China LotSynergy

Annual Report 2009

China LotSynergy Holdings Limited
華彩控股有限公司*

(Incorporated in Bermuda with limited liability)

Stock code: 8161

* For identification purposes only

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 and no assurance is given that there will be a liquid market in the securities traded on GEM.

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

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors
LAU Ting, *Chairperson and Chief Executive Officer*
CHAN Shing
WU Jingwei, *Co-Chief Executive Officer*
LIAO Yuang-whang, *Chief Financial Officer*

Non-Executive Directors
HOONG Cheong Thard
Paulus Johannes Cornelis Aloysius KARSKENS

Independent Non-Executive Directors
HUANG Shenglan
CHAN Ming Fai
CUI Shuming

COMPANY SECRETARY

TAN Yung Kai, Richard

COMPLIANCE OFFICER

LIAO Yuang-whang

AUTHORISED REPRESENTATIVES

LIAO Yuang-whang
TAN Yung Kai, Richard

AUDIT COMMITTEE

HUANG Shenglan
CHAN Ming Fai
CUI Shuming

REMUNERATION COMMITTEE

HUANG Shenglan
CHAN Ming Fai
LAU Ting

AUDITORS

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

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WEBSITE

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PRINCIPAL SHARE REGISTRARS

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

BRANCH SHARE REGISTRARS IN HONG KONG

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

LEGAL ADVISERS

Appleby
Baker & McKenzie
Gaopeng & Partners

PRINCIPAL BANKERS

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

FINANCIAL SUMMARY

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

RESULTS

		Year ended 31 December			Nine-month period ended 31 December
	2009	2008	2007	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Continuing operations:					
Turnover	**84,578**	117,377	310,267	71,345	–
Gross profit	**37,002**	55,145	259,350	60,319	–
Finance costs	**(26,423)**	(25,238)	(14,329)	–	–
Impairment of goodwill	**–**	(854,725)	–	–	–
Share option expenses	**(10,667)**	(12,940)	(20,327)	(23,823)	(26,279)
(Loss)/Profit before income tax	**(82,722)**	(927,032)	246,967	12,035	(42,402)
Income tax	**(5,030)**	580	(1,034)	(186)	179
(Loss)/Profit for the year/period from continuing operations	**(87,752)**	(926,452)	245,933	11,849	(42,223)
Discontinued operations:					
Loss for the year/period from discontinued operations	**–**	–	–	(14,748)	(36)
(Loss)/Profit for the year/period	**(87,752)**	(926,452)	245,933	(2,899)	(42,259)
Attributable to:					
Equity holders of the Company	**(81,596)**	(930,729)	132,094	(29,188)	(42,146)
Minority interests	**(6,156)**	4,277	113,839	26,289	(113)
	(87,752)	(926,452)	245,933	(2,899)	(42,259)

ASSETS AND LIABILITIES

	As at 31 December				
	2009	2008	2007	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total current assets	**1,175,545**	1,110,564	1,338,118	388,292	308,416
Total assets	**1,948,957**	1,810,535	2,859,639	1,496,604	313,042
Total liabilities	**(1,023,270)**	(823,723)	(759,035)	(60,868)	(7,928)
Net assets	**925,687**	986,812	2,100,604	1,435,736	305,114

MANAGEMENT DISCUSSION AND ANALYSIS

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

BUSINESS REVIEW

The Group is optimistic about the prospects of the public welfare lottery in China. While overcoming the hardships as a result of the adjustments across the lottery industry in 2009, through in-depth analysis of the industry and systematic research on company positioning, the Group has formed three business segments including (1) Computer-generated Ticket Game (CTG) and high-frequency lottery, (2) video lottery, (3) mobile lottery and internet services. Progress has been made in all these areas, including technological innovation capabilities enhanced and the standard of project management reinforced. On the CTG business, a new five-year contract has been signed with Guangdong Welfare Lottery Centre for supply of betting terminal and services, while Keno, the high-frequency lottery game, was officially rolled out in public venues; on the video lottery business, approval was obtained from the Ministry of Finance for the re-launch of sales of VLT across the nation; on the mobile lottery and internet services business, contracts have been signed with several provinces for betting via mobile phone/fixed line telephone. The cooperation between the Group and the global leaders in the lottery industry has been further strengthened, with a closer and more interactive business relationship established with IGT and GTECH. In 2009, the Group and IGT have completed a further capital injection into IGT-Synergy Technology (Beijing) Co., Ltd, their joint venture company in China, for the development of lottery business in the nation.

Video Lottery Business

VLT Business

The Group is the exclusive equipment provider for the video lottery game of China Welfare Lottery Online (VLT), approved by the Ministry of Finance of China, which is a nationwide product issued by China Welfare Lottery Centre ("CWLC"). After the enhancement measures which lasted about one year and a half, approval was obtained from government regulatory authorities for the launch of four new games, namely, Qu Wei Gao Er Fu (趣味高爾夫), Lian Huan Duo Bao (連環奪寶), San Jiang Feng Guang (三江風光) and Hao Yun She Ji (好運射擊) from July 2009. The four games are running in a stable fashion, and well received by the market. Two of them, San Jiang Feng Guang(三江風光) and Hao Yun She Ji (好運射擊) are being sold in VLT halls with new sales permits across China, while the other two, Qu Wei Gao Er Fu (趣味高爾夫) and Lian Huan Duo Bao (連環奪寶), after having been trial run in 100 plus VLT halls in seven selected provinces for half a year, have now been extended to VLT halls in 28 provinces, autonomous regions and municipalities re-awarded with new sales permits having satisfied sales requirements and been accepted and approved by the authorities in December 2009. The payout ratio of the games has been increased to 65%. Meanwhile, in order to make better use of VLT as a means to raising welfare funds for disaster relief purposes, the design and graphics presentations of these four new games all emphasize the themes of public welfare, healthiness, culture and the like.

CTG and High Frequency Lottery Business

CTG Business

The Group is the exclusive supplier of CTG betting terminal equipment for Guangdong province, and supplies lottery ticket scanners and readers to other corporate customers. In 2009, Guangdong province continued to maintain its position as the leading welfare lotteries selling province in China. This business has brought in stable cash flow for the Group. During the year, a subsidiary of the Group entered into a new contract with Guangdong Welfare Lottery Centre for betting terminal and services for the next five years. Furthermore, the Group is actively exploring overseas markets for its new multifunction lottery betting terminals, with an aim to securing orders from Europe and Southeast Asian countries.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(Cont'd)*

CTG and High Frequency Lottery Business *(Cont'd)*

High Frequency Lottery Business

CLS-GTECH Company Limited, a joint venture company between the Group and GTECH, provides the system and terminals for KENO, the Welfare Lottery's high frequency game. Keno has now been massively rolled out in eight selected provinces including Liaoning, Hebei, Sichuan, Hunan, Shanxi, Gansu, Shandong and Jilin, with add-on game approved by the authorities including the Ministry of Finance in August 2009. Sales of Keno have increased steadily with more provinces and terminals selling the game. Success of the game in the international lottery sector has proved that Keno brings incremental sales to the market. The Group will work closely with lottery issuance authorities to meet their requirements on system and terminal equipment, as well as step up efforts like enriching the variety of Keno games on an ongoing basis. Management believes this business will bring long-term and stable revenue for the Group.

Mobile Lottery Business

Along with technological development in mobile communication technology, electronic payment and mobile phone terminal, mobile phone has evolved to become a crucial platform to obtain information and carry out electronic business transactions for a wide spectrum of users, and purchase of lottery via mobile phone has become an increasingly important channel for the middle to high income player groups. The Group is a licenced technology and service provider of mobile lottery service. The Group has successfully introduced new technologies to the lottery industry to provide a total solution for lottery purchase via mobile phone. The Group has made substantial progress in the mobile lottery business since the second half of 2009, securing four provincial authorizations for mobile phone and mobile terminal betting with Tianjin, Chongqing and Ningxia in less than four months.

Other Lottery Business

The Group is collaborating with its strategic partners including IGT and GTECH, to develop a wide variety of lottery-related products tailored to the China market, which will help enhance the capabilities of the China lottery industry in areas such as research & development of systems and games, design and manufacture of terminal equipment, and operation & maintenance, improve and enrich the variety and content of games, as well as introduce the technology and management techniques of responsible lottery, thereby fostering the safe and healthy development of the China lottery market.

OUTLOOK

In 2009, the China lottery market showed strong growth momentum, with sales revenue amounting to RMB132.47 billion, representing an increase of approximately 25% over the same period of 2008. There is no doubt that the China economy will resume high-speed growth as it has demonstrated. The introduction of the "Regulations on Administration of Lotteries" (State Council Decree No.554) allows the lottery business in China, a major lottery market in the world, to smoothly progress to a new stage of development with the right legal protection and sound regulation, paving the way for continued rapid development.

With the strengthening of its integrated competitiveness in 2009, the Group has enhanced its strength in the research and development of systems and games, manufacture and design of terminals, as well as operation and maintenance, become capable of improving and enriching the variety and content of games, and developed advanced industry management practices. Three business segments have now been formed including CTG and High Frequency Lottery, Video Lottery, and Mobile Lottery and internet Services. The Group has high expectations of the development of all the segments in 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

OUTLOOK *(Cont'd)*

In particular, as the terminal equipment supplier of VLT, the Group will work closely with CWLC in implementing various initiatives in 2010 while constantly enhancing its capabilities in the research and development, manufacture and provision of services for video lottery system, terminal equipment and games. As the exclusive supplier of terminal equipment and system for Keno, the Welfare Lottery's nationwide high frequency product, the Group will apply its advanced technology in the operation and service support to ensure the smooth running of each and every terminal, while working closely with CWLC in developing new markets across China. As the supplier of CTG betting terminal equipment for Guangdong province, the Group will capture the opportunity of this new contract with the Province to further improve and develop its own capability, with an aim to expanding the business to other provinces in China. In January 2010, the Chinese government has speeded up the integration of the telecommunication network, broadcasting TV network and Internet, fully reflecting the government's emphasis on the information business. Along with the creation of this epoch-making new media business chain, a more favourable environment will be provided for mobile betting. The Group has developed comprehensive technological and market development capability in this area, which is expected to deliver good performance in 2010. At the same time, the Group will actively explore and seek to develop new technologies and new channels, as well as work closely with its strategic partners to seize opportunities in emerging markets.

The Group will continue to focus on the lottery business in China. With its integrated competitiveness, the Group will endeavour to create new revenue streams by expanding its various businesses and participating in various parts of the lottery value chain. Meanwhile, the Group will identify potentially profitable investment opportunities, including businesses that are in shareholder' interests and with strategic values, enhance its business portfolio, strengthen its revenue base and profitability, in order to provide long-term and stable returns to its shareholders.

FINANCIAL REVIEW

The Group recorded a turnover of approximately HK$84.6 million for the year ended 31 December 2009, representing a decrease of 28% over 2008. Loss attributable to equity holders for the year amounted to approximately HK$81.6 million, as compared with the loss of HK$930.7 million for 2008.

LIQUIDITY, FINANCIAL RESOURCES, GEARING RATIO AND CAPITAL STRUCTURE

At 31 December 2009, the Group had an outstanding guarantee and indemnity for HK$30 million (at 31 December 2008: HK$30 million) plus interest and other charges for treasury facilities provided by a bank. Such treasury facilities were for a maximum tenor of 18 months, with facility limits to be determined by the bank at its sole discretion and may vary from time to time by the bank. The treasury facilities and guarantee have been terminated at 5 March 2010 by the bank. In addition, at 31 December 2009, the Group had an outstanding corporate guarantee for unlimited amount for banking facilities of property installment loan of HK$75 million granted to the subsidiary of the Company.

The Group believes that the available financial resources will sufficiently fund our capital and operating requirements. The Group had outstanding bank borrowing at 31 December 2009 of HK$75 million (at 31 December 2008: Nil). The Group's investment property was pledged to secure this bank borrowing.

The Group's total equity amounted to approximately HK$925.7 million at 31 December 2009 (at 31 December 2008: HK$986.8 million). At 31 December 2009, net current assets of the Group amounted to approximately HK$828.6 million (at 31 December 2008: HK$865.5 million), including approximately HK$632.7 million in cash and deposits with banks (at 31 December 2008: HK$747.7 million).

The gearing ratio (defined as total liabilities over total assets) of the Group at 31 December 2009 was approximately 52.5% (at 31 December 2008: 45.5%).

MANAGEMENT DISCUSSION AND ANALYSIS

EXPOSURE TO EXCHANGE RATES FLUCTUATION

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

PLEDGE OF ASSET

At 31 December 2009, the Group's investment property at market value of HK$140 million (at 31 December 2008: Nil) was pledged to bank to secure the bank borrowing granted to the Group.

CONTINGENT LIABILITIES

At 31 December 2009, the Group did not have any material contingent liabilities (at 31 December 2008: Nil).

STAFF

At 31 December 2009, the Group had 290 (2008: 205) full time employees. The management believes that the competence of employees is a major contributing factor to the Group's sustained growth and advancement in profitability. Staff remuneration is based on performance and experience. In addition to basic salary, benefits for employees include a performance-related bonus, contributory provident fund and medical insurance. The Group also adopted a share option scheme under which options may be granted to eligible staff based on individual performance. Training programmes for staff are provided as and when required. The Group will further strengthen its team, and in particular on the build up of its technical team, in order to offer enhanced services for China's welfare lottery market.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Ms. LAU Ting
Chairperson and Chief Executive Officer

Ms. Lau, aged 53, is the Chairperson, an Executive Director and the Chief Executive Officer of the Company. Ms. Lau is the core founder of the Group and implements the Group's overall strategies for development. She has over twenty years of extensive experience in business planning and management, merger and acquisition, and financial and human resources management, and has spearheaded the Group's efforts with success in business expansion in the China lottery industry. Ms. Lau is also an executive director of Burwill Holdings Limited, a company listed in Hong Kong. Ms. Lau is the spouse of Mr. Chan Shing.

Mr. CHAN Shing
Executive Director

Mr. Chan, aged 54, is the Executive Director of the Company and the core founder of the Group. Mr. Chan has over twenty years of experience in corporate planning and management. Mr. Chan is also the Chairman and the Managing Director of Burwill Holdings Limited, a company listed in Hong Kong. Mr. Chan is the spouse of Ms. Lau Ting.

Mr. WU Jingwei
Executive Director and Co-Chief Executive Officer

Mr. Wu, aged 38, is an Executive Director and the Co-Chief Executive Officer of the Company. Mr. Wu assists the Chief Executive Officer in implementation of the Group's overall strategies for development. He is responsible for the marketing and the operation management of the Group. Mr. Wu has over fourteen years of experience in information technology and has extensive experience in consumer electronics market in China. Prior to joining the Group in July 2007, Mr. Wu was the General Manager of Hisense Cyber Product Limited, responsible for China business. He had also held senior position in Founder Technology Group Corp., responsible for the consumer product business and the overall products development in China market. Mr. Wu holds a bachelor's degree in Mechanical Engineering from Beijing Technology and Business University.

Mr. LIAO Yuang-whang
Executive Director, Chief Financial Officer and Compliance Officer

Mr. Liao, aged 40, is an Executive Director, the Chief Financial Officer and the Compliance Officer of the Company. Mr. Liao is responsible for the management of finance, investor relations and overseas' customer relations of the Group. Mr. Liao has over thirteen years of experience in banking and finance. Prior to joining the Group in September 2007, Mr. Liao had previously been the Director of Investor Relations of Samson Holding Ltd., a company listed in Hong Kong, and Vice-President and Chief Financial Officer of the subsidiaries of Samson Holding Ltd.. Mr. Liao held the position of Director in the Private Equity of Citibank, Hong Kong. He also held the positions of Financial Officer, Risk Analyst and Vice-President of Private Equity at Citibank, Taipei. Mr. Liao holds a Bachelor of Arts Degree in Management Science from National Chiao Tung University and a Master of Philosophy in Management from Cambridge University. Mr. Liao is currently a Non-Executive Director of Samson Holding Ltd..

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS *(Cont'd)*

Mr. HOONG Cheong Thard
Non-Executive Director

Mr. Hoong, aged 41, currently is a Non-Executive Director and the Consultant of the Company. Mr. Hoong joined the Group in September 2006 and had been an Executive Director and the Chief Executive Officer of the Company until September 2008. Mr. Hoong has over fifteen years of experience in investment banking and has extensive experience in international capital markets and mergers and acquisitions. Prior to joining the Group, Mr. Hoong was a Director in Equity Capital Markets at Deutsche Bank responsible for Greater China. He was also previously an Executive Director in Equity Capital Markets at UBS and has held senior positions in Corporate Finance at Barclays Group and a major international accounting firm where he was involved in auditing. Mr. Hoong is currently the Managing Director of Far East Consortium International Limited, a company listed in Hong Kong, and the Director and President of Tokai Kanko Co. Limited, a company listed in Tokyo, Japan. He is a member of the Institute of Chartered Accountants in England and Wales and holds a bachelor's degree in Mechanical Engineering from Imperial College, University of London.

Mr. Paulus Johannes Cornelis Aloysius KARSKENS
Non-Executive Director

Mr. Karskens, aged 57, joined the Group in July 2007 and is a Non-Executive Director of the Company. Mr. Karskens is also the President of the International Division of IGT, a subsidiary of International Game Technology (NYSE: IGT), a company incorporated in the State of Nevada and listed on the New York Stock Exchange. IGT is a global company specialising in the design, development, manufacturing, distribution and sale of games, platforms and systems to many jurisdictions with legalized gaming around the world. Mr. Karskens has been with IGT since November 1993. He has been the President of IGT International since December 2000, and has successfully assisted in the expansion of international business of IGT, bringing IGT to a leading position in the global gaming industry in the supplies of systems, games and terminals. Mr. Karskens had previously been the Senior Vice President of IGT operations in the United Kingdom, Europe and South-Africa. Mr. Karskens had also held various management positions in several computer system related companies in Europe for over 20 years. Mr. Karskens received a doctorandus degree in Economics from Free University of Amsterdam.

Mr. HUANG Shenglan
Independent Non-Executive Director

Mr. Huang, aged 58, joined the Group in October 2002 and is an Independent Non-Executive Director. Mr. Huang was an executive director and the deputy governor of China Everbright Bank, Head Office and was an executive director and the general manager of China Everbright Technology Limited. Mr. Huang holds a diploma in Arts from Huazhong Normal University and in International Economics from Huadong Normal University and a certificate in International Economic Law from Xiamen University and in Advanced Management Programme from the Business School of Harvard University, USA. Mr. Huang is also an independent non-executive director of two Hong Kong Listed companies, namely Burwill Holdings Limited and Symphony Holdings Limited and an independent director of a Shanghai listed company, namely Chongqing Road & Bridge Co. Limited.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS *(Cont'd)*

Mr. CHAN Ming Fai
Independent Non-Executive Director

Mr. Chan, aged 48, joined the Group in May 2006 and is an Independent Non-Executive Director of the Company. He is currently the Chief Executive Officer of Full Seas Technology Group and is primarily responsible for the formulation and execution of the Group's strategy. Prior to that, he was the President of Dandelion Capital Group, which is a private financial advisory company. He has over twenty years of experience in investment banking and asset management. Mr. Chan had worked for Jardine Fleming Investment Management with a major responsibility to market unit trusts and asset management products in Hong Kong and subsequently in various Asian markets, and was particularly instrumental in the establishment of Jardine Fleming's investment trust operation in Japan, Korea and Indonesia. Mr. Chan also cofounded the KGI Group, which is a pan-Asian investment bank with shareholders including major investors and institutions in Asia, where he was the head of the asset management operation which managed about USD400 million in hedge funds and other portfolios, and was also a member of the management committee of KGI Group. Mr. Chan received a bachelor's degree in Social Sciences with major in Economics from the University of Hong Kong. Mr. Chan is currently a Non-Executive Director of Advanced Engine Components Limited, a company listed in Australia.

Mr. CUI Shuming
Independent Non-Executive Director

Mr. Cui, aged 72, joined the Group in June 2008 and is an Independent Non-Executive Director of the Company. He graduated from People's University of China. He was the Deputy Head of the Bank of China, Jiangsu branch, the Executive Director of The Nationa Commercial Bank, Ltd. and the General Manager of its Hong Kong branch, a Director and the Executive Vice President of The Ka Wah Bank Limited and an Independent Non-Executive Director of two public listed companies in Hong Kong, Cheung Tai Hong Holdings Limited (currently known as ITC Properties Group Limited) and Wah Sang Gas Holdings Limited. Mr. Cui is currently an Independent Non-Executive Director of Burwill Holdings Limited and Yue Da Mining Holdings Limited, both are listed companies in Hong Kong. He has over forty years' experience in international finance and corporate planning and management.

SENIOR MANAGEMENT

Mr. CHEN Hengben

Mr. Chen, aged 70, joined the Group in 2008. He is currently the Vice President of the Group and the Chairman of the Group's CTG Business in Guangdong Province. Mr. Chen, who is among the pioneers in China engaged in the development of the lottery system and equipment, has over 40 years of practical experience in computer science and electronic engineering. He was a Senior Engineer for the Research Institute of China Ordnance Industry and the Vice President covering technology for the Computer Center of Guangdong Provincial Science and Technology Commission; In 1992, he took part in establishing Guangzhou Horse Race Ground and assumed the position of Vice Chief Commander for the Project Construction of the Real Time Racing Lottery Bidding System for Guangzhou Horse Race Ground. In 1999, he was appointed as Chief Commander for the Project Construction of Macau Dog Racing Club Real Time Lottery Bidding System. Afterwards he founded Guangzhou San Huan Yong Xin Technology Company Limited and Guangzhou Lottnal Terminal Technology Company Limited. Mr. Chen holds a bachelor's degree in Computer from South China University of Technology.

Mr. Lan Jianzhang

Mr. Lan, aged 38, joined the Group in 2009. He is currently the General Manager of the Group's new Lottery Business Group and the General Manager of a Joint Venture of the Group. Prior to joining the Group, Mr. Lan had held senior position at China Lottery Online Technology Co., Ltd, responsible for the strategies, products and business development. He has extensive and proven experience in the lottery industry including video lottery segment. Mr. Lan has over 14 years experience in the information technology and internet sector. He had held management positions at leading companies in the sector including the PKU Founder Group, responsible for the development of high-end information technology and household appliances. Mr. Lan holds a bachelor's degree from Beijing University of Aeronautics & Astronautics, a master's degree in physics from Chinese Academy of Sciences, and an EMBA from Beijing Institute of Technology.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT *(Cont'd)*

Ms. He Ying

Ms. He, aged 40, joined the Group in 2007. She is currently the Vice General Manager of the Group's Mobile and Internet Services Business Group and the General Manager of the Product and Marketing Department of the Group. Prior to joining the Group, Ms. He had been the General Manager of the Marketing Department at Founder Technology Group Corporation and Vice General Manager at Hisense Cyber Product Limited. Ms. He has been engaged in the information technology industry for 14 years, has extensive experience in marketing and corporate management. Ms. He holds a bachelor's degree in Computer Science from the Beijing University of Technology.

Mr. Ji Youjun

Mr. Ji, aged 37, joined the Group in 2007. He is currently the Vice General Manager of the Group's Mobile and Internet Services Business Group and the General Manager of the Technology Management Department of the Group. Prior to joining the Group, Mr. Ji had been the Head of Household Product Development at Founder Technology Group Corporation and Vice General Manager at Hisense Cyber Product Limited. Mr. Ji has extensive experience in the development and management of information technology hardware and software products. He holds a bachelor's degree from Harbin University of Science and Technology.

Mr. Chong Ming, John

Mr. Chong, aged 38, joined the Group in 2001. He is currently the Chairperson's Assistant as well as the Assistant President of the Group. Prior to joining the Group, Mr. Chong was an officer with the Legal Aid Department of the Department of Justice as well as the Legislative Council Secretariat of Hong Kong respectively. Mr. Chong holds a degree in Translation and Interpretation from the City University of Hong Kong.

Ms. SONG Xiaojun

Ms. Song, aged 43, joined the Group in 2007. She is currently the Head of the Legal Department of the Group. Ms. Song obtained the lawyer qualification certificate in mainland China and she has over 15 years of experience in legal areas, specialising in commercials, foreign investments in China, dispute resolutions and intellectual property. Prior to joining the Company, Ms. Song worked with the China University of Politics and Law, law firms in mainland China and Hong Kong respectively. Ms. Song holds a bachelor's degree in law from the China University of Politics and Law and a master's degree (Magister Juris) in European and Comparative Law from Oxford University.

Mr. TAN Yung Kai, Richard

Mr. Tan, aged 38, joined the Group in 2000. He is currently the Company Secretary and the Deputy Financial Controller of the Group, responsible for the overall compliance and financial accounting of the Company. Mr. Tan has over 10 years of experience in the audit and the accounting fields. Prior to joining the Group, he worked for Deloitte Touche Tohmatsu, an international accounting firm involved in the various auditing and due diligence activities. He holds a bachelor's degree in Commerce from McGill University, Canada and a master's degree in Corporate Finance from the Hong Kong Polytechnic University. Mr. Tan is a member of the Hong Kong Institute of Certified Public Accountants and American Institution of Certified Public Accountants.

REPORT OF THE DIRECTORS

The board of directors of the Company (the "Board" or the "Directors") presents to the shareholders their report together with the audited financial statements of the Group for the year ended 31 December 2009.

FINANCIAL RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 31 December 2009 are set out in the consolidated income statement on page 31.

No interim dividend was paid during the year.

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES AND SEGMENT INFORMATION

The principal activity of the Company is investment holding.

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

Analysis of the Group's turnover and segment information for the year ended 31 December 2009 are set out in note 5 to the consolidated financial statements.

MAJOR SUPPLIERS AND CUSTOMERS

The Group's five largest customers accounted for about 98% of its turnover for the year. In addition, the largest customer of the Group accounted for about 47% of the Group's turnover.

The percentage of the Group's purchases attributable to the Group's five largest suppliers was about 58%. In addition, the largest supplier of the Group accounted for about 38% of the Group's purchases.

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

PROPERTY, PLANT AND EQUIPMENT

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

SUBSIDIARIES

The particulars of the Company's principal subsidiaries as at 31 December 2009 are set out in note 18 to the consolidated financial statements.

SHARE CAPITAL

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

REPORT OF THE DIRECTORS

CONVERTIBLE NOTE

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

RESERVES

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

DISTRIBUTABLE RESERVES

As at 31 December 2009, there was no distributable reserve to the shareholders in accordance with the Company's Bye-laws (As at 31 December 2008: Nil).

PRE-EMPTIVE RIGHTS

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

CHANGES IN DIRECTORS' BIOGRAPHICAL DETAILS

Pursuant to Rule 17.50A (1) of the Rules Governing the listing of securities on The Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"), the change of directors' biographical details are set out as follows:

With effect from 1 November 2009, the director's fee of Mr. HUANG Shenglan, the Independence Non-Executive Director of the Company, was changed to HK$50,000 per month.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year ended 31 December 2009.

SHARE OPTION SCHEME

As at 31 December 2009, there were options for 376,300,000 shares granted by the Company pursuant to the option scheme, as adopted by the shareholders of the Company on 30 July 2002 (the "Option Scheme"), which were valid and outstanding.

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

(i) Purpose of the Option Scheme

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

(ii) Participants

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

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME *(Cont'd)*

(iii) Maximum number of shares

The limit on the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Option Scheme and any other share option schemes of the Company and/or its holding company and/or its subsidiary must not exceed 30% of the number of issued shares from time to time. The total number of Shares available for issue under the Option Scheme as at the date of this report is 494,532,800 Shares, representing approximately 6.68% of the issued share capital of the Company as of that date.

(iv) Maximum entitlement of each Participant

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

(v) Option period

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

(vi) Payment on acceptance of option

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

(vii) Subscription price

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

(viii) The life of the Option Scheme

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

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME *(Cont'd)*

Movements of share options granted under the Option Scheme during the year ended 31 December 2009:

	Date of grant	Exercise price per Share HK$	Exercise period from	Exercise period until	No. of Shares under the options outstanding at the beginning of the year	granted during the year	exercised during the year	cancelled during the year	lapsed during the year	outstanding at the end of the year	Closing price per Share at the date of grant of the options during the year HK$
(i) Name of Directors											
LAU Ting	08/06/2006	0.305	08/06/2007	07/06/2011	600,000	–	–	–	–	600,000	–
	08/06/2006	0.305	08/06/2008	07/06/2011	600,000	–	–	–	–	600,000	–
	08/06/2006	0.305	08/06/2009	07/06/2011	600,000	–	–	–	–	600,000	–
	08/06/2006	0.305	08/06/2010	07/06/2011	600,000	–	–	–	–	600,000	–
CHAN Shing	08/06/2006	0.305	08/06/2007	07/06/2011	600,000	–	–	–	–	600,000	–
	08/06/2006	0.305	08/06/2008	07/06/2011	600,000	–	–	–	–	600,000	–
	08/06/2006	0.305	08/06/2009	07/06/2011	600,000	–	–	–	–	600,000	–
	08/06/2006	0.305	08/06/2010	07/06/2011	600,000	–	–	–	–	600,000	
WU Jingwei	11/01/2007	0.445	01/01/2008	31/12/2011	2,000,000	–	–	–	–	2,000,000	–
	11/01/2007	0.445	01/01/2009	31/12/2011	2,000,000	–	–	–	–	2,000,000	–
	11/01/2007	0.445	01/01/2010	31/12/2011	2,000,000	–	–	–	–	2,000,000	–
	11/01/2007	0.445	01/01/2011	31/12/2011	2,000,000	–	–	–	–	2,000,000	–
	04/07/2007	0.975	01/01/2008	31/12/2013	1,200,000	–	–	–	–	1,200,000	–
	04/07/2007	0.975	01/01/2009	31/12/2013	1,200,000	–	–	–	–	1,200,000	–
	04/07/2007	0.975	01/01/2010	31/12/2013	1,200,000	–	–	–	–	1,200,000	–
	04/07/2007	0.975	01/01/2011	31/12/2013	1,200,000	–	–	–	–	1,200,000	–
	04/07/2007	0.975	01/01/2012	31/12/2013	3,200,000	–	–	(2,400,000)	–	800,000	–
	04/07/2007	0.975	01/01/2013	31/12/2013	3,200,000	–	–	(3,200,000)	–	–	–
	13/11/2007	0.960	01/01/2008	31/12/2011	8,000,000	–	–	–	–	8,000,000	–
	13/11/2007	0.960	01/01/2009	31/12/2011	8,000,000	–	–	–	–	8,000,000	–
	13/11/2007	0.960	01/01/2010	31/12/2011	8,000,000	–	–	–	–	8,000,000	–
	13/11/2007	0.960	01/01/2011	31/12/2011	8,000,000	–	–	(8,000,000)	–	–	–
	25/08/2008	0.500	25/08/2009	24/08/2013	2,000,000	–	–	–	–	2,000,000	–
	25/08/2008	0.500	25/08/2010	24/08/2013	2,000,000	–	–	–	–	2,000,000	–
	25/08/2008	0.500	25/08/2011	24/08/2013	2,000,000	–	–	–	–	2,000,000	–
	25/08/2008	0.500	25/08/2012	24/08/2013	2,000,000	–	–	–	–	2,000,000	–
	02/10/2009	0.500	01/09/2010	31/08/2014	–	3,400,000	–	–	–	3,400,000	0.320
	02/10/2009	0.500	01/09/2011	31/08/2014	–	3,400,000	–	–	–	3,400,000	0.320
	02/10/2009	0.500	01/09/2012	31/08/2014	–	3,400,000	–	–	–	3,400,000	0.320
	02/10/2009	0.500	01/09/2013	31/08/2014	–	3,400,000	–	–	–	3,400,000	0.320

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME *(Cont'd)*

	Date of grant	Exercise price per Share HK$	Exercise period from	Exercise period until	No. of Shares under the options: outstanding at the beginning of the year	granted during the year	exercised during the year	cancelled during the year	lapsed during the year	outstanding at the end of the year	Closing price per Share at the date of grant of the options during the year HK$
(i) Name of Directors *(Cont'd)*											
LIAO Yuang-whang	18/09/2007	0.904	18/09/2008	17/09/2011	3,200,000	–	–	–	–	3,200,000	–
	18/09/2007	0.904	18/09/2009	17/09/2011	3,200,000	–	–	(400,000)	–	2,800,000	–
	18/09/2007	0.904	18/09/2010	17/09/2011	5,600,000	–	–	(5,600,000)	–	–	–
	13/11/2007	0.960	18/09/2008	17/09/2012	8,000,000	–	–	–	–	8,000,000	–
	13/11/2007	0.960	18/09/2009	17/09/2012	8,000,000	–	–	–	–	8,000,000	–
	13/11/2007	0.960	18/09/2010	17/09/2012	8,000,000	–	–	–	–	8,000,000	–
	13/11/2007	0.960	18/09/2011	17/09/2012	8,000,000	–	–	(8,000,000)	–	–	–
	25/08/2008	0.500	25/08/2009	24/08/2013	2,000,000	–	–	–	–	2,000,000	–
	25/08/2008	0.500	25/08/2010	24/08/2013	2,000,000	–	–	–	–	2,000,000	–
	25/08/2008	0.500	25/08/2011	24/08/2013	2,000,000	–	–	–	–	2,000,000	–
	25/08/2008	0.500	25/08/2012	24/08/2013	2,000,000	–	–	–	–	2,000,000	–
	02/10/2009	0.500	01/09/2010	31/08/2014	–	3,500,000	–	–	–	3,500,000	0.320
	02/10/2009	0.500	01/09/2011	31/08/2014	–	3,500,000	–	–	–	3,500,000	0.320
	02/10/2009	0.500	01/09/2012	31/08/2014	–	3,500,000	–	–	–	3,500,000	0.320
	02/10/2009	0.500	01/09/2013	31/08/2014	–	3,500,000	–	–	–	3,500,000	0.320
HOONG Cheong Thard	30/06/2006	0.285	16/08/2007	29/06/2016	17,600,000	–	–	–	–	17,600,000	–
	30/06/2006	0.285	16/08/2008	29/06/2016	17,600,000	–	–	–	–	17,600,000	–
	06/04/2009	0.500	12/09/2009	11/09/2012	–	6,000,000	–	–	–	6,000,000	0.224
	06/04/2009	0.500	12/09/2010	11/09/2012	–	6,000,000	–	–	–	6,000,000	0.224
	06/04/2009	0.500	12/09/2011	11/09/2012	–	6,000,000	–	–	–	6,000,000	0.224
HUANG Shenglan	08/06/2006	0.305	08/06/2007	07/06/2011	600,000	–	–	–	–	600,000	–
	08/06/2006	0.305	08/06/2008	07/06/2011	600,000	–	–	–	–	600,000	–
	08/06/2006	0.305	08/06/2009	07/06/2011	600,000	–	–	–	–	600,000	–
	08/06/2006	0.305	08/06/2010	07/06/2011	600,000	–	–	–	–	600,000	–
CHAN Ming Fai	08/06/2006	0.305	08/06/2008	07/06/2011	600,000	–	–	–	–	600,000	–
	08/06/2006	0.305	08/06/2009	07/06/2011	600,000	–	–	–	–	600,000	–
	08/06/2006	0.305	08/06/2010	07/06/2011	600,000	–	–	–	–	600,000	–

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME *(Cont'd)*

	Date of grant	Exercise price per Share HK$	Exercise period from	Exercise period until	No. of Shares under the options: outstanding at the beginning of the year	granted during the year	exercised during the year	cancelled during the year	lapsed during the year	outstanding at the end of the year	Closing price per Share at the date of grant of the options during the year HK$
(ii) Continuous contract employees	08/06/2006	0.305	08/06/2007	07/06/2011	8,600,000	–	–	–	–	8,600,000	–
	08/06/2006	0.305	08/06/2008	07/06/2011	11,000,000	–	–	–	–	11,000,000	–
	08/06/2006	0.305	08/06/2009	07/06/2011	11,000,000	–	–	–	–	11,000,000	–
	08/06/2006	0.305	08/06/2010	07/06/2011	11,000,000	–	–	–	–	11,000,000	–
	11/05/2007	0.775	02/05/2008	01/05/2014	1,800,000	–	–	–	–	1,800,000	–
	11/05/2007	0.775	02/05/2009	01/05/2014	1,800,000	–	–	–	–	1,800,000	–
	11/05/2007	0.775	02/05/2010	01/05/2014	1,800,000	–	–	–	–	1,800,000	–
	11/05/2007	0.775	02/05/2011	01/05/2014	1,800,000	–	–	–	–	1,800,000	–
	11/05/2007	0.775	02/05/2012	01/05/2014	1,800,000	–	–	–	–	1,800,000	–
	11/05/2007	0.775	02/05/2013	01/05/2014	3,000,000	–	–	–	–	3,000,000	–
	04/07/2007	0.975	04/07/2008	03/07/2012	400,000	–	–	–	–	400,000	–
	04/07/2007	0.975	04/07/2009	03/07/2012	400,000	–	–	–	–	400,000	–
	04/07/2007	0.975	04/07/2010	03/07/2012	400,000	–	–	(400,000)	–	–	–
	04/07/2007	0.975	04/07/2011	03/07/2012	400,000	–	–	(400,000)	–	–	–
	02/10/2007	0.920	01/01/2008	31/12/2011	1,500,000	–	–	–	–	1,500,000	–
	02/10/2007	0.920	01/01/2009	31/12/2011	1,500,000	–	–	–	–	1,500,000	–
	02/10/2007	0.920	01/01/2010	31/12/2011	1,500,000	–	–	(1,500,000)	–	–	–
	02/10/2007	0.920	01/01/2011	31/12/2011	1,500,000	–	–	(1,500,000)	–	–	–
	13/11/2007	0.960	01/01/2008	31/12/2011	1,000,000	–	–	–	–	1,000,000	–
	13/11/2007	0.960	01/01/2009	31/12/2011	1,000,000	–	–	–	–	1,000,000	–
	13/11/2007	0.960	01/01/2010	31/12/2011	1,000,000	–	–	(1,000,000)	–	–	–
	13/11/2007	0.960	01/01/2011	31/12/2011	1,000,000	–	–	(1,000,000)	–	–	–
	25/08/2008	0.500	11/03/2009	10/03/2013	600,000	–	–	–	–	600,000	–
	25/08/2008	0.500	11/03/2010	10/03/2013	600,000	–	–	–	–	600,000	–
	25/08/2008	0.500	11/03/2011	10/03/2013	600,000	–	–	–	–	600,000	–
	25/08/2008	0.500	11/03/2012	10/03/2013	600,000	–	–	–	–	600,000	–
	25/08/2008	0.500	25/08/2009	24/08/2013	2,550,000	–	–	–	–	2,550,000	–
	25/08/2008	0.500	25/08/2010	24/08/2013	2,550,000	–	–	–	–	2,550,000	–
	25/08/2008	0.500	25/08/2011	24/08/2013	2,550,000	–	–	–	–	2,550,000	–
	25/08/2008	0.500	25/08/2012	24/08/2013	2,550,000	–	–	–	–	2,550,000	–
	06/04/2009	0.500	04/01/2010	03/01/2013	–	400,000	–	–	–	400,000	0.224
	06/04/2009	0.500	04/01/2011	03/01/2013	–	400,000	–	–	–	400,000	0.224
	06/04/2009	0.500	04/01/2012	03/01/2013	–	400,000	–	–	–	400,000	0.224
	09/04/2009	0.500	17/08/2009	16/08/2013	–	400,000	–	–	–	400,000	0.205
	09/04/2009	0.500	17/08/2010	16/08/2013	–	400,000	–	–	–	400,000	0.205
	09/04/2009	0.500	17/08/2011	16/08/2013	–	400,000	–	–	–	400,000	0.205
	09/04/2009	0.500	17/08/2012	16/08/2013	–	400,000	–	–	–	400,000	0.205
	15/06/2009	0.500	15/06/2010	14/06/2015	–	5,000,000	–	–	–	5,000,000	0.305
	15/06/2009	0.500	15/06/2011	14/06/2015	–	5,000,000	–	–	–	5,000,000	0.305
	17/08/2009	0.500	17/02/2010	16/08/2014	–	41,000,000	–	–	–	41,000,000	0.350
	17/08/2009	0.500	17/08/2010	16/08/2013	–	1,500,000	–	–	–	1,500,000	0.350
	17/08/2009	0.500	17/08/2010	16/08/2014	–	41,000,000	–	–	–	41,000,000	0.350
	02/10/2009	0.500	01/09/2010	31/08/2014	–	1,750,000	–	–	–	1,750,000	0.320
	02/10/2009	0.500	01/09/2011	31/08/2014	–	1,750,000	–	–	–	1,750,000	0.320
	02/10/2009	0.500	01/09/2012	31/08/2014	–	1,750,000	–	–	–	1,750,000	0.320
	02/10/2009	0.500	01/09/2013	31/08/2014	–	1,750,000	–	–	–	1,750,000	0.320
	04/12/2009	0.500	04/06/2010	03/12/2012	–	5,000,000	–	–	–	5,000,000	0.400
	04/12/2009	0.500	04/12/2010	03/12/2012	–	5,000,000	–	–	–	5,000,000	0.400
	04/12/2009	0.500	04/06/2011	03/12/2012	–	5,000,000	–	–	–	5,000,000	0.400

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME *(Cont'd)*

	Date of grant	Exercise price per Share HK$	Exercise period from	Exercise period until	No. of Shares under the options: outstanding at the beginning of the year	granted during the year	exercised during the year	cancelled during the year	lapsed during the year	outstanding at the end of the year	Closing price per Share at the date of grant of the options during the year HK$
(iii) Other participants	08/06/2006	0.305	08/06/2008	07/06/2011	4,000,000	–	–	–	–	4,000,000	–
	08/06/2006	0.305	08/06/2009	07/06/2011	4,000,000	–	–	–	–	4,000,000	–
	08/06/2006	0.305	08/06/2010	07/06/2011	4,000,000	–	–	–	–	4,000,000	–
	25/08/2008	0.500	25/08/2009	24/08/2013	150,000	–	–	–	–	150,000	–
	25/08/2008	0.500	25/08/2010	24/08/2013	150,000	–	–	–	–	150,000	–
	25/08/2008	0.500	25/08/2011	24/08/2013	150,000	–	–	–	–	150,000	–
	25/08/2008	0.500	25/08/2012	24/08/2013	150,000	–	–	–	–	150,000	–
Total:					245,800,000	163,900,000	–	(33,400,000)	–	376,300,000	

Notes:

1. The options are recognised as expenses in the accounts in accordance with Hong Kong Financial Reporting Standard 2. Other details of share options granted by the Company are set out in note 33 to the consolidated financial statements.

2. Save as disclosed above, no share option was granted, exercised or cancelled during the year.

DIRECTORS

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

Executive Directors:

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

Non-Executive Directors:

Mr. HOONG Cheong Thard
Mr. Paulus Johannes Cornelis Aloysius KARSKENS

Independent Non-Executive Directors:

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

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

Biographical details of the Directors of the Company are set out on pages 8 to 10.

REPORT OF THE DIRECTORS

SENIOR MANAGEMENT

Biographical details of the senior management of the Group are set out on pages 10 to 11.

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

As at 31 December 2009, the interests and short positions of the Directors and chief executive of the Company (including those interests and short positions which were taken or deemed to have interests and short positions under the provisions of the Securities and Futures Ordinance (the "SFO")) in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standards of dealing by directors of the listed issuer as referred to in Rule 5.46 of the Rules Governing the Listing of Securities on The Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules"), were as follows:

(1) Interests in Shares of the Company

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

Notes:

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

2. 45,280,768 shares were held by Hang Sing Overseas Limited ("Hang Sing") which was owned as to 51% by Orient Strength Limited ("Orient Strength"), a company which was wholly-owned by Mr. Ms. LAU Ting and CHAN Shing. 42,380,168 shares were held by Strong Purpose Corporation ("Strong Purpose"), a company which was wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 1,541,956,296 shares were held by Burwill Holdings Limited ("Burwill"), which was owned as to 6.62% by Hang Sing, as to 6.19% by Strong Purpose, as to 3.04% by Ms. LAU Ting, as to 3.11% by Mr. CHAN Shing, and as to 37.72% by Glory Add Limited, a company which was indirectly wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 23,093,192 shares held by Hang Sing were in short positions.

3. As the interests of each of Ms. LAU Ting and Mr. CHAN Shing were deemed to be the interests of each other, the figures referred to the same shares. As per the latest information notified by Ms. LAU Ting and Mr. CHAN Shing, Ms. LAU Ting and Mr. CHAN Shing held a total of 1,540,116,939 shares of the Company as of 27 January 2010.

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

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

REPORT OF THE DIRECTORS

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

(2) Interests in Underlying Shares

As at 31 December 2009, the interests of the Directors and chief executive of the Company in options for Shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standards of dealing by directors of the listed issuer as referred to in Rule 5.46 of the GEM Listing Rules, were as disclosed in the previous section headed "Share Option Scheme" of this report.

Save as otherwise disclosed above, as at 31 December 2009, none of the Directors or chief executive of the Company had, or were deemed under the SFO to have, any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) which were required to be recorded in the register kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standards of dealing by directors of listed issuer as referred to in Rule 5.46 of the GEM Listing Rules.

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

As at 31 December 2009, according to the register required to be kept by the Company under Section 336 of the SFO, the following persons (other than the Directors and chief executive of the Company) had interests and short positions in the shares and underlying shares of the Company:

(1) Interests in Shares

Name of Shareholder	Number of Shares Beneficial interests	Investment Manager	Corporate interests	Total	Approximate percentage interest in the Company's issued share capital
Burwill	1,535,324,296(L)	–	6,632,000(L)	1,541,956,296(L) *(note 1)*	20.83%(L)
Burbank John H.	–	–	1,236,622,800(L)	1,236,622,800(L) *(note2)*	16.71%(L)
Passport Capital, LLC	–	1,236,622,800(L)	–	1,236,622,800(L) *(note2)*	16.71%(L)
Passport Management, LLC	–	1,236,622,800(L)	–	1,236,622,800(L) *(note 2)*	16.71%(L)
Atlantis Investment Management Limited	–	992,001,000(L)	–	992,001,000(L)	13.40%(L)
Passport Global Master Fund SPC Ltd for and on behalf of portfolio A – global strategy	787,712,800(L)	–	–	787,712,800(L) *(note 2)*	10.64%(L)

REPORT OF THE DIRECTORS

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

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

Name of Shareholder	Number of Shares Beneficial interests	 Investment Manager	 Corporate interests	 Total	Approximate percentage interest in the Company's issued share capital
Ward Ferry Management (BVI) Limited	–	730,322,000(L)	–	730,322,000(L) *(note 3)*	9.87%(L)
JP Morgan Chase & Co.	–	633,208,346(L) 621,216,000(P)	–	633,208,346(L) 621,216,000(P) *(note 5)*	8.55%(L) 8.39%(P)
Legg Mason Inc	–	474,976,000(L)	–	474,976,000(L) *(note 4)*	6.42%(L)
Passport Special Opportunities Master Fund, LP	448,910,000(L)	–	–	448,910,000(L) *(note 2)*	6.06%(L)
International Game Technology	373,600,000(L)	–	–	373,600,000(L)	5.05%(L)

Notes:

1. 1,535,324,296 shares were held by Burwill and 6,632,000 shares were held by Hillot Limited, a company indirect wholly-owned by Burwill. These shares formed part of the interests of Ms. LAU Ting and Mr. CHAN Shing. On 21 January 2010, Burwill announced a proposal of distribution out of its contributed surplus to its shareholders, to be satisfied by the distribution of a maximum of 1,540,025,856 shares of the Company to Burwill's shareholders, which had been approved by its shareholders in general meeting. As per the latest information notified by Burwill, it held 1,932,312 shares of the Company as of 27 January 2010.

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

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

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

5. 621,216,000 shares, represented the lending pool shares, were held by JPMorgan Chase Bank, N.A. which in turn was wholly-owned by JPMorgan Chase & Co.. 11,992,346 shares, represented the long position shares, were held by JPMorgan Asset Management (UK) Limited which in turn was wholly-owned by JPMorgan Asset Management Holdings (UK) Limited, a company which was wholly-owned by JPMorgan Asset Management International Limited. And JPMorgan Asset Management International Limited was wholly-owned by JPMorgan Asset Management Holdings Inc., which in turn was wholly-owned by JPMorgan Chase & Co..

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

REPORT OF THE DIRECTORS

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

(2) Interests in Underlying Shares

As at 31 December 2009, International Game Technology had a derivative interest in 575,916,228 shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

Save as disclosed above, as at 31 December 2009, there was no person (other than the Directors and chief executive of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and/or who were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN CONTRACTS

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

SERVICE CONTRACTS WITH DIRECTORS

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

FINANCIAL SUMMARY

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

EMPLOYEE RETIREMENT BENEFIT

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

REPORT OF THE DIRECTORS

COMPETING INTERESTS

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

PUBLIC FLOAT

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

AUDITORS

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

On behalf of the Board
LAU Ting
Chairperson

Hong Kong, 18 March 2010

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

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

In the opinion of the Directors, the Company has complied with all the applicable code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 of the GEM Listing Rules for the financial year ended 31 December 2009, except for the deviations as disclosed in this report.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the required standard of dealings regarding securities transactions by directors set out in Rules 5.48 to 5.67 of the GEM Listing Rules as its code of conduct for dealings in securities of the Company by the Directors (the "Code of Conduct"). Having made specific enquiry of all Directors, all Directors confirmed that they had complied with the required standard of dealings set out in the Code of Conduct throughout the financial year ended 31 December 2009.

BOARD OF DIRECTORS

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

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

Non-Executive Directors
Mr. HOONG Cheong Thard
Mr. Paulus Johannes Cornelis Aloysius KARSKENS

Independent Non-Executive Directors
Mr. HUANG Shenglan
Mr. CHAN Ming Fai
Mr. CUI Shuming

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

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

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(Cont'd)*

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

The Board considers that each Independent Non-Executive Director of the Company is independent in character and judgement. The Company has received from each Independent Non-executive Director a written confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules.

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

To the best knowledge of the Directors, there is no financial, business and family relationship among the members of the Board except that Mr. CHAN Shing is the spouse of Ms. LAU Ting.

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

	Directors' Attendance
Executive Directors	
Ms. LAU Ting	4/4
Mr. CHAN Shing	3/4
Mr. WU Jingwei	4/4
Mr. LIAO Yuang-whang	4/4
Non-Executive Directors	
Mr. HOONG Cheong Thard	4/4
Mr. Paulus Johannes Cornelis Aloysius KARSKENS	3/4
Independent Non-Executive Directors	
Mr. HUANG Shenglan	4/4
Mr. CHAN Ming Fai	4/4
Mr. CUI Shuming	4/4

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

CORPORATE GOVERNANCE REPORT

CHAIRMAN AND CHIEF EXECUTIVE OFFICER *(Cont'd)*

With effect from 23 December 2009, the positions of Mr. WU Jingwei held in the Company have been changed from an Executive Director and the Vice President/Chief Operations Officer to an Executive Director and the Co-Chief Executive Officer. Mr. WU assists the Chief Executive Officer of the Company in implementation of the Group's overall strategies for development

NON-EXECUTIVE DIRECTORS

Although some of the Non-Executive Directors of the Company are not appointed for a specific term as is stipulated in Code provision A4.1, all of them are subject to retirement by rotation in accordance with the Bye-laws of the Company. The Board will ensure the retirement of each Director, other than the one who holds the office as Chairperson or Managing Director, by rotation at least once every three years. The Chairperson is not subject to retirement by rotation as is stipulated in Code provision A.4.2 as the Board considers that the continuity of office of the Chairperson provides the Group a strong and consistent leadership and is of great importance to the smooth operations of the Group. Mr. WU Jingwei, Mr. Paulus Johannes Cornelis Aloysius KARSKENS and Mr. HUANG Shenglan are subject to retirement by rotation at the forthcoming annual general meeting in accordance with the Company's Bye-laws.

REMUNERATION COMMITTEE

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

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

The Remuneration Committee will meet at least once a year. One meeting of the Remuneration Committee was held during the year ended 31 December 2009. Details of the attendance of the Remuneration Committee Meeting are as follows:

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

CORPORATE GOVERNANCE REPORT

NOMINATION OF DIRECTORS

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

During the year, there is no meeting of the Board held for discussion of nomination of directors as there is no proposed appointment or removal of directors during the year.

AUDIT COMMITTEE

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

The Audit Committee's functions include:

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

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

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

The Audit Committee has reviewed and discussed with the management the accounting principles and practices adopted by the Group and auditing, internal controls and financial reporting matters. The audited financial results of the Group for the financial year ended 31 December 2009 have been reviewed by the Audit Committee. The terms of reference of the Audit Committee has been posted on the Company's website and is made available on request.

CORPORATE GOVERNANCE REPORT

AUDITORS' REMUNERATION

For the year ended 31 December 2009, the Group had engaged the Group's external auditors, HLB Hodgson Impey Cheng, to provide the following services and their respective fees charged are set out as below:

	Fee charged for the year ended 31 December	
	2009	2008
	HK$	HK$
Types of Services		
Audit for the Group		
– Provision for the year	**630,000**	600,000
– Underprovision in prior year	**30,000**	–
Non-audit services		
– Professional services on acting as reporting accountants	**–**	–

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR ACCOUNTS

The Directors' responsibilities for the accounts and the responsibilities of the external auditors to the shareholders are set out on page 29.

INTERNAL CONTROL

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

INVESTOR RELATIONS

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

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

INDEPENDENT AUDITORS' REPORT

HLB 國衛會計師事務所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

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

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

We have audited the consolidated financial statements of China LotSynergy Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 31 to 94, which comprise the consolidated and company balance sheets as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

INDEPENDENT AUDITORS' REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

Hong Kong, 18 March 2010

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Turnover	5	**84,578**	117,377
Costs of sales and services		**(47,576)**	(62,232)
Gross profit		**37,002**	55,145
Other income and gains	6	**68,258**	46,532
General and administrative expenses		**(139,694)**	(118,476)
Other expenses		**–**	(2,007)
Finance costs	7	**(26,423)**	(25,238)
Impairment of goodwill	17	**–**	(854,725)
Share option expenses		**(10,667)**	(12,940)
Operating loss		**(71,524)**	(911,709)
Share of losses of jointly-controlled entities	19	**(11,198)**	(15,323)
Loss before income tax		**(82,722)**	(927,032)
Income tax	9	**(5,030)**	580
Loss for the year		**(87,752)**	(926,452)
Loss attributable to:			
Equity holders of the Company		**(81,596)**	(930,729)
Minority interests		**(6,156)**	4,277
		(87,752)	(926,452)
Loss per share attributable to equity holders of the Company during the year			
– basic	11	**(1.1) HK cents**	(12.5) HK cents
– diluted	11	**(1.1) HK cents**	(12.5) HK cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
Loss for the year		**(87,752)**	(926,452)
Other comprehensive income:			
Gain on revaluation of property		**–**	14,340
Fair value gain/(loss) on available-for-sale financial assets	*21*	**15,889**	(12,860)
Deferred tax arising from revaluation of property		**–**	(2,366)
Currency translation differences		**60**	18,813
Other comprehensive income for the year, net of tax		**15,949**	17,927
Total comprehensive income for the year		**(71,803)**	(908,525)
Attributable to:			
Equity holders of the Company		**(65,647)**	(918,166)
Minority interests		**(6,156)**	9,641
Total comprehensive income for the year		**(71,803)**	(908,525)

BALANCE SHEETS

At 31 December 2009

		Group		Company	
		2009	2008	**2009**	2008
	Notes	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Non-current assets					
Property, plant and equipment	*14*	**130,570**	114,263	**385**	480
Investment property	*16*	**140,000**	127,000	**–**	–
Intangible assets	*17*	**330,625**	337,153	**–**	–
Investments in subsidiaries	*18*	**–**	–	**13,918**	13,909
Investments in jointly-controlled entities	*19*	**116,738**	80,184	**–**	–
Available-for-sale financial assets	*21*	**49,829**	33,940	**–**	–
Deferred income tax assets	*31*	**803**	1,660	**–**	–
Prepaid rentals		**4,847**	5,771	**–**	–
Total non-current assets		**773,412**	699,971	**14,303**	14,389
Current assets					
Inventories	*22*	**16,983**	13,625	**–**	–
Accounts receivable	*23*	**25,390**	14,060	**–**	–
Prepayments, deposits and other receivables		**31,178**	12,699	**2,452**	1,573
Amounts due from subsidiaries	*18*	**–**	–	**1,338,643**	1,454,222
Amount due from a jointly-controlled entity	*19*	**237**	7,857	**–**	1,124
Amounts due from related companies	*24*	**21,613**	21,854	**–**	–
Financial assets at fair value through profit or loss	*25*	**447,451**	292,185	**368,710**	246,791
Income tax refundable		**–**	603	**–**	–
Cash and bank balances	*26*	**632,693**	747,681	**56**	57
Total current assets		**1,175,545**	1,110,564	**1,709,861**	1,703,767
Total assets		**1,948,957**	1,810,535	**1,724,164**	1,718,156
Current liabilities					
Accounts payable	*27*	**13,864**	4,647	**–**	–
Accruals and other payables		**13,453**	12,722	**220**	300
Amounts due to subsidiaries	*18*	**–**	–	**8**	–
Amount due to a jointly-controlled entity	*19*	**26,302**	34,033	**–**	–
Income tax payable		**4,382**	1,998	**–**	–
Financial liabilities at fair value through profit or loss	*28*	**284,282**	191,632	**284,282**	191,632
Bank borrowing	*29*	**4,708**	–	**–**	–
Total current liabilities		**346,991**	245,032	**284,510**	191,932
Net current assets		**828,554**	865,532	**1,425,351**	1,511,835
Total assets less current liabilities		**1,601,966**	1,565,503	**1,439,654**	1,526,224

BALANCE SHEETS *(Cont'd)*

At 31 December 2009

	Notes	Group 2009 HK$'000	Group 2008 HK$'000	Company 2009 HK$'000	Company 2008 HK$'000
Non-current liabilities					
Convertible note	30	**588,780**	562,357	**588,780**	562,357
Deferred income tax liabilities	31	**17,207**	16,334	**3,381**	3,837
Bank borrowing	29	**70,292**	–	–	–
Total non-current liabilities		**676,279**	578,691	**592,161**	566,194
Net assets		**925,687**	986,812	**847,493**	960,030
Equity attributable to equity holders of the Company					
Share capital	32	**18,505**	18,505	**18,505**	18,505
Reserves	34	**1,674,420**	1,647,920	**1,629,151**	1,618,600
Accumulated losses	35	**(876,657)**	(795,177)	**(800,163)**	(677,075)
		816,268	871,248	**847,493**	960,030
Minority interests		**109,419**	115,564	–	–
Total equity		**925,687**	986,812	**847,493**	960,030

LAU TING
Director

LIAO YUANG-WHANG
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

	Attributable to equity holders of the Company				
	Share capital HK$'000 *(Note 32)*	Reserves HK$'000 *(Note 34)*	Retained profit/ (Accumulated losses) HK$'000	Minority interests HK$'000	Total HK$'000
Balance at 1 January 2008	19,142	1,753,095	132,823	195,544	2,100,604
Comprehensive income					
(Loss)/Profit for the year	–	–	(930,729)	4,277	(926,452)
Other comprehensive income:					
Surplus on revaluation of property	–	14,340	–	–	14,340
Deferred tax arising from revaluation of property	–	(2,366)	–	–	(2,366)
Fair value loss on available-for-sale financial assets	–	(12,860)	–	–	(12,860)
Currency translation differences	–	13,449	–	5,364	18,813
Total other comprehensive income	–	12,563	–	5,364	17,927
Total comprehensive income	–	12,563	(930,729)	9,641	(908,525)
Repurchase of shares	(637)	(127,949)	–	–	(128,586)
Share option scheme:					
– value of employee services	–	13,332	–	–	13,332
– value of other participants' services	–	(392)	–	–	(392)
– vested share options cancelled	–	(2,729)	2,729	–	–
Deregistration of a subsidiary	–	–	–	(15,764)	(15,764)
Dividends paid to minority shareholders	–	–	–	(73,857)	(73,857)
	(637)	(117,738)	2,729	(89,621)	(205,267)
Balance at 31 December 2008	18,505	1,647,920	(795,177)	115,564	986,812

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

For the year ended 31 December 2009

	Attributable to equity holders of the Company				
	Share capital HK$'000 *(Note 32)*	Reserves HK$'000 *(Note 34)*	Accumulated losses HK$'000	Minority interests HK$'000	Total HK$'000
Balance at 1 January 2009	18,505	1,647,920	(795,177)	115,564	986,812
Comprehensive income					
Loss for the year	–	–	(81,596)	(6,156)	(87,752)
Other comprehensive income:					
Fair value gain on available-for-sale financial assets	–	15,889	–	–	15,889
Currency translation differences	–	60	–	–	60
Total other comprehensive income	–	15,949	–	–	15,949
Total comprehensive income	–	15,949	(81,596)	(6,156)	(71,803)
Share option scheme:					
– value of employee services	–	10,389	–	–	10,389
– value of other participants' services	–	278	–	–	278
– vested share options cancelled	–	(116)	116	–	–
Deregistration of a subsidiary	–	–	–	11	11
	–	10,551	116	11	10,678
Balance at 31 December 2009	18,505	1,674,420	(876,657)	109,419	925,687

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2009

	Notes	**2009 HK$'000**	2008 HK$'000
Cash flows from operating activities			
Operating cash flows before changes in working capital	*36*	**(60,972)**	(14,904)
Changes in working capital	*36*	**(45,371)**	22,431
Cash (used in)/generated from operations		**(106,343)**	7,527
Income tax paid		**(842)**	(2,504)
Income tax refunded		**529**	1,573
Net cash (used in)/generated from operating activities		**(106,656)**	6,596
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	*39*	**–**	(14,798)
Purchase of property, plant and equipment		**(50,139)**	(10,803)
Proceed from disposal of property, plant and equipment		**56**	–
Purchase of available-for-sale financial assets		**–**	(46,800)
Advance to a jointly-controlled entity		**7,620**	20
Capital contribution to jointly-controlled entities		**(47,482)**	–
Dividend received from listed securities		**1,161**	1,011
Interest income from bank deposits		**5,651**	16,616
Proceed from short-term bank deposits with maturity more than three months		**53,409**	–
Purchase of short-term bank deposits with maturity more than three months		**(34,316)**	(51,934)
Net cash used in investing activities		**(64,040)**	(106,688)
Cash flows from financing activities			
Repurchase of shares		**–**	(128,586)
Dividends paid to minority shareholders		**–**	(73,857)
Proceed from bank borrowing		**75,000**	–
Net cash generated from/(used in) financing activities		**75,000**	(202,443)
Net decrease in cash and cash equivalents		**(95,696)**	(302,535)
Cash and cash equivalents at beginning of the year		**694,272**	993,269
Effect of foreign exchange rate changes		**(199)**	3,538
Cash and cash equivalents at end of the year *(Note)*	*26*	**598,377**	694,272

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

1. GENERAL INFORMATION

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

The Company's shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company and its subsidiaries (together the "Group") are principally engaged in the business of provision of lottery systems, game products, terminal equipment and related technologies and marketing services to the public welfare lottery market in China.

These consolidated financial statements are presented in Hong Kong dollars (HK$), unless otherwise stated. These consolidated financial statements were approved and authorised for issue by the board of directors of the Company (the "Board") on 18 March 2010.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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

2.1 Basis of preparation *(Cont'd)*

Changes in accounting policy and disclosures

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

The Group has adopted the following new and amended HKFRS as of 1 January 2009:

- HKFRS 7 "Financial Instruments – Disclosures" (Amendment) (effective 1 January 2009). The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on loss per share.

- HKAS 1 (Revised) "Presentation of Financial Statements" (effective 1 January 2009). The revised standard prohibits the presentation of items of income and expenses (that is, "non-owner changes in equity") in the statement of changes in equity, requiring "non-owner changes in equity" to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on loss per share.

- HKFRS 2 (Amendment), "Share-based Payment" (effective 1 January 2009) deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation there of subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group and Company has adopted HKFRS 2 (Amendment) from 1 January 2009. The amendment does not have a material impact on the Group's or Company's financial statements.

- In respect of borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009, the Group capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The change in accounting policy had no material impact on loss per share as the Group does not have any qualifying asset as at 31 December 2009.

- HKFRS 8, "Operating Segments" (effective 1 January 2009). HKFRS 8 replaces HKAS 14, "Segment Reporting", and aligns segment reporting with the requirements of the US standard SFAS 131, "Disclosures about segments of an enterprise and related information". The new standard requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes. The segment is reported in a manner that is more consistent with the internal reporting provided to the chief operating decision-maker. Such note disclosure does not have any material impact on the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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

2.1 Basis of preparation *(Cont'd)*

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

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

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods, but the Group has not early adopted them:

- HK(IFRIC) 17, "Distribution of Non-cash Assets to Owners" (effective on or after 1 July 2009). The interpretation is part of the HKICPA's annual improvements project published in May 2009. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. HKFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable. The Group and Company will apply HK(IFRIC) 17 from 1 January 2010. It is not expected to have a material impact on the Group's or Company's financial statements.

- HKAS 27 (Revised), "Consolidated and Separate Financial Statements", (effective from 1 July 2009). The revised standard requires the effects of all transactions with minority interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The Group will apply HKAS 27 (Revised) prospectively to transactions with minority interests from 1 January 2010.

- HKFRS 3 (Revised), "Business Combinations" (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply HKFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.

- HKAS 38 (Amendment), "Intangible Assets" (effective from 1 July 2009). The amendment is part of the HKICPA's annual improvements project published in May 2009 and the Group and Company will apply HKAS 38 (Amendment) from the date HKFRS 3 (Revised) is adopted. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. The amendment will not result in a material impact on the Group's or Company's financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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

2.1 Basis of preparation *(Cont'd)*

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

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

- HKFRS 5 (Amendment), "Measurement of Non-current Assets (or disposal groups) classified as held-for-sale". The amendment is part of the HKICPA's annual improvements project published in May 2009. The amendment provides clarification that HKFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of HKAS 1 still apply, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of HKAS 1. The Group and Company will apply HKFRS 5 (Amendment) from 1 January 2010. It is not expected to have a material impact on the Group's or Company's financial statements.

- HKAS 1 (Amendment), "Presentation of Financial Statements". The amendment is part of the HKICPA's annual improvements project published in May 2009. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The Group and Company will apply HKAS 1 (Amendment) from 1 January 2010. It is not expected to have a material impact on the Group's or Company's financial statements.

- HKFRS 2 (Amendments), "Group Cash-settled and Share-based Payment Transactions" (effective from 1 January 2010). In addition to incorporating HK(IFRIC) – Int 8, "Scope of HKFRS 2", and HK(IFRIC) – Int 11, "HKFRS 2 – Group and Treasury Share Transactions", the amendments expand on the guidance in HK(IFRIC) – Int 11 to address the classification of group arrangements that were not covered by that interpretation. The new guidance is not expected to have a material impact on the Group's financial statements.

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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

2.2 Consolidation *(Cont'd)*

(a) Subsidiaries *(Cont'd)*

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

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

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

(b) Transactions with minority interests

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

(c) Jointly-controlled entities

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

The Group's share of its jointly-controlled entity's post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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

2.3 Segment reporting

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

2.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

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

(c) Group companies

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

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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

2.4 Foreign currency translation *(Cont'd)*

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

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

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

2.5 Intangible assets

(a) CLO Contract

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

(b) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of jointly-controlled entities is included in investments in jointly-controlled entities and is tested annually for impairment as part of the overall balance. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

2.6 Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the consolidated income statement during the financial period in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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

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

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

Lottery terminals leased to third parties under operating leases	20%
Building	2.5%
Leasehold improvements	20% – 50% (over the period of leases)
Plant and equipment	10% – 20%
Computer equipment and software	20% – 25%
Office equipment and furniture	10% – 25%
Motor vehicles	10% – 20%

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

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

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

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

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

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

2.8 Financial assets

2.8.1 Classification

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

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

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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

2.8 Financial assets *(Cont'd)*

2.8.1 Classification *(Cont'd)*

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise trade and other receivables and cash and cash equivalents in the balance sheet.

(c) Available-for-sale financial assets

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

2.8.2 Recognition and measurement

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

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

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

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated income statement as gains and losses from investment securities.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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

2.9 Offsetting financial instruments

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

2.10 Impairment of financial assets

(a) Assets carried at amortised cost

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

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

  (i) adverse changes in the payment status of borrowers in the portfolio;

  (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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

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

(a) Assets carried at amortised cost *(Cont'd)*

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

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

(b) Assets classified as available-for-sale

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

2.11 Investment property

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

2.12 Inventories

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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

2.13 Trade and other receivables

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

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

2.14 Cash and cash equivalents

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

2.15 Share capital

Ordinary shares are classified as equity.

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

2.16 Trade payables

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

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

2.17 Borrowings

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

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

2.18 Compound financial instruments

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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

2.18 Compound financial instruments *(Cont'd)*

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

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

2.19 Current and deferred income tax

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

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

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

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

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

2.20 Employee benefits

(a) Employee leave entitlements

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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

2.20 Employee benefits *(Cont'd)*

(b) Bonus plans

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

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

(c) Retirement benefits

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

(d) Share-based compensation

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

The cash subscribed for the shares issued when the options are exercised is credited to share capital (nominal value) and share premium, net of any directly attributable transaction costs.

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

(e) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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

2.21 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

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

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

2.22 Revenue recognition

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

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

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

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

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

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

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

2.23 Operating leases

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

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

(a) Market risk

(i) Foreign exchange risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. Approximately 97% (2008: 81%) of the Group's turnover and approximately 100% (2008: 78%) of costs are denominated in the operating units' functional currency. The Group manages the foreign exchange exposure arising from its normal course of business activities and investments in foreign operations by funding its local operations and investments through cash flow generated from business transactions locally. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure closely and will consider hedging significant foreign currency exposure should the need arise.

For the year ended 31 December 2008, in view of the fact that the Hong Kong dollar is pegged to the United States dollar, the Group's exposure to foreign currency risk is minimal. The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in the Renminbi ("RMB") exchange rate, with all other variables held constant, of the Group's loss after tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity.

	Increase/ (decrease) in RMB %	Decrease/ (increase) in loss after income tax HK$'000	Increase/ (decrease) in equity HK$'000
2009			
If Hong Kong dollar weakens against RMB	**5**	**(510)**	**5,031**
If Hong Kong dollar strengthens against RMB	**(5)**	**485**	**(4,551)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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

3.1 Financial risk factors *(Cont'd)*

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

(i) Foreign exchange risk (Cont'd)

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

(ii) Price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group is exposed to equity price risk arising from individual equity investments classified as available-for-sale financial assets (Note 21) and financial assets at fair value through profit or loss (Note 25) as at 31 December 2009.

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

	Increase/ (decrease) in carrying amount of equity investments HK$'000	**Decrease/ (increase) in loss after income tax HK$'000**	**Increase/ (decrease) in equity HK$'000**
2009			
5% increase in equity price	**6,429**	**3,937**	**6,429**
5% decrease in equity price	**(6,429)**	**(3,937)**	**(6,429)**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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

3.1 Financial risk factors *(Cont'd)*

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

(iii) Cash flow and fair value interest rate risk

The Group's fair value interest rate risk relates primarily to fixed-rate borrowings arising from liability component of convertible note (Note 30). The Group has not hedged its exposure to fair value interest rate risk, as the management considers the risk is insignificant to the Group.

The Group is not exposed to significant cash flow interest rate risk in relation to variable-rate borrowing (Note 29). It is the Group's policy to keep its borrowing at floating rate of interests so as to minimise the fair value interest risk.

(b) Credit risk

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

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

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. At the balance sheet date, the Group has certain concentrations of credit risk as 74% (2008: 11%) and 100% (2008: 100%) of the Group's accounts receivable were due from the Group's largest customer and the five largest customers, respectively.

Further quantitative data in respect of the Group's exposure to credit risk arising from accounts receivable are disclosed in Note 23 to the consolidated financial statements.

(c) Liquidity risk

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

At 31 December 2009, the Group had an outstanding guarantee and indemnity for HK$30 million (2008: HK$30 million) plus interest and other charges for treasury facilities provided by a bank. Such treasury facilities were for a maximum tenor of 18 months, with facility limits to be determined by the bank at its sole discretion and may vary from time to time by the bank. The treasury facilities and guarantee have been cancelled subsequent to the balance sheet date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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

3.1 Financial risk factors *(Cont'd)*

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

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

	Carrying amount as per consolidated balance sheet HK$'000	**Total contractual undiscounted cash flows HK$'000**	**On demand or within 1 year HK$'000**	**More than 1 year but less than 5 years HK$'000**	**More than 5 years HK$'000**
2009					
Accounts payable	**13,864**	**13,864**	**13,864**	**–**	**–**
Accruals and other payables	**10,327**	**10,327**	**10,327**	**–**	**–**
Amount due to a jointly-controlled entity	**26,302**	**26,302**	**26,302**	**–**	**–**
Convertible note	**588,780**	**755,032**	**–**	**–**	**755,032**
Bank borrowing	**75,000**	**79,339**	**4,708**	**21,325**	**53,306**
	714,273	**884,864**	**55,201**	**21,325**	**808,338**

	Carrying amount as per consolidated balance sheet HK$'000	Total contractual undiscounted cash flows HK$'000	On demand or within 1 year HK$'000	More than 1 year but less than 5 years HK$'000	More than 5 years HK$'000
2008					
Accounts payable	4,647	4,647	4,647	–	–
Accruals and other payables	10,598	10,598	10,598	–	–
Amount due to a jointly-controlled entity	34,033	34,033	34,033	–	–
Convertible note	562,357	755,032	–	–	755,032
	611,635	804,310	49,278	–	755,032

3.2 Capital risk management

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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

3.2 Capital risk management *(Cont'd)*

The debt-to-adjusted capital ratios at 31 December 2009 and 2008 are as follows:

	2009 **HK$'000**	2008 HK$'000
Total debt	**128,619**	51,402
Convertible note *(Note 30)*	**588,780**	562,357
Total equity	**925,687**	986,812
Adjusted capital	**1,514,467**	1,549,169
Debt-to-adjusted capital ratio	**8.5%**	3.3%

3.3 Fair value estimation

Effective 1 January 2009, the Group adopted the amendment to HKFRS 7 for financial instruments that are measured in the balance sheet at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

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

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2009.

	Level 1 HK$'000	**Level 2** HK$'000	**Level 3** HK$'000	**Total** HK$'000
Assets				
Available–for–sale financial assets				
– Unlisted equity investment	–	49,829	–	49,829
Financial assets at fair value through profit or loss				
– Unlisted equity investment	–	78,741	–	78,741
– Early redemption option embedded in convertible note at fair value	–	–	368,710	368,710
Total assets	–	128,570	368,710	497,280
Liabilities				
Financial liabilities at fair value through profit or loss				
– Redemption option held by a noteholder embedded in convertible note at fair value	–	–	284,282	284,282

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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

3.3 Fair value estimation *(Cont'd)*

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

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

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

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.

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

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

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

The following table represents the changes in level 3 instruments for the year ended 31 December 2009.

	Early redemption option embedded in convertible note at fair value HK$'000	**Redemption option held by a noteholder embedded in convertible note at fair value** HK$'000	**Total** HK$'000
Opening balance	246,791	(191,632)	55,159
Gains and losses recognised in profit or loss	121,919	(92,650)	29,269
Closing balance	368,710	(284,282)	84,428
Total gains or losses for the year including in profit or loss for assets and liabilities held at the end of the year	121,919	(92,650)	29,269

There were no transfers amongst levels 1, 2 and 3.

All of the above gains and losses included in profit or loss for current year related to early redemption option embedded in convertible note at fair value and redemption option held by a noteholder embedded in convertible note at fair value held at the end of reporting period. Fair value gains or losses on early redemption option embedded in convertible note at fair value and redemption option held by a noteholder embedded in convertible note at fair value are included in "Other income and gains".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(a) The Group tests whether intangible assets have suffered any impairment in accordance with the accounting policy stated in Note 2.7. Determining whether intangible assets are impaired requires an estimate of the value-in-use of the asset. Estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from the assets and also choose a suitable discount rate in order to calculate the present value of those cash flows. Where the actual future cash flows are less than expected, a material impairment loss may arise.

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

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

5. TURNOVER AND SEGMENT INFORMATION

The Group is principally engaged in the business of the provision of lottery systems, game products, terminal equipment and related technologies and marketing services to the public welfare lottery market in China. An analysis of the Group's turnover for the year is as follows:

	2009 **HK$'000**	2008 HK$'000
Turnover		
Income from provision of lottery terminals	**66,093**	99,162
Income from sales of equipment	**17,466**	17,711
Income from provision of consultancy services	**1,019**	504
	84,578	117,377

Segment information

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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

Geographical information

(a) Revenue from external customers

	2009	2008
	HK$'000	HK$'000
PRC	**84,578**	95,645
Other countries	**–**	21,732
	84,578	117,377

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

(b) Non-current assets

	2009	2008
	HK$'000	HK$'000
PRC	**578,960**	532,909
Hong Kong	**143,820**	131,462
	722,780	664,371

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

Information about major customers

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

	2009	2008
	HK$'000	HK$'000
Customer A	**39,546**	31,887
Customer B	**26,409**	45,543
Customer C	**9,932**	15,764
Customer D	**–**	21,732

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

6. OTHER INCOME AND GAINS

	2009 HK$'000	2008 HK$'000
Fair value gains/(losses), net:		
– Financial assets at fair value through profit or loss (held for trading)	**17,418**	(17,772)
– Early redemption option embedded in convertible note at fair value	**121,919**	102,977
– Redemption option held by a noteholder embedded in convertible note at fair value	**(92,650)**	(68,402)
	46,687	16,803
Interest income from bank deposits	**5,994**	16,616
Dividend income on financial assets at fair value through profit or loss	**1,161**	1,011
Fair value gain on investment property *(Note 16)*	**13,000**	7,000
Rental income	**672**	960
Reversal of impairment on other receivables	**744**	4,142
	68,258	46,532

7. FINANCE COSTS

	2009 HK$'000	2008 HK$'000
Imputed interest expense on convertible note *(Note 30)*	**26,423**	25,238

8. OPERATING LOSS

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

	2009 HK$'000	2008 HK$'000
Costs of sales and services		
– Depreciation of lottery terminals	**26,459**	32,882
– Business tax	**3,412**	3,942
– Cost of inventories recognised as expense	**7,636**	6,945
– Repairs and maintenance	**5,244**	11,084
– Other costs of sales and services	**4,825**	7,379
	47,576	62,232
Loss on disposal of property, plant and equipment	**3,194**	638
Operating lease rentals in respect of land and buildings	**6,903**	3,386
Auditors' remuneration		
– Provision for the year	**630**	600
– Underprovision in prior year	**30**	–
Amortisation of intangible assets		
– CLO Contract *(included in general and administrative expenses) (Note 17)*	**6,528**	6,528
Depreciation of other items of property, plant and equipment	**4,123**	2,809
Impairment of other receivables *(included in other expenses)*	**–**	2,007
Foreign exchange differences, net	**261**	(1,228)

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9. INCOME TAX

Hong Kong Profits Tax has been provided at the rate of 16.5% (2008: 16.5%) on the estimated assessable profit for the year. No provision for Hong Kong Profits Tax has been made for the years ended 31 December 2008 and 2009 as the Group had no assessable profits arising in or derived from Hong Kong for both years. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

	2009	2008
	HK$'000	HK$'000
Current tax		
– PRC Enterprise Income Tax	**4,180**	2,228
– Adjustments in respect of prior years	**(880)**	(2,314)
Total current tax	**3,300**	(86)
Deferred tax *(Note 31)*		
– Origination and reversal of temporary differences	**1,730**	(494)
	5,030	(580)

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

	2009	2008
	HK$'000	HK$'000
Loss before income tax	**(82,722)**	(927,032)
Tax calculated at the applicable tax rate of 16.5% (2008: 16.5%)	**(13,649)**	(152,960)
Income not subject to tax	**(9,186)**	(19,824)
Expenses not deductible for tax purposes	**31,330**	170,656
Utilisation of previously unrecognised tax losses	**(2,735)**	–
Tax losses which no deferred income tax asset was recognised	**323**	3,728
Adjustments in respect of prior years	**(880)**	(2,314)
Remeasurement of deferred tax	**–**	134
Others	**(173)**	–
Tax charge/(credit)	**5,030**	(580)

10. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of approximately HK$123,204,000 (2008: HK$655,110,000).

11. LOSS PER SHARE

Basic and diluted loss per share is calculated by dividing the loss attributable to equity holders of the Company of approximately HK$81,596,000 (2008: HK$930,729,000) by the weighted average number of 7,402,164,000 ordinary shares in issue (2008: 7,445,419,421 ordinary shares) during the year.

The computation of diluted loss per share for the years ended 31 December 2009 and 2008 has not assumed the exercise of share options and conversion of convertible note because their exercise and conversion during the year would reduce the loss per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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12. STAFF COSTS

Staff costs (including directors' emoluments) comprise:

	2009	2008
	HK$'000	HK$'000
Wages and salaries	**59,915**	53,382
Employee share option benefits	**10,389**	13,332
Social security costs	**2,489**	1,464
Pension costs – defined contribution plans	**839**	738
Other staff welfare	**1,206**	1,473
	74,838	70,389

13. COMPENSATION TO KEY MANAGEMENT PERSONNEL

	2009	2008
	HK$'000	HK$'000
Short-term employee benefits	**26,737**	28,522
Post-employment benefits	**275**	272
Employee share option benefits	**2,207**	9,435
	29,219	38,229

(a) Directors' emoluments

The remuneration of every director of the Company for the year ended 31 December 2009 is set out below:

Name of director	Fees	Salaries and allowance	Benefits in kind	Discretionary bonuses	Employee share option benefits	Employer's contributions to pension scheme	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive directors							
Ms. Lau Ting	–	5,282	1,512	2,000	37	239	9,070
Mr. Chan Shing	–	4,784	–	1,000	37	12	5,833
Mr. Wu Jingwei	–	2,968	–	2,000	606	12	5,586
Mr. Liao Yuang-whang	–	3,605	–	2,000	987	12	6,604
Non-executive directors							
Mr. Paulus Johannes Cornelis Aloysius Karskens *(Note (vi))*	–	–	–	–	–	–	–
Mr. Hoong Cheong Thard	480	–	–	280	466	–	1,226
Independent non-executive directors							
Mr. Huang Shenglan	321	–	–	–	37	–	358
Mr. Chan Ming Fai	265	–	–	–	37	–	302
Mr. Cui Shuming	240	–	–	–	–	–	240
	1,306	16,639	1,512	7,280	2,207	275	29,219

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

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

The remuneration of every director of the Company for the year ended 31 December 2008 is set out below:

Name of director	Fees HK$'000	Salaries and allowance HK$'000	Benefits in kind HK$'000	Discretionary bonuses HK$'000	Employee share option benefits HK$'000	Employer's contributions to pension scheme HK$'000	Total HK$'000
Executive directors							
Ms. Lau Ting	–	4,977	–	2,000	87	229	7,293
Mr. Chan Shing	–	4,951	–	2,000	87	12	7,050
Mr. Wu Jingwei	–	2,784	–	2,000	5,387	10	10,181
Mr. Liao Yuang-whang	–	3,350	–	2,000	6,049	12	11,411
Non-executive directors							
Mr. Hoong Cheong Thard *(Notes (i) and (v))*	145	2,634	711	–	(2,403)	9	1,096
Mr. Paulus Johannes Cornelis Aloysius Karskens *(Note (vi))*	–	–	–	–	–	–	–
Mr. Wang Taoguang *(Note (ii))*	304	–	–	–	–	–	304
Independent non-executive directors							
Mr. Huang Shenglan	263	–	–	–	87	–	350
Mr. Chan Ming Fai	263	–	–	–	87	–	350
Mr. Cui Shuming *(Note (iii))*	84	–	–	–	–	–	84
Mr. Li Xiaojun *(Note (iv))*	56	–	–	–	54	–	110
	1,115	18,696	711	8,000	9,435	272	38,229

Notes:

(i) Re-designated from an executive director to a non-executive director on 12 September 2008.

(ii) Resigned on 13 November 2008.

(iii) Appointed on 18 June 2008.

(iv) Resigned on 18 June 2008.

(v) During the year ended 31 December 2008, employee share option benefits attributable to Mr. Hoong Cheong Thard was approximately HK$1,372,000. Moveover, 35,200,000 share options were cancelled by forfeiture during the vesting period, which results in a credit of approximately HK$3,775,000 to the consolidated income statement for the year ended 31 December 2008.

(vi) During the year ended 31 December 2009, Mr. Paulus Johannes Cornelis Aloysius Karskens waived emoluments of approximately HK$360,000 (2008: HK$350,000). None of the other directors of the Company waived or agreed to waive any emoluments during the years ended 31 December 2008 and 2009.

During the year ended 31 December 2009, 45,600,000 (2008: 16,000,000) share options were granted to certain directors of the Company under the Company's share option scheme.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group during the year ended 31 December 2009 included four (2008: four) directors of the Company, whose emoluments are set out above. The emoluments payable to the remaining one non-director, highest paid individual for the year ended 31 December 2009 are as follows:

	2009	2008
	HK$'000	HK$'000
Basic salaries, other allowances and benefits in kind	**939**	936
Discretionary bonuses	**32**	100
Employee share option benefits	**586**	1,192
Employer's contributions to pension schemes	**12**	12
	1,569	2,240

(c) During the year ended 31 December 2009, no emoluments were paid by the Group to the directors of the Company and the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office (2008: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

14. PROPERTY, PLANT AND EQUIPMENT

	Group								
	Buildings HK$'000	**Lottery terminals leased to third parties under operating leases** HK$'000	**Lottery terminals under construction** HK$'000	**Leasehold improvements** HK$'000	**Plant and equipment** HK$'000	**Computer equipment and software** HK$'000	**Office equipment and furniture** HK$'000	**Motor vehicles** HK$'000	**Total** HK$'000
At 1 January 2008									
Cost	8,707	164,106	9,917	5,136	5,381	7,364	3,016	2,022	205,649
Accumulated depreciation	(73)	(55,315)	–	(303)	(699)	(5,311)	(1,489)	(485)	(63,675)
Net book amount	8,634	108,791	9,917	4,833	4,682	2,053	1,527	1,537	141,974
Year ended 31 December 2008									
Opening net book amount	8,634	108,791	9,917	4,833	4,682	2,053	1,527	1,537	141,974
Exchange differences	–	5,255	563	12	256	93	67	73	6,319
Acquisition of subsidiaries *(Note 39)*	–	–	–	–	–	56	20	–	76
Additions	–	–	3,690	5,268	20	85	551	1,706	11,320
Transfers	–	2,801	(2,801)	–	–	–	–	–	–
Transfer to investment property	(22,920)	–	–	–	–	–	–	–	(22,920)
Disposals	–	–	–	(629)	–	(1)	(126)	–	(756)
Surplus on revaluation *(Note 34)*	14,340	–	–	–	–	–	–	–	14,340
Depreciation	(54)	(32,882)	–	(1,320)	(368)	(508)	(447)	(511)	(36,090)
Closing net book amount	–	83,965	11,369	8,164	4,590	1,778	1,592	2,805	114,263
At 31 December 2008									
Cost	–	176,231	11,369	9,438	5,706	7,660	3,379	3,848	217,631
Accumulated depreciation	–	(92,266)	–	(1,274)	(1,116)	(5,882)	(1,787)	(1,043)	(103,368)
Net book amount	–	83,965	11,369	8,164	4,590	1,778	1,592	2,805	114,263
Year ended 31 December 2009									
Opening net book amount	**–**	**83,965**	**11,369**	**8,164**	**4,590**	**1,778**	**1,592**	**2,805**	**114,263**
Additions	**909**	**–**	**42,947**	**212**	**1,739**	**4,328**	**374**	**1,151**	**51,660**
Transfers	**–**	**250**	**(250)**	**–**	**–**	**–**	**–**	**–**	**–**
Disposals	**–**	**–**	**–**	**(1,216)**	**(3,234)**	**–**	**(11)**	**(5)**	**(4,466)**
Depreciation	**(25)**	**(26,459)**	**–**	**(1,978)**	**(343)**	**(692)**	**(582)**	**(808)**	**(30,887)**
Closing net book amount	**884**	**57,756**	**54,066**	**5,182**	**2,752**	**5,414**	**1,373**	**3,143**	**130,570**
At 31 December 2009									
Cost	**909**	**176,481**	**54,066**	**8,434**	**4,188**	**11,988**	**3,728**	**4,897**	**264,691**
Accumulated depreciation	**(25)**	**(118,725)**	**–**	**(3,252)**	**(1,436)**	**(6,574)**	**(2,355)**	**(1,754)**	**(134,121)**
Net book amount	**884**	**57,756**	**54,066**	**5,182**	**2,752**	**5,414**	**1,373**	**3,143**	**130,570**

Note: Depreciation of lottery terminals leased to third parties under operating leases of approximately HK$26,459,000 (2008: HK$32,882,000) has been charged in costs of sales and services. Depreciation of approximately HK$305,000 (2008: HK$399,000) has been capitalised in lottery terminals under construction. Depreciation of other items of property, plant and equipment of approximately HK$4,123,000 (2008: HK$2,809,000) has been charged in general and administrative expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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

	Company			
	Leasehold improvements HK$'000	**Computer equipment and software** HK$'000	**Office equipment and furniture** HK$'000	**Total** HK$'000
At 1 January 2008				
Cost	276	120	547	943
Accumulated depreciation	(69)	(39)	(188)	(296)
Net book amount	207	81	359	647
Year ended 31 December 2008				
Opening net book amount	207	81	359	647
Additions	160	–	29	189
Disposals	(175)	–	–	(175)
Depreciation	(45)	(24)	(112)	(181)
Closing net book amount	147	57	276	480
At 31 December 2008				
Cost	160	120	576	856
Accumulated depreciation	(13)	(63)	(300)	(376)
Net book amount	147	57	276	480
Year ended 31 December 2009				
Opening net book amount	**147**	**57**	**276**	**480**
Additions	**100**	**–**	**–**	**100**
Depreciation	**(56)**	**(24)**	**(115)**	**(195)**
Closing net book amount	**191**	**33**	**161**	**385**
At 31 December 2009				
Cost	**260**	**120**	**576**	**956**
Accumulated depreciation	**(69)**	**(87)**	**(415)**	**(571)**
Net book amount	**191**	**33**	**161**	**385**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

15. LEASEHOLD LAND

	Group 2009 HK$'000	2008 HK$'000
Opening net book amount	**–**	97,548
Addition	**–**	–
Amortisation	**–**	(468)
Transfer to investment property	**–**	(97,080)
Closing net book amount	**–**	–

16. INVESTMENT PROPERTY

	Group 2009 HK$'000	2008 HK$'000
At 1 January	**127,000**	–
Transfer from owner-occupied property	**–**	120,000
Fair value gain *(Note 6)*	**13,000**	7,000
At 31 December	**140,000**	127,000

The investment property is valued on an open market basis by the Comparison Approach at 31 December 2009 by an independent, professional qualified valuer, BMI Appraisals Limited.

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

	2009 HK$'000	2008 HK$'000
Rental income	**672**	720
Direct operating expenses arising from investment property that generate rental income	**393**	219

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

	Group 2009 HK$'000	2008 HK$'000
In Hong Kong held on:		
Leases of over 50 years	**140,000**	127,000

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

	Group 2009 HK$'000	2008 HK$'000
No later than 1 year	**576**	800
Later than 1 year and no later than 5 years	**144**	–
	720	800

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

17. INTANGIBLE ASSETS

	Group		
	Goodwill HK$'000	**CLO Contract** HK$'000	**Total** HK$'000
At 1 January 2008			
Cost	1,134,722	60,382	1,195,104
Accumulated amortisation	–	(11,423)	(11,423)
Net book amount	1,134,722	48,959	1,183,681
Year ended 31 December 2008			
Opening net book amount	1,134,722	48,959	1,183,681
Acquisition of a subsidiary *(Note 39)*	14,725	–	14,725
Impairment charge	(854,725)	–	(854,725)
Amortisation charge *(Note (i))*	–	(6,528)	(6,528)
Closing net book amount	294,722	42,431	337,153
At 31 December 2008			
Cost	1,149,447	60,382	1,209,829
Accumulated amortisation and impairment	(854,725)	(17,951)	(872,676)
Net book amount	294,722	42,431	337,153
Year ended 31 December 2009			
Opening net book amount	**294,722**	**42,431**	**337,153**
Amortisation charge *(Note (i))*	**–**	**(6,528)**	**(6,528)**
Closing net book amount	**294,722**	**35,903**	**330,625**
At 31 December 2009			
Cost	**1,149,447**	**60,382**	**1,209,829**
Accumulated amortisation and impairment	**(854,725)**	**(24,479)**	**(879,204)**
Net book amount	**294,722**	**35,903**	**330,625**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

17. INTANGIBLE ASSETS *(Cont'd)*

Notes:

(i) Amortisation of the CLO Contract of approximately HK$6,528,000 for the year ended 31 December 2009 is included in general and administrative expenses (2008: HK$6,528,000).

(ii) Impairment tests of goodwill

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

	Group	
	2009	2008
	HK$'000	HK$'000
Provision of video lottery terminals ("VLT")	**95,319**	95,319
Provision of traditional computer lottery system and equipment	**199,403**	199,403
Provision of internet information services	**–**	–
	294,722	294,722

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

(a) Provision of VLT

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

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

The recoverable amount of goodwill allocated to the CGU of provision of VLT at 31 December 2009 has been reassessed and no impairment of goodwill has been recognised in respect of goodwill for the year ended 31 December 2009.

The value-in-use calculation uses pre-tax cash flow projections based on financial budgets approved by management covering the remaining term of the CLO Contract of 6 years from the balance sheet date. The key assumptions used for the cash flow projections include the average number of VLT connected and the daily turnover of each VLT during each of the forecasting periods, which are determined by management based on past performance and its expectation of market development. All cash flows are discounted at a discount rate of 14.88%, which reflects the specific risks relating to this CGU.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

17. INTANGIBLE ASSETS *(Cont'd)*

Notes: (Cont'd)

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

(b) Provision of traditional computer lottery system and equipment

The value-in-use calculation uses pre-tax cash flow projections based on financial budgets approved by management covering a 5-year period. The key assumptions used for the cash flow projections include the budgeted turnover and expenses during each of the forecasting periods, which are determined by management based on past performance and its expectation of market development. All cash flows are discounted at a discount rate of 14.88%, which reflects the specific risks relating to this CGU. No impairment loss has been recognised in respect of goodwill for the year ended 31 December 2009 as the recoverable amount exceeded the carrying amount (2008: Nil).

(c) Provision of internet information services

On 10 March 2008, the Group entered into a series of agreements to acquire control of 北京網人互聯科技有限公司 ("網人互聯"). The related goodwill arising from the aforesaid transactions amounted to approximately HK$14,725,000 (Note 39). The recoverable amount of goodwill allocated to the CGU of the provision of internet information services at 31 December 2008 has been reassessed and an impairment of goodwill of HK$14,725,000 was charged to the consolidated income statement.

18. INVESTMENTS IN AND AMOUNTS DUE FROM/TO SUBSIDIARIES

	Company	
	2009	2008
	HK$'000	HK$'000
Unlisted shares, at cost	**23,918**	23,909
Provision for impairment	**(10,000)**	(10,000)
	13,918	13,909

The amounts due from/to subsidiaries as shown on the Company's balance sheet are unsecured, interest-free and repayable on demand.

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

The following is a list of the principal subsidiaries at 31 December 2009:

Name	Place of incorporation/ establishment, kind of legal entity *(Note (ix))*	Particulars of issued share capital/ registered capital	Interest held	Principal activities
Held directly:				
China LotSynergy Limited	British Virgin Islands, Limited liability company	United States dollars ("US$") US$100	100%	Investment holding
Flynn Technology Limited	British Virgin Islands, Limited liability company	US$1,000	100%	Investment holding
Harrogate Group Limited	British Virgin Islands, Limited liability company	US$2,500,000	100%	Investment holding
Onwealth Holdings Limited	British Virgin Islands, Limited liability company	US$1	100%	Investment holding
Held indirectly:				
Century Worldwide Limited	Hong Kong, Limited liability company	HK$1	100%	Investment holding
Champ Mark Investments Limited ("CMIL")	British Virgin Islands, Limited liability company	3,600 issued shares of no par value	100%	Investment holding
Champ Technology Limited ("CTL")	Hong Kong, Limited liability company	HK$1	100%	Investment holding
China LotSynergy Limited	Hong Kong, Limited liability company	US$500,000	100%	Investment holding and provision of management services
China LotSynergy Asset Management Limited	Hong Kong, Limited liability company	US$2	100%	Treasury management
China LotSynergy Development Limited	Hong Kong, Limited liability company	HK$1	100%	Investment holding

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

Name	Place of incorporation/ establishment, kind of legal entity *(Note (ix))*	Particulars of issued share capital/ registered capital	Interest held	Principal activities
Held indirectly: (cont'd)				
China LotSynergy Group Limited ("CLG")	Hong Kong, Limited liability company	HK$1	100%	Investment holding
Corich International Limited ("Corich")	British Virgin Islands, Limited liability company	US$2,000,000	50% *(Note (x))*	Investment holding
East Grand Enterprises Limited	Hong Kong, Limited liability company	HK$1	50% *(Note (x))*	Investment holding
Globe Team Limited	Hong Kong, Limited liability company	HK$1	100%	Investment holding
Goldwide Limited	Hong Kong, Limited liability company	HK$1	100%	Investment holding
Lottnal Holdings Limited ("LHL")	Hong Kong, Limited liability company	US$350,000	80%	Investment holding
Upmax Investments Limited	British Virgin Islands, Limited liability company	US$1	100%	Investment holding
Willstrong Investments Limited	British Virgin Islands, Limited liability company	US$1	80%	Provision of lottery system and equipment
東莞天意*(Note (i))*	PRC, Wholly foreign owned enterprise	HK$8,000,000	50% *(Note (x))*	Provision of VLT
北京靈彩科技有限公司 (「北京靈彩」)*(Note (ii))*	PRC, Wholly foreign owned enterprise	HK$1,200,000	50% *(Note (x))*	Research and development of lottery system and equipment in the PRC

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

Name	Place of incorporation/ establishment, kind of legal entity *(Note (ix))*	Particulars of issued share capital/ registered capital	Interest held	Principal activities
Held indirectly: (cont'd)				
廣州洛圖終端技術有限公司 (Guangzhou Lottnal Terminal Company Limited) ("GZL") *(Note (iii))*	PRC, Wholly foreign owned enterprise	US$350,000	80%	Research and development and manufacturing of lottery ticket scanners and terminal equipment in the PRC and overseas
廣州市三環永新科技有限公司 (Guangzhou San Huan Yong Xin Technology Company Limited) ("GZSH") *(Note (iv))*	PRC, Sino-foreign equity joint venture enterprise	RMB10,000,000	80%	Provision of lottery system and equipment in the PRC
華彩之家科技發展(北京)有限公司(「華彩之家」) *(Note (v))*	PRC, Wholly foreign owned enterprise	HK$10,000,000	100%	Research and development of lottery system and equipment in the PRC
華彩世紀科技發展(北京)有限公司(「華彩世紀」) *(Note (vi))*	PRC, Wholly foreign owned enterprise	HK$10,000,000	100%	Research and development of lottery system and equipment in the PRC
網人互聯*(Note (vii))*	PRC, Limited liability company	RMB30,000,000	100%	Provision of internet information services
北京華彩贏通科技有限公司(「華彩贏通」)*(Note (viii))*	PRC, Limited liability company	RMB30,000,000	100%	Research and development of lottery system and equipment in the PRC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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

Notes:

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

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

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

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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

	Group 2009 HK$'000	2008 HK$'000
Investments in jointly-controlled entities	**116,738**	80,184

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

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

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

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

	2009 HK$'000	2008 HK$'000
Share of the jointly-controlled entities' assets and liabilities:		
Non-current assets	**24,319**	26,228
Current assets	**82,851**	55,136
Current liabilities	**(3,799)**	(14,547)
Net assets	**103,371**	66,817
Share of the jointly-controlled entities' results:		
Revenue	**833**	260
Total expenses	**(12,031)**	(15,583)
Results	**(11,198)**	(15,323)

Notes:

(i) At 31 December 2009, the Group was committed to contribute to the capital of IGT Synergy Holding Limited in the amount of approximately US$7,070,000 (equivalent to approximately HK$55,146,000) (2008: US$13,500,000, equivalent to HK$105,300,000).

(ii) At 31 December 2009, the Group was committed to contribute to the capital of Asiatic Group Limited in the amount of approximately US$1,342,500 (equivalent to approximately HK$10,472,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

20. FINANCIAL INSTRUMENTS BY CATEGORY

	Loans and receivables HK$'000	Financial assets at fair value through profit or loss (held for trading) HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
2009				
Financial assets as per consolidated balance sheet				
Available-for-sale financial assets	–	–	**49,829**	**49,829**
Accounts receivable	**25,390**	–	–	**25,390**
Deposits and other receivables	**13,093**	–	–	**13,093**
Amount due from a jointly-controlled entity	**237**	–	–	**237**
Amounts due from related companies	**21,613**	–	–	**21,613**
Financial assets at fair value through profit or loss	–	**447,451**	–	**447,451**
Cash and bank balances	**632,693**	–	–	**632,693**
	693,026	**447,451**	**49,829**	**1,190,306**

	Financial liabilities at amortised cost HK$'000	Financial liabilities at fair value through profit or loss (held for trading) HK$'000	Total HK$'000
2009			
Financial liabilities as per consolidated balance sheet			
Accounts payable	**13,864**	–	**13,864**
Accruals and other payables	**10,327**	–	**10,327**
Amount due to a jointly-controlled entity	**26,302**	–	**26,302**
Financial liabilities at fair value through profit or loss	–	**284,282**	**284,282**
Convertible note	**588,780**	–	**588,780**
Bank borrowing	**75,000**	–	**75,000**
	714,273	**284,282**	**998,555**

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For the year ended 31 December 2009

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

	Loans and receivables HK$'000	Financial assets at fair value through profit or loss (held for trading) HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
2008				
Financial assets as per consolidated balance sheet				
Available-for-sale financial assets	–	–	33,940	33,940
Accounts receivable	14,060	–	–	14,060
Deposits and other receivables	5,511	–	–	5,511
Amount due from a jointly-controlled entity	7,857	–	–	7,857
Amounts due from related companies	21,854	–	–	21,854
Financial assets at fair value through profit or loss	–	292,185	–	292,185
Cash and bank balances	747,681	–	–	747,681
	796,963	292,185	33,940	1,123,088

	Financial liabilities at amortised cost HK$'000	Financial liabilities at fair value through profit or loss (held for trading) HK$'000	Total HK$'000
2008			
Financial liabilities as per consolidated balance sheet			
Accounts payable	4,647	–	4,647
Accruals and other payables	10,598	–	10,598
Amount due to a jointly-controlled entity	34,033	–	34,033
Financial liabilities at fair value through profit or loss	–	191,632	191,632
Convertible note	562,357	–	562,357
	611,635	191,632	803,267

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

21. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group	
	2009	2008
	HK$'000	HK$'000
At 1 January	**33,940**	—
Addition	**—**	46,800
Net gain/(loss) transfer to equity *(Note 34)*	**15,889**	(12,860)
At 31 December	**49,829**	33,940

Available-for-sale financial assets including the following:

	Group	
	2009	2008
	HK$'000	HK$'000
Unlisted equity investment, at fair value	**49,829**	33,940

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

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

22. INVENTORIES

	Group	
	2009	2008
	HK$'000	HK$'000
Raw materials	**4,823**	11,153
Work in progress	**8,321**	196
Finished goods	**5,197**	3,634
	18,341	14,983
Provision	**(1,358)**	(1,358)
	16,983	13,625

23. ACCOUNTS RECEIVABLE

Income from provision of lottery terminals is billed on a monthly basis and is due 15-30 days after month-end. Income from sales of equipment is billed upon the delivery of products and with credit periods ranging from 30 to 180 days. Income from provision of maintenance services is billed on a monthly or yearly basis and is due 30 days after the invoice date. At 31 December 2009, the ageing analysis of the accounts receivable is as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
0 – 30 days	**11,296**	9,020
31 – 60 days	**5,924**	2,330
61 – 90 days	**6,338**	1,284
Over 90 days	**1,832**	1,426
	25,390	14,060

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

23. ACCOUNTS RECEIVABLE *(Cont'd)*

None of the Group's accounts receivable at balance sheet date were impaired. As of 31 December 2009, accounts receivables of approximately HK$14,094,000 (2008: HK$5,040,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these accounts receivables is as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
0 – 30 days	**5,924**	2,330
31 – 60 days	**6,338**	1,284
61 – 90 days	**1,832**	38
Over 90 days	**–**	1,388
	14,094	5,040

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

	Group	
	2009	2008
	HK$'000	HK$'000
RMB	**25,390**	8,604
US$	**–**	5,456
	25,390	14,060

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

24. AMOUNTS DUE FROM RELATED COMPANIES

The balances represent amounts due from subsidiaries of Burwill Holdings Limited, a substantial shareholder of the Company. The amounts due are unsecured, interest-free and repayable on demand. The maximum amount outstanding during the year was approximately HK$23,363,000 (2008: HK$24,289,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

25. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Listed securities:				
– Equity securities – Hong Kong	**–**	37,975	**–**	–
– Equity securities – Elsewhere	**–**	7,419	**–**	–
Unlisted equity investment	**78,741**	–	**–**	–
Early redemption option embedded in convertible note at fair value *(Note 30)*	**368,710**	246,791	**368,710**	246,791
	447,451	292,185	**368,710**	246,791
Market value of listed securities	**–**	45,394	**–**	–

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

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

26. CASH AND BANK BALANCES

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at bank and in hand	**224,566**	82,519	**56**	57
Short-term bank deposits	**408,127**	665,162	**–**	–
Maximum exposure to credit risk	**632,693**	747,681	**56**	57
Less: Short-term bank deposits with maturity more than three months	**(34,316)**	(53,409)	**–**	–
Cash and cash equivalents	**598,377**	694,272	**56**	57

At 31 December 2009, the Group had cash and bank balances of approximately HK$109,561,000 (2008: HK$63,765,000) which are denominated in RMB. The remittance of these funds out of the PRC is subject to the exchange control restrictions imposed by the PRC government.

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

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For the year ended 31 December 2009

27. ACCOUNTS PAYABLE

At 31 December 2009, the ageing analysis of the accounts payable is as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
0 – 30 days	**13,641**	681
31 – 60 days	**–**	758
61 – 90 days	**–**	869
Over 90 days	**223**	2,339
	13,864	4,647

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

28. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group and Company	
	2009	2008
	HK$'000	HK$'000
Redemption option held by a noteholder embedded in convertible note at fair value *(Note 30)*	**284,282**	191,632

29. BANK BORROWING

	Group	
	2009	2008
	HK$'000	HK$'000
Non-current		
Bank loan – secured	**70,292**	–
Current		
Bank loan – secured	**4,708**	–
	75,000	–

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For the year ended 31 December 2009

29. BANK BORROWING *(Cont'd)*

At 31 December 2009, the Group's borrowing was repayable as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Within 1 year	**4,708**	–
Between 1 and 2 years	**4,746**	–
Between 2 and 5 years	**14,484**	–
Wholly repayable within 5 years	**23,938**	–
Over 5 years	**51,062**	–
	75,000	–

The bank loan carried interest at 0.75% per annum over 1 month HIBOR and was denominated in Hong Kong dollar.

Bank borrowing of HK$75,000,000 (2008: Nil) was secured by the investment property of the Group amounted to HK$140,000,000 (2008: Nil).

30. CONVERTIBLE NOTE

	Group and Company	
	2009	2008
	HK$'000	HK$'000
Principal amount of convertible note issued (net of issue costs)	**541,276**	541,276
Early redemption option held by the Company	**82,286**	82,286
Redemption option held by a noteholder	**(75,930)**	(75,930)
Equity component (net of issue costs)	**(24,842)**	(24,842)
Liability component on initial recognition (net of issue costs)	**522,790**	522,790
Imputed interest	**65,990**	39,567
Liability component	**588,780**	562,357

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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30. CONVERTIBLE NOTE *(Cont'd)*

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

The fair values of embedded derivative financial instruments in respect of early redemption option held by the Company and redemption option held by a noteholder at inception and at balance sheet dates are determined based on independent professional valuations which incorporate an option pricing model. The significant assumptions used in the calculation of the fair values of the embedded derivative financial instruments at 31 December 2009 were as follows:

(i) Risk free rate of between 0.79% and 1.51% which was determined based on the yield of the Hong Kong Exchange Fund Notes ("EFN"). The year of maturity of EFN being referred was determined in accordance with the expected life.

(ii) Volatility of 75.04% which was determined based on the historical interest rate under the same period as the excepted life.

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

The fair value of the liability component of the convertible note at 31 December 2009 was approximately HK$677,198,000 (2008: HK$700,137,000).

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31. DEFERRED INCOME TAX

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

Deferred tax liabilities:

	Group				Company
	Intangible assets	**Convertible note**	**Fair value gain on property**	**Total**	**Convertible note**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2008	9,400	4,507	–	13,907	4,507
Charged/(Credited) to the income statement	(424)	(670)	1,155	61	(670)
Charged directly to equity	–	–	2,366	2,366	–
At 31 December 2008	**8,976**	**3,837**	**3,521**	**16,334**	**3,837**
Charged/(Credited) to the income statement	**(816)**	**(456)**	**2,145**	**873**	**(456)**
At 31 December 2009	**8,160**	**3,381**	**5,666**	**17,207**	**3,381**

Deferred tax assets:

	Group Decelerated tax depreciation
	HK$'000
At 1 January 2008	1,030
Credited to the income statement	555
Exchange differences	75
At 31 December 2008	**1,660**
Charged to the income statement	**(857)**
At 31 December 2009	**803**

At 31 December 2009, the Group had unused tax losses of approximately HK$11,124,000 (2008: HK$22,682,000) that can be carried forward to offset against future taxable profit. The Group did not recognise a deferred income tax asset in respect of such tax losses as it was not probable that future taxable profit will be available to utilise the unused tax losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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32. SHARE CAPITAL

	Authorised ordinary shares	
	Number of shares	HK$'000
At 1 January 2008, 31 December 2008 and 2009	**16,000,000,000**	**40,000**

	Issued and fully paid ordinary shares	
	Number of shares	HK$'000
At 1 January 2008	7,656,760,000	19,142
Repurchase of shares *(Note)*	(254,596,000)	(637)
At 31 December 2008, 1 January 2009 and 31 December 2009	**7,402,164,000**	**18,505**

Note: The Company repurchased 254,596,000 its own shares of HK$0.0025 each on the Stock Exchange during the year ended 31 December 2008. The highest and lowest price paid per share were HK$0.96 and HK$0.35 respectively. The total amount paid for the repurchase of shares was approximately HK$128,586,000 and has been deducted from shareholders' equity. The shares repurchased were subsequently cancelled.

33. SHARE OPTION SCHEME

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

	2009		2008	
	Average exercise price in HK$ per share	**Options (thousands)**	Average exercise price in HK$ per share	Options (thousands)
At 1 January	**0.61**	**245,800**	0.62	313,400
Granted	**0.50**	**163,900**	0.50	30,800
Forfeited	**0.95**	**(33,400)**	0.60	(98,400)
At 31 December	**0.53**	**376,300**	0.61	245,800

Out of the 376,300,000 (2008: 245,800,000) outstanding options, 147,900,000 options (2008: 90,100,000) were exercisable. No share option was exercised or expired during the years ended 31 December 2008 and 2009.

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

Expiry date	**Exercise price in HK$ per share**	**Options (thousands)**	
		2009	2008
7 June 2011	0.305	**62,600**	62,600
17 September 2011	0.904	**6,000**	12,000
31 December 2011	0.445	**8,000**	8,000
31 December 2011	0.920	**3,000**	6,000
31 December 2011	0.960	**26,000**	36,000
3 July 2012	0.975	**800**	1,600
11 September 2012	0.500	**18,000**	-
17 September 2012	0.960	**24,000**	32,000
3 December 2012	0.500	**15,000**	-
3 January 2013	0.500	**1,200**	-
10 March 2013	0.500	**2,400**	2,400
16 August 2013	0.500	**3,100**	-
24 August 2013	0.500	**26,800**	26,800
31 December 2013	0.975	**5,600**	11,200
1 May 2014	0.775	**12,000**	12,000
16 August 2014	0.500	**82,000**	-
31 August 2014	0.500	**34,600**	-
14 June 2015	0.500	**10,000**	-
29 June 2016	0.285	**35,200**	35,200
		376,300	245,800

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The fair value of the options granted during the year ended 31 December 2009 was estimated as at the date of grant using the Black-Scholes options pricing model with the following assumptions:

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

(ii) Expected volatility of share price – annualised standard deviations of continuously compounded rates of return on the Company and the comparable listed companies in the United States of America. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome;

(iii) Expected life of share options – one to nine years;

(iv) Expected dividend yield – nil; and

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

According to Black-Scholes options pricing model, the fair value of the options granted during the year ended 31 December 2009 was approximately HK$17,693,000 (2008: HK$4,180,000) of which the Group recognised a share option expense of approximately HK$7,706,000 (2008: HK$617,000) for the year ended 31 December 2009.

At 31 December 2009, the Company had 376,300,000 (2008: 245,800,000) options outstanding under the Option Scheme. The exercise in full of the remaining options would, under the present capital structure of the Company, result in the issuance of 376,300,000 (2008: 245,800,000) additional ordinary shares of the Company and additional share capital of approximately HK$940,000 (2008: HK$615,000) and share premium of approximately HK$200,018,000 (2008: HK$150,099,000) (before issue expenses).

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34. RESERVES

	Group							
	Share premium	**Convertible note**	**Capital reserve**	**Currency translation reserve**	**Share-based compensation reserve**	**Revaluation reserve**	**Available-for-sale investments**	**Total**
	HK$'000	HK$'000	HK$'000 *(Note (b))*	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balance at 1 January 2008	1,674,115	20,080	15,158	17,808	25,934	–	–	1,753,095
Repurchase of shares	(127,949)	–	–	–	–	–	–	(127,949)
Share option scheme:								
– value of employee services	–	–	–	–	13,332	–	–	13,332
– value of other participants' services	–	–	–	–	(392)	–	–	(392)
– vested share options cancelled	–	–	–	–	(2,729)	–	–	(2,729)
Surplus on revaluation of property *(Note 14)*	–	–	–	–	–	14,340	–	14,340
Deferred tax arising from revaluation of property	–	–	–	–	–	(2,366)	–	(2,366)
Fair value loss on available-for-sale financial assets *(Note 21)*	–	–	–	–	–	–	(12,860)	(12,860)
Currency translation differences								
– overseas subsidiaries	–	–	–	8,896	–	–	–	8,896
– overseas jointly-controlled entities	–	–	–	4,553	–	–	–	4,553
Balance at 31 December 2008	**1,546,166**	**20,080**	**15,158**	**31,257**	**36,145**	**11,974**	**(12,860)**	**1,647,920**
Share option scheme:								
– value of employee services	**–**	**–**	**–**	**–**	**10,389**	**–**	**–**	**10,389**
– value of other participants' services	**–**	**–**	**–**	**–**	**278**	**–**	**–**	**278**
– vested share options cancelled	**–**	**–**	**–**	**–**	**(116)**	**–**	**–**	**(116)**
Fair value gain on available-for-sale financial assets *(Note 21)*	**–**	**–**	**–**	**–**	**–**	**–**	**15,889**	**15,889**
Currency translation differences								
– overseas subsidiaries	**–**	**–**	**–**	**(210)**	**–**	**–**	**–**	**(210)**
– overseas jointly-controlled entities	**–**	**–**	**–**	**270**	**–**	**–**	**–**	**270**
Balance at 31 December 2009	**1,546,166**	**20,080**	**15,158**	**31,317**	**46,696**	**11,974**	**3,029**	**1,674,420**

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34. RESERVES *(Cont'd)*

	Company				
	Share premium HK$'000	**Convertible note** HK$'000	**Contributed surplus** HK$'000 *(Note (c))*	**Share-based compensation reserve** HK$'000	**Total** HK$'000
Balance at 1 January 2008	1,674,115	20,080	16,209	25,934	1,736,338
Repurchase of shares	(127,949)	–	–	–	(127,949)
Share option scheme:					
– value of employee services	–	–	–	13,332	13,332
– value of other participants' services	–	–	–	(392)	(392)
– vested share options cancelled	–	–	–	(2,729)	(2,729)
Balance at 31 December 2008	**1,546,166**	**20,080**	**16,209**	**36,145**	**1,618,600**
Share option scheme:					
– value of employee services	**–**	**–**	**–**	**10,389**	**10,389**
– value of other participants' services	**–**	**–**	**–**	**278**	**278**
– vested share options cancelled	**–**	**–**	**–**	**(116)**	**(116)**
Balance at 31 December 2009	**1,546,166**	**20,080**	**16,209**	**46,696**	**1,629,151**

Notes:

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

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

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

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35. ACCUMULATED LOSSES

	Company	
	2009	2008
	HK$'000	HK$'000
At 1 January	**(677,075)**	(24,694)
Vested share options cancelled	**116**	2,729
Loss for the year	**(123,204)**	(655,110)
At 31 December	**(800,163)**	(677,075)

36. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2009	2008
	HK$'000	HK$'000
Cash flows from operating activities		
Loss before income tax:	**(82,722)**	(927,032)
Adjustments for:		
Depreciation	**30,582**	35,691
Amortisation of prepaid operating lease payment	**–**	468
Amortisation of intangible assets	**6,528**	6,528
Impairment of other receivables	**–**	2,007
Impairment of goodwill	**–**	854,725
Loss on disposal of property, plant and equipment	**3,194**	638
Share option expenses	**10,667**	12,940
Fair value gain on investment property	**(13,000)**	(7,000)
Net fair value gain on financial assets and financial liabilities at fair value through profit or loss	**(46,687)**	(16,803)
Dividend received from listed securities	**(1,161)**	(1,011)
Interest income from bank deposits	**(5,994)**	(16,616)
Interest expense on convertible note	**26,423**	25,238
Share of losses of jointly-controlled entities	**11,198**	15,323
Operating cash flows before changes in working capital	**(60,972)**	(14,904)
Changes in working capital:		
– Prepaid rentals	**924**	897
– Inventories	**(3,358)**	(754)
– Accounts receivable	**(11,330)**	62,983
– Prepayments, deposits and other receivables	**(18,136)**	2,202
– Amounts due from related companies	**241**	2,435
– Financial assets at fair value through profit or loss	**(15,929)**	(14,686)
– Accounts payable	**9,217**	(7,741)
– Accruals and other payables	**731**	(12,567)
– Amount due to a jointly-controlled entity	**(7,731)**	(10,201)
– Amounts due to related companies	**–**	(137)
	(45,371)	22,431
Cash (used in)/generated from operations	**(106,343)**	7,527

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

37. OPERATING LEASE COMMITMENTS

At 31 December 2009, the Group had aggregate future minimum lease payments under non-cancellable operating leases in respect of rented premises as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
No later than one year	**6,768**	3,877
Later than one year and no later than five years	**3,832**	6,027
	10,600	9,904

The Company did not have significant operating lease commitments at 31 December 2009 (2008: Nil).

38. EMPLOYEE RETIREMENT BENEFITS

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

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

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

During the year, the aggregate amount of the Group's contributions to the aforementioned schemes was approximately HK$839,000 (2008: HK$738,000), with no (2008: Nil) deduction of forfeited contributions. At 31 December 2009, there was no material forfeited contribution available to reduce the Group's employer contribution payable in future periods.

The Group's contribution payable at 31 December 2009 amounted to approximately HK$70,000 (2008: HK$68,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

39. BUSINESS COMBINATIONS

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

Details of net assets acquired and goodwill were as follows:

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

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

	Fair value HK$'000	**Acquiree's carrying amount** HK$'000
Cash and bank balances	119	119
Property, plant and equipment *(Note 14)*	76	76
Prepayments and other receivables	358	358
Accruals and other payables	(310)	(310)
Income tax payable	(51)	(51)
Net assets	192	192
Purchase consideration settled in cash		14,917
Cash and cash equivalents in the subsidiary acquired		(119)
Cash outflow on acquisition		14,798

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

網人互聯 contributed net loss of approximately HK$767,000 to the Group for the period from the date of acquisition to 31 December 2008. If the acquisition had occurred on 1 January 2008, the Group's revenue would have been approximately HK$117,968,000 and loss after tax would have been approximately HK$926,254,000. This pro forma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of the Group that actually would have been achieved had the acquisition occurred on 1 January 2008, nor is it intended to be a projection of future results.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

40. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in these financial statements, the Group had the following material related party transactions for the year ended 31 December 2009:

Nature of transactions

	2009	2008
	HK$'000	HK$'000
Rental income from a subsidiary of a substantial shareholder of the Company	**672**	960
Purchase of motor vehicles from subsidiaries of a substantial shareholder of the Company	**600**	–
Sales of equipment to a jointly-controlled entity	**7,657**	–

At 31 December 2009, the Company has provided an unlimited guarantee to secure a bank loan granted to a subsidiary. In the opinion of the directors, no material liabilities will arise from the above guarantee which arose in the ordinary course of business and the fair value of the guarantee granted by the Company is immaterial.