
Issue of convertible bonds	–	–	611,692	–	611,692
Shares issued	103,555	–	–	–	103,555
Transaction costs attributable to issue of shares	(2,464)	–	–	–	(2,464)
Acquisition of subsidiaries	172,800	–	–	–	172,800
At December 31, 2007	334,020	359	611,692	(11,900)	934,171
Loss for the year	–	–	–	(855,009)	(855,009)
Recognition of equity-settled share-based payments	–	15,979	–	–	15,979
Issue of ordinary shares upon exercise of share options	825	(94)	–	–	731
Issue of convertible bonds	–	–	33,800	–	33,800
Shares issued	33,695	–	–	–	33,695
At December 31, 2008	368,540	16,244	645,492	(866,909)	163,367

32. COMPANY BALANCE SHEET *(Continued)*

Under the Companies Law (Revised) of the Cayman Islands, share premium is distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of share premium if (i) it is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital account.

At December 31, 2007, the aggregate amount of the Company's reserves available for distribution to shareholders was approximately HK$322,120,000 computing in accordance with the Companies Law (Revised) of the Cayman Islands and the Company's articles of association. This includes the Company's share premium of approximately HK$334,020,000 less accumulated losses of approximately HK$11,900,000, which is available for distribution provided that immediately following the date on which the dividend is proposed, the Company will be able to pay off its debts as they fall due in the ordinary course of business.

In the opinion of the directors, the Company had no reserves available for distribution as at December 31, 2008.

33. ACQUISITION OF ASSETS THROUGH ACQUISITION OF A SUBSIDIARY

On September 17, 2008, the Group acquired 100% equity interest in KTeMS, a company incorporated in Korea, from a director (also a shareholder) of the Group's jointly controlled entity and certain independent parties not connected with the Group, for a consideration of HK$135,171,000.

The principal activity of KTeMS is an investment holding company and its major asset is 14% equity interest in Nanum Lotto Inc., a company incorporated in Korea and possessing an exclusive lottery license to operate national lotto games in Korea. Accordingly, the transaction has been accounted for as the acquisition of assets through acquisition of a subsidiary.

33. ACQUISITION OF ASSETS THROUGH ACQUISITION OF A SUBSIDIARY *(Continued)*

	2008
	HK$'000
Net assets acquired:	
Available-for-sale investment	136,702
Other receivables	33
Bank balances and cash	2
Other payables	(1,566)
Net assets acquired	135,171
Total consideration, satisfied by:	
Cash	66,590
Shares *(note 30(d))*	27,846
Amount due from a shareholder of a jointly controlled entity	31,960
Loan receivable *(note 19(b))*	7,400
Waive of interest receivable (included in other receivables)	1,375
	135,171
Net cash outflow arising on acquisition:	
Cash consideration paid	(66,590)
Bank balances and cash acquired	2
	(66,588)

34. ACQUISITION OF SUBSIDIARIES

(a) On January 1, 2008, the Group made a capital contribution of RMB3,500,000 (equivalent to HK$3,990,000) into 上海智珏 in return for a 87.5% equity interest in 上海智珏. This acquisition had been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was HK$1,363,000.

The net assets acquired in the transaction, and the goodwill arising on the acquisition, are as follows:

	Acquiree's carrying amount before combination and fair value
	HK$'000
Net assets acquired:	
Property, plant and equipment	1,164
Trade and other receivables	1,762
Bank balances and cash	4,196
Trade and other payables	(4,120)
	3,002
Minority interests	(375)
Goodwill arising on acquisition	1,363
Consideration	3,990
Satisfied by:	
Cash	3,990
Net cash inflow arising on acquisition:	
Cash consideration paid	(3,990)
Bank balances and cash acquired	4,196
	206

The goodwill arising on the acquisitions is attributable to the anticipated future operating synergies from the combination.

The subsidiary acquired during the year did not have any significant contribution to the Group's revenue or results for the year.

34. ACQUISITION OF SUBSIDIARIES *(Continued)*

(b) On December 13, 2007, the Group acquired 80% equity interest in PAL Development Limited ("PAL") and 60% equity interest in Oasis Rich International Limited ("Oasis") for a consideration of approximately HK$1,163,314,000. The acquisition has been accounted for using the purchase method. The amount of goodwill arising from the acquisition was approximately HK$925,727,000.

The net assets acquired in the transaction, and the goodwill arising on acquisition, are as follows:

	Restated								
	PAL			Oasis			Total		
	Acquiree's carrying amount before combination	Fair value adjustment	Fair value	Acquiree's carrying amount before combination	Fair value adjustment	Acquiree's fair value recognised on acquisition	Acquiree's carrying amount before combination	Fair value adjustment	Fair value
	HK$'000	*HK$'000* (restated)	*HK$'000* (restated)	*HK$'000*	*HK$'000* (restated)	*HK$'000* (restated)	*HK$'000*	*HK$'000* (restated)	*HK$'000* (restated)
Net assets acquired:									
Property, plant and equipment	25,349	–	25,349	2,267	–	2,267	27,616	–	27,616
Intangible assets	53,491	86,251	139,742	–	49,676	49,676	53,491	135,927	189,418
Interests in jointly controlled entities	26,529	–	26,529	–	–	–	26,529	–	26,529
Loan receivable	396	–	396	–	–	–	396	–	396
Trade and other receivables	22,599	–	22,599	848	–	848	23,447	–	23,447
Bank balances and cash	9,940	–	9,940	1,451	–	1,451	11,391	–	11,391
Amount due from a jointly controlled entity	1,431	–	1,431	–	–	–	1,431	–	1,431
Amount due from a shareholder of a jointly controlled entity	32,343	–	32,343	–	–	–	32,343	–	32,343
Trade and other payables	(28,750)	–	(28,750)	(2,272)	–	(2,272)	(31,022)	–	(31,022)
Amounts due to related companies	(12,049)	–	(12,049)	–	–	–	(12,049)	–	(12,049)
Deferred tax liabilities	–	(21,563)	(21,563)	–	(12,419)	(12,419)	–	(33,982)	(33,982)
	131,279	64,688	195,967	2,294	37,257	39,551	133,573	101,945	235,518
Minority interests									(57,122)
Goodwill on acquisition of subsidiaries									984,918
Consideration									1,163,314

34. ACQUISITION OF SUBSIDIARIES *(Continued)*

(b) *(Continued)*

	HK$'000
Total consideration, satisfied by:	
Shares issued *(note 30(b))*	173,520
Convertible bonds issued	989,794
	1,163,314
Net cash inflow arising on acquisition:	
Bank balances and cash acquired	11,391

The goodwill arising on the acquisition is attributable to the anticipated profitability of the acquired business and an unexpected increase in fair value of consideration, mainly due to the increase in share price of the Company between the agreement date and the date of acquisition.

The consideration for the acquisition of PAL and Oasis included the issuance of convertible bonds of the Company with principal amount of HK$606,800,000 and 72,000,000 ordinary shares of the Company of HK$0.01 each. The fair values of the convertible bonds and the ordinary shares of the Company, determined with reference to the valuation carried out by Vigers and market share price of HK$2.41, respectively, available at the date of acquisition, were approximately HK$989,794,000 and HK$173,520,000 respectively.

PAL and Oasis contributed a loss of approximately HK$3,283,000 to the Group's results for the period from the date of acquisition to December 31, 2007.

If the acquisition had been completed on January 1, 2007, total revenue of the Group for the year ended December 31, 2007 would have been increased to approximately HK$365,953,000 and loss for the year ended December 31, 2007 would have been increased to approximately HK$510,338,000. The pro-forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on January 1, 2007, nor is it intended to be projection of future results.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2008

35. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2008	2007
	HK$'000	*HK$'000*
Financial assets		
Loans and receivables (including cash and cash equivalents)	**379,196**	329,765
Available-for-sale financial asset	**132,502**	–
Financial liabilities		
Amortised cost	**796,122**	529,854

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, amounts due from (to) jointly controlled entities/a shareholder of a jointly controlled entity, available-for-sale investment, bank balances and cash, pledged bank deposits, trade and other payables, bank and other borrowings and convertible bonds. Details of these financial instruments are disclosed in respective notes. The Group's activities expose it to a variety of financial risks: market risk (including interest rate risk, foreign currency risk and other price risk), credit risk and liquidity risk.

There has been no significant change to the Group's exposure to financial risks or the manner in which it manages and measures the risk.

The directors review and agree policies for managing each of these risks and are summarised below.

Market risk

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate loan receivables (see note 19 for details), amount due from a shareholder of a jointly controlled entity (see note 23 for details), bank deposits (see note 25(a) for details), short-term bank loan and other loans from a financial institution/ a shareholder (see note 27 for details). The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances (see note 25(b) for details) and variable-rate trust receipt loans (see note 27 for details). The directors of the Company consider the Group's bank balances to cash flow interest rate risk is not significant as interest bearing bank balances are within short periods.

35. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Market risk (Continued)

Interest rate risk *(Continued)*

The Group currently does not have any interest rate hedging policy in relation to fair value and cash flow interest rate risk. However, management monitors interest rate exposure on ongoing basis and will consider hedging significant interest rate change should the need arise.

No sensitivity analysis is presented as the amount involved is not significant.

Foreign currency risk

The Group's exposure to foreign currency risk related primarily to cash and cash equivalents, trade receivables and trade payables that are denominated in currencies other than the functional currency of the relevant group entities.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets		**Liabilities**	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Renminbi ("RMB")	**83,174**	55,824	**–**	1,268
USD	**21,347**	13,500	**62,841**	58,561

Sensitivity analysis

As at December 31, 2008, if HKD had strengthened by 5% against RMB, loss for the year would have been increased by HK$3,473,000 (2007: HK$2,250,000). If HKD had strengthened by 5% against USD, loss for the year would have been decreased by HK$1,732,000 (2007: HK$1,859,000).

Other price risk

The Group is exposed to equity price risk through its investment in unlisted equity securities classified as available-for-sale financial assets. The Group would closely monitor the investment for any change in value.

35. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Credit risk

At December 31, 2008, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to perform an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

In order to minimise the credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced. The Group has concentration of credit risk as 25% (2007: 37%) of the Group's trade receivables are due from the Group's five largest customers.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings and amount due from a jointly controlled entity of HK$44,458,000 (2007: Nil) which are due from several parties only, the Group does not have any other significant concentration of credit risk.

Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its current obligations when they fall due. The Group measures and monitors its liquidity through the maintenance of adequate level of liquid assets to ensure the availability of sufficient cash flows to finance the Group's operations.

The following tables detail the Group's contractual maturity for its financial liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities with the earliest date on which the Group can be required to pay. The table include both interest and principal cash flows.

35. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Liquidity risk (Continued)

	Weighted average effective interest rate	0 - 30 days	1 - 3 months	3 months to 1 year	1 - 5 years	Total undiscounted cash flow	Carrying amount at 12.31.2008
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2008							
Non-derivative financial liabilities							
Trade and other payables	–	128,489	37,894	10,207	–	176,590	176,590
Amount due to a shareholder	–	1,695	–	–	–	1,695	1,695
Amounts due to related companies	–	1,098	–	–	–	1,098	1,098
Convertible bonds	0.10	–	–	884	886,904	887,788	501,331
Bank and other borrowings	5.70	–	17,380	22,810	84,000	124,190	115,408
Total		131,282	55,274	33,901	970,904	1,191,361	796,122

	Weighted average effective interest rate	0 - 30 day	1 - 3 months	3 months to 1 year	1 - 5 years	Total undiscounted cash flow	Carrying amount at 12.31.2007
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2007							
Non-derivative financial liabilities							
Trade and other payables	–	58,316	6,258	233	–	64,807	64,807
Amount due to a jointly controlled entity	–	2,140	–	–	–	2,140	2,140
Bank and other borrowings	7.62	46,007	–	33,313	6,013	85,333	82,877
Convertibles bonds	0.10	–	–	608	609,227	609,835	380,030
Total		106,463	6,258	34,154	615,240	762,115	529,854

(c) Fair value

The fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices and rates from observable current market transactions as input.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2008

36. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remained unchanged from prior year.

The capital structure of the Group consists of bank and other borrowings disclosed in note 27, net of cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associates with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the new share issues as well as the issue of new debt or the redemption of existing debt.

37. RETIREMENT BENEFITS PLAN

The Group contributes to a local municipal government retirement scheme for all qualifying employees in the PRC. The employers and its employees are each required to make contributions to the scheme at the rates specified in the scheme's rules. The only obligation of the Group with respect to the retirement scheme is to make the required contributions under the scheme.

In addition, the Group operates a Mandatory Provident Fund ("MPF") Scheme for its qualifying employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes at the lower of HK$1,000 or 5% of relevant payroll costs monthly to the MPF Scheme, which contribution is matched by employees.

The total cost charged to the consolidated income statement of approximately HK$4,863,000 (2007: HK$2,929,000) represents contributions paid and payable to the above schemes by the Group in respect of the current accounting period. As at December 31, 2008, all contributions in respect of the reporting period had been paid to the above schemes.

38. PLEDGE OF ASSETS

At December 31, 2008, bank deposits of HK$15,310,000 (2007: HK$12,424,000) have been pledged to secure the borrowings and the general banking facilities of the Group.

In addition, the Company had pledged some of the shares of its subsidiaries to secure the convertible bonds issued by the Company.

39. OPERATING LEASES

The Group as lessee

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancelable operating leases, which fall due as follows:

	2008	2007
	HK$'000	*HK$'000*
Within one year	**10,281**	6,093
In the second to fifth year inclusive	**5,361**	5,995
	15,642	12,088

The lease payments represent rentals payable by the Group for its office properties. The lease terms are various from one year to five years. Rentals are fixed over the relevant lease terms.

40. CAPITAL COMMITMENTS

At the balance sheet date, the Group had capital commitments as follows:

	2008	2007
	HK$'000	*HK$'000*
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of intangible assets	**–**	1,070
Capital contribution on acquisition of a PRC entity	**–**	2,675
	–	3,745

41. MAJOR NON-CASH TRANSACTIONS

Part of the consideration for the purchase of lottery software licences and an available-for-sale investment that occurred during the year ended December 31, 2008 comprised the issue of shares and convertible bonds. Further details of the acquisitions are set out in notes 16 and 33, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2008

42. RELATED PARTY DISCLOSURES

(a) During the year, the Group had the following transactions with related parties:

Class of related parties	Nature of transactions	2008 HK$'000	2007 HK$'000
Jointly controlled entity	Sales of goods	64,567	–
Minority shareholders of subsidiaries	Sales of goods	21,702	–
	Purchases of materials	117,181	–
	Service income	2,721	–
	Consultancy fee	910	–
A shareholder and its subsidiaries	Reimbursement of office and administrative expenses	715	–
	Interest expense	1,695	–

(b) Compensation of key management personnel

The remuneration of directors and other members of key management during the year is as follows:

	2008 HK$'000	2007 HK$'000
Short-term benefits	6,742	3,417
Post-employment benefits	86	72
Share-based payments	3,819	52
	10,647	3,541

The emoluments of directors and key executives are determined by the remuneration committee and management respectively having regard to the performance of the individuals and market trends.

(c) Details of the share options granted to the directors are set out in note 31.

(d) The Group's outstanding balances with related parties are set out in the consolidated balance sheet and in notes 22 and 24.

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

The following table lists major subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group.

Name of the company	Country of incorporation or establishment and operations	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company 2008 Directly	2008 Indirectly	2007 Directly	2007 Indirectly	Principal activities
Wafer Systems Limited (formerly known as Wafer Systems Holdings Limited)	Hong Kong	HK$10,000	**100%**	**-**	100%	-	Investment holding
北京威發新世紀信息技術有限公司 ("Beijing Wafer New Century Information Technology Co., Ltd.")	PRC#	USD1,500,000	**-**	**100%**	-	100%	Operation of businesses in network system integration
上海滬威網絡系統有限公司 ("Wafer Network Systems (Shanghai) Co., Ltd.")	PRC#	USD210,000	**-**	**100%**	-	100%	Operation of businesses in network system integration
Wafer Systems (China) Limited	Hong Kong	HK$10,000	**-**	**100%**	-	100%	Operation of businesses in network system integration
威發（西安）軟件有限公司 ("Wafer (Xi'an) Software Co., Ltd.")	PRC#	USD700,000	**-**	**100%**	-	100%	Research and development
Wafer Systems (Hong Kong) Limited	Hong Kong	HK$10,000	**-**	**100%**	-	100%	Operation of businesses in network system integration
Rising Move International Limited	British Virgin Islands	USD1	**100%**	**-**	100%	-	Investment holding
Precious Success Holdings Limited	British Virgin Islands	USD1	**-**	**100%**	-	100%	Investment holding

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2008

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Continued)*

Name of the company	Country of incorporation or establishment and operations	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company 2008 Directly	2008 Indirectly	2007 Directly	2007 Indirectly	Principal activities
PAL Development Limited	Hong Kong	HK$250,000,000	-	**80%**	-	80%	Investment holding
Global Score Asia Limited	British Virgin Islands	USD20,000	-	**100%**	-	100%	Investment holding
Trade Express Services Inc.	British Virgin Islands	USD20,000	-	**80%**	-	80%	Investment holding
寶加（北京）信息技術有限公司	PRC#	HK$36,000,000	-	**100%**	-	100%	Management of electronic gaming machine lounges
北京華盈風彩科技有限公司	PRC##	RMB10,000,000	-	**100%**	-	100%	Agency service for sale of gaming products
山東省開創紀元電子商務信息有限公司	PRC##	RMB2,667,000	-	**60%**	-	60%	Agency service for sale of gaming products
Oasis Rich International Limited	Republic of Mauritius	USD700,000	-	**60%**	-	60%	Investment holding
伍盛計算機科技上海有限公司	PRC#	USD70,000	-	**100%**	-	100%	Assembling of electronic gaming machine
KTeMS Co., Ltd.	South Korea	KRW50,000,000	-	**100%**	-	-	Management of lottery business
上海智珏網絡科技有限公司	PRC##	RMB4,000,000	-	**87.5%**	-	-	Agency service for sale of gaming products

These are wholly foreign owned enterprises established in the PRC.
These are private limited liability companies established in the PRC.

None of the subsidiaries had issued any debt securities at the end of the year.

FINANCIAL SUMMARY

	Year ended December 31				
	2004	2005	2006	2007	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
	(restated)	(restated)		(restated)	
RESULTS					
Revenue	269,688	368,250	326,611	361,936	**607,016**
Profit/(loss) before taxation	3,174	2,075	6,057	(474,705)	**(480,910)**
Taxation	(473)	(632)	(956)	(1,676)	**11,826**
Profit/(loss) for the year	2,701	1,443	5,101	(476,381)	**(469,084)**
Profit/(loss) attributable to:					
Equity holders of the Company	2,736	1,443	5,101	(475,448)	**(442,141)**
Minority interest	(35)	–	–	(933)	**(26,943)**
Profit/(loss) for the year	2,701	1,443	5,101	(476,381)	**(469,084)**

	As at December 31				
	2004	2005	2006	2007	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
	(restated)			(restated)	
ASSETS AND LIABILITIES					
Total assets	138,763	152,516	200,741	1,123,233	**1,045,825**
Total liabilities	(81,480)	(93,090)	(135,528)	(582,966)	**(856,086)**
	57,283	59,426	65,213	540,267	**189,739**
Equity attributable to equity holders of the Company	57,283	59,426	65,213	484,078	**159,515**
Minority interest	–	–	–	56,189	**30,224**
	57,283	59,426	65,213	540,267	**189,739**

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the annual general meeting of MelcoLot Limited (the "Company") will be held at Units 901-7, 9th Floor, Prosperity Millennia Plaza, 663 King's Road, North Point, Hong Kong on Friday, 8 May 2009 at 4:00 p.m. for the following purposes:

1. To consider and approve the audited consolidated financial statements and the reports of the directors and the auditors for the year ended 31 December 2008;

2. To re-elect an independent non-executive director, Mr. Pang Hing Chung, Alfred, retiring by rotation and to authorise the board of directors to fix his remuneration (if any); *(note 6)*

3. To re-elect an independent non-executive director, Mr. So Lie Mo, Raymond, retiring by rotation and to authorise the board of directors to fix his remuneration (if any); *(note 6)*

4. To re-appoint the auditors and to authorise the board of directors to fix their remuneration; and

As special business, to consider and, if thought fit, pass with or without amendments the following resolutions as Ordinary Resolutions:

ORDINARY RESOLUTIONS

Grant of general mandate to issue shares

5. "**THAT**:

   (a) subject to paragraph (c) of this resolution, and pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant, whether conditionally or unconditionally, offers, agreements and options (including warrants, bonds, debentures, notes and any securities which carry rights to subscribe for or are convertible into the shares in the Company) which would or might require the exercise of such powers, be and is hereby generally and unconditionally approved;

NOTICE OF ANNUAL GENERAL MEETING

(b) the approval in paragraph (a) of this resolution shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements and options (including warrants, bonds, debentures, notes and any securities which carry rights to subscribe for or are convertible into the shares in the Company) which would or might require the exercise of such powers after the end of the Relevant Period;

(c) the aggregate nominal amount of share capital allotted, issued or dealt with or agreed conditionally or unconditionally to be allotted, issued or dealt with (whether pursuant to options or otherwise) by the directors of the Company pursuant to the approval in paragraph (a) of this resolution, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); or (ii) the grant or exercise of any option under any share option scheme of the Company or any other option, scheme or similar arrangement for the time being adopted for the grant or issue to employee, director, advisor or business consultant of the Company and/or any of its subsidiaries of shares in the Company or rights to acquire shares in the Company; or (iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares in the Company in accordance with the Articles of Association of the Company in force from time to time; or (iv) any issue of shares in the Company upon the exercise of rights of subscription or conversion under the terms of any warrants or convertible bonds issued by the Company or any securities which carry rights to subscribe for or are convertible into shares in the Company, shall not exceed 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing this resolution and the authority pursuant to paragraph (a) of this resolution shall be limited accordingly; and

(d) for the purpose of this resolution,

"Relevant Period" means the period from the date of the passing this resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or any applicable law of the Cayman Islands to be held; and

NOTICE OF ANNUAL GENERAL MEETING

(iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the directors of the Company by this resolution.

"Rights Issue" means an offer of shares in the Company, or offer or issue of warrants, options or other securities giving rights to subscribe for shares open for a period fixed by the directors of the Company to holders of shares in the Company on the register on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction applicable to the Company, or any recognised regulatory body or any stock exchange in any territory applicable to the Company)."

Grant of the general mandate to repurchase shares

6. "**THAT**:

(a) subject to paragraph (b) of this resolution, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase shares in the capital of the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited or any other stock exchange on which the shares in the Company may be listed and recognised by the Securities and Futures Commission and The Stock Exchange of Hong Kong Limited for such purpose, subject to and in accordance with the rules and regulations of the Securities and Future Commission, The Stock Exchange of Hong Kong Limited, the Companies Law of the Cayman Islands and all other applicable laws in this regard, be and the same is hereby generally and unconditionally approved;

(b) the aggregate nominal amount of shares in the Company which the Company is authorised to repurchase pursuant to the approval in paragraph (a) of this resolution during the Relevant Period shall not exceed 10 per cent. of the aggregate nominal amount of the issued share capital of the Company as at the date of the passing of this resolution and the authority pursuant to paragraph (a) of this resolution shall be limited accordingly;

NOTICE OF ANNUAL GENERAL MEETING

(c) for the purpose of this resolution,

"Relevant Period" means the period from the date of the passing of this resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or any other applicable law of the Cayman Islands to be held; and

(iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the directors of the Company by this resolution."

Extension of Resolution 5 to number of shares repurchased in Resolution 6

7. "**THAT** conditional upon the passing of resolution nos. 5 and 6 of the notice convening this meeting, the general mandate granted to the directors of the Company to allot, issue and deal with additional shares in the Company pursuant to the said resolution no. 5 be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of shares in the capital of the Company which are repurchased by the Company under the authority granted to the directors of the Company pursuant to the said resolution no. 6."

Refreshment of the limit of the existing share option scheme

8. "**THAT** subject to and conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting approval for the listing of, and permission to deal in, the shares in the share capital of the Company to be issued pursuant to the exercise of share options which may be granted under the Refreshed Scheme Limit (as defined below), the refreshment of the limit in respect of the granting of share options under the Share Option Scheme of the Company adopted on 20 April 2002, up to 10% of the total number of shares of the Company in issue as at the date of passing of this resolution (the "Refreshed Scheme Limit") be and is hereby approved; and that any director of the Company be and is hereby authorised to do all such acts and execute all such documents to effect the Refreshed Scheme Limit."

By order of the Board of
MelcoLot Limited
Chan Sek Keung, Ringo
Chairman

Hong Kong, 26 March 2009

NOTICE OF ANNUAL GENERAL MEETING

Notes:

1. A Shareholder of the Company entitled to attend and vote at the above meeting is entitled to appoint another person as his proxy to attend and vote instead of him. A Shareholder who is holder of two or more shares may appoint more than one proxy to attend and vote instead of him. A proxy need not be a Shareholder of the Company.

2. In order to be valid, a form of proxy together with the power of attorney or other authority (if any) under which it is signed, or a certified copy thereof, must be deposited at the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1806-7, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 48 hours before the time appointed for the meeting (or any adjournment thereof).

3. Completion and return of the form of proxy will not preclude shareholders of the Company from attending and voting in person at the meeting or any adjournment thereof should they so desire.

4. With regard to ordinary resolution no. 6 of this notice, an explanatory statement containing information regarding the repurchase by the Company of its own shares as set out in the circular of the Company dated 31 March 2009 will be sent to shareholders of the Company together with the 2008 Annual Report of the Company.

5. Article 66 of the Company's articles of association sets out the procedures by which shareholders of the Company may demand a poll at general meetings.

   According to Rule 17.47(4) of the GEM Listing Rules, any voting of the shareholders of the Company at the annual general meeting will be taken by way of poll and an announcement will be made after the annual general meeting on the results of the meeting.

6. The biographical details on Mr. Pang Hing Chung, Alfred and Mr. So Lie Mo, Raymond are set out in the circular of the Company dated 31 March 2009.

7. The translation into Chinese language of this notice is for reference only. In case of any inconsistency, the English version shall prevail.