新濠環彩
MelcoLot

MelcoLot Limited

(incorporated in the Cayman Islands with limited liability)

Annual Report 2009

A Hong Kong listed company with stock code : 8198
www.melcolot.com

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Ko Chun Fung, Henry
(Chief Executive Officer)
Mr. Moumouris, Christos
(appointed on January 30, 2009)
Mr. Derempeoglou, Georgios
(appointed on November 16, 2009 and resigned on February 1, 2010)

Non-Executive Directors

Mr. Chan Sek Keung, Ringo *(Chairman)*
(re-designated from executive director on December 30, 2009)
Mr. Wang, John Peter Ben
(appointed on November 16, 2009)

Independent Non-Executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

Mr. So Lie Mo, Raymond *(Chairman)*
Mr. Ko Chun Fung, Henry
Mr. Moumouris, Christos
Mr. Tsoi, David
Mr. Pang Hing Chung, Alfred

COMPLIANCE OFFICER

Mr. Ko Chun Fung, Henry

COMPANY SECRETARY

Mr. Pang Kin Man, Edmond

CHIEF FINANCIAL OFFICER

Mr. Yip Ho Chi

AUTHORISED REPRESENTATIVES

Mr. Ko Chun Fung, Henry
Mr. Pang Kin Man, Edmond

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Units 3101-2A, 31st Floor
The Centrium
60 Wyndham Street
Central
Hong Kong

PRINCIPAL SHARE AND CONVERTIBLE BOND REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands

CORPORATE INFORMATION

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

The Bank of East Asia, Limited
Bank of China (Hong Kong) Limited

AUDITOR

Deloitte Touche Tohmatsu

LEGAL ADVISORS

Michael Li & Co.
Zhong Lun Law Firm

COMPANY WEBSITE

www.melcolot.com

STOCK CODE

8198

TO OUR SHAREHOLDERS

For and on behalf of the board of directors (the "Board"), I present the annual results of MelcoLot Limited (the "Company") (formerly known as Melco LottVentures Limited) and its subsidiaries (the "Group") for the year ended December 31, 2009.

The recessionary economic environment in 2009 had an adverse impact on the Group's revenues and margins and led to a net loss of HK$388.0 million (2008: net loss of HK$442.1 million) attributable to the owners of the Company. It should be noted that a technical application of the accounting rules requiring certain non-cash charges for impairment and amortization contributed to a large portion of the Group's losses. These non-cash impairment loss on goodwill, imputed interest on convertible bonds and depreciation and amortisation expenses amounted to approximately HK$308.1 million (2008: HK$354.0 million) were of a non-operational nature and will not adversely affect the cash flow or current assets of the Group. As at December 31, 2009, cash and cash equivalent balance of the Group amounted to HK$61.6 million (2008: HK$157.0 million). This cash balance does not include the HK$30 million receivable from the disposal of the network system integration business completed on December 30, 2009 in accordance with the terms of that disposal.

During the year, the Group disposed of its network system integration business in order to better focus on the lottery business. Accordingly, the loss for the year from the network system integration business, together with loss arising on disposal, of HK$41.5 million (2008: HK$7.5 million) have been separately disclosed as discontinued operations.

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

FINAL DIVIDEND

The Board does not recommend payment of any dividend for the year ended December 31, 2009 (2008: Nil).

BUSINESS REVIEW

The Group's traditional network system integration business faced rapidly declining revenues and margins on account of the fierce competition in a shrinking market environment, where customers faced budget cuts and deferral of capital expenditure plans to acquire, replace or up-grade systems. Given the fact that the network system integration business in China is at a very mature stage with limited growth prospects, but at the same time faces increasingly active domestic companies, a strategic decision was taken to dispose of this business and focus managerial and other resources of the Group on to the lottery related businesses which have scope for considerable growth. The transaction to dispose the network system integration business was completed on December 30, 2009.

The lottery business of the Group faced a difficult year with positive sentiment generated by the 2008 Olympics gradually abating and giving way to the concerns of the economic crisis. The much anticipated launch of skill games (similar to fixed odds betting) was delayed until the second half of 2009, and the product release was conducted in a very gradual and controlled manner.

The Group's manufacturing facility in Shanghai, a core profit centre, operated at low capacity as several provincial authorities deferred plans to acquire lottery terminals.

Overseas, the Group's investment in the South Korean welfare lottery operation, the Nanum Lotto, Inc. ("Nanum Lotto"), started bearing fruit. Nanum Lotto, which is the government authorised consortium that has an exclusive licence to operate the national lotto games in South Korea, achieved profitability in late 2009, with sales reaching approximately USD2 billion for the year.

PROSPECTS

After the disposal of the network system integration business, the Group is more focussed on the lottery related businesses. In China, the launch of skill games has provided a new business opportunity for the Company. With the upcoming 2010 FIFA World Cup capturing the interest of soccer fans globally, it is expected that the Chinese lottery market, particularly the sports lottery sector, will see a great boost in sales. In this regard the Group has secured quality locations for management of high quality skill game retail outlets in preparation for the FIFA World Cup opportunity.

In the coming year the Group will be making an effort to consolidate its strong presence across the various industry verticals, such as venue management, supply of games, scratch card distribution, and lottery terminal manufacturing and distribution. Given the number of deferrals in lottery terminal orders in 2009, it is expected that there will be a pick up in activity in this sector.

Meanwhile, with the participation of European lottery giant Intralot S.A. ("Intralot") as a strategic shareholder, the Group gained access to Intralot's proprietary industry leading software for provision of lottery products and services into the Chinese lottery market. The Group will now be able to capitalise on the benefits of this software capability with projects in China. In this regard, the Group is actively pursuing selected projects in China in which it can gain competitive advantage.

With a gradual reversal of poor economic conditions expected in 2010, lottery revenues in China are expected to receive a boost. Apart from European soccers and the United States NBA (National Basketball Association) skill games related products, additional impetus is expected from the 2010 FIFA World Cup, and the 2010 Guangzhou Asian Games. The new skill games should help further expand the market.

The Group's investment in the Nanum Lotto consortium, which is the exclusive licence holder authorised by South Korean government to manage the nation's welfare lottery operations is expected to become increasingly profitable. The Group is also evaluating profitable opportunities in certain other Asian countries.

Accordingly, the Group's focus for 2010 will be to:

- Participate in the growth of the lottery sales from new skill games launched by China Sports Lottery Administration Center;
- Maintain and improve market share in manufacture and distribution of high quality lottery terminals to provincial lottery authorities;
- Actively grow the lottery technology and services business by gaining competitive advantage through Intralot technology and expertise; and
- Carefully evaluate overseas lottery opportunities for regional growth.

CONCLUSION

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

To our faithful shareholders, I would say that with the gradual reversal of the crippling economic downturn, as well as various internal efforts to streamline operations, identify lucrative opportunities and strengthen infrastructure and competitive advantage, our business is poised grow strong and profitable. The management team remains committed and focussed on the success of the Group.

Ko Chun Fung, Henry
Chief Executive Officer

Hong Kong, March 25, 2010

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

During the year under review, the Group was severely impacted by the recessionary economic environment. For the year ended December 31, 2009, the Group recorded revenue of HK$86.1 million (2008: HK$180.7 million), representing year-on-year decrease of 52.4%.

Loss for the year of HK$397.4 million (2008: loss of HK$469.1 million) was mainly because of the following non-cash accounting losses:

(i) Impairment loss on goodwill of HK$216.9 million (2008: HK$259.9 million) in relation to investments in subsidiaries which was non-recurring in nature;

(ii) Imputed interest on convertible bonds amounted to HK$65.1 million (2008: HK$39.5 million), due to the liability component of the convertible bonds carried at amortised cost by using the effective interest method; and

(iii) Depreciation and amortisation expenses of property, plant and equipment and intangible assets of HK$26.1 million (2008: HK$54.6 million).

However, no material adverse effect is expected from the above items on the Group's cash flow.

The Group has restructured and streamlined its operations, and imposed tight cost control measures in all applicable areas. For the year ended December 31, 2009, the employee benefits costs amounted to HK$22.9 million (2008: HK$27.7 million), representing a decrease of 17.3% year-on-year. Other administrative expenses for the year amounted to HK$47.8 million (2008: HK$57.7 million), representing a decrease of 17.2% compared to the correspondence period in 2008.

A tax credit of HK$3.4 million for the year (2008: tax credit of HK$13.7 million) was principally due to a deferred tax credit arising from the fair value adjustments of intangible assets on business combination in previous years.

Lottery business – continuing operations

The Group is principally engaged in the lottery business. During the past two years, the Group had acquired substantial assets which are in connection with and subsidiaries which are engaging in various lottery related businesses and ventures in mainland China and other Asian countries, as well as in the manufacturing of lottery terminals for the sports and welfare lottery businesses in mainland China.

For the year, the Group recorded total revenue of HK$86.1 million from the lottery business. Revenue from provision of management services for distribution of lottery products amounted to HK$11.1 million (2008: HK$22.8 million), which mainly generated from management of lottery shops and distribution of scratch cards. The Group manages one of the largest lottery retail networks in mainland China. However, the Group has suffered from reduced scale in video lottery terminal ("VLT") shops since early 2008. The Group is evaluating various opportunities related to provision of new technologies and platforms by virtue of its technology license from strategic shareholder Intralot, listed on the Athens Exchange and being one of the leading providers of integrated gaming systems to lottery organisations worldwide.

The Group also generated income from manufacturing and sales of lottery terminals and point of sale machines, amounting to HK$75.0 million for the year ended December 31, 2009 (2008: HK$157.9 million). The decrease was due to the deferred orders from the provincial Sports Lottery Administration Centers in China. The business prospects in this sector are more promising for 2010 compared to 2009 as the China Sports Lottery Administration Center is expected to enter into a new procurement cycle during the year. The Group is working with a strategic shareholder of the Company, Firich Enterprises Co., Ltd. ("Firich"), listed on the Taiwan Gre Tai Securities Market in developing a new line of high quality and durable lottery terminals. Firich, being one of the worldwide leading point of sale system manufacturers, is able to provide procurement, technical and research and development support for the Group, to develop the newer models of lottery terminals.

Network system integration business – discontinued operations

In prior years, the Group was also engaged in the business of network system integration, which was discontinued in the current year.

The prospects of the network system integration business have been significantly deteriorating as it is a mature and highly competitive industry with increasing competition from local mainland firms. Revenues during the year amounted to HK$240.3 million (2008: HK$426.3 million), representing a decrease of 43.6% compared to prior year. Loss for the year from this segment was HK$26.8 million, over 3 times of that for 2008.

On November 5, 2009, the Company entered into a sale and purchase agreement with Fortune Grace Management Limited, 70% beneficially owned by Mr. Chan Sek Keung, Ringo ("Mr. Chan"), Chairman and a director of the Company, to dispose of a wholly owned subsidiary of the Company, Wafer Systems Limited, and its subsidiaries engaged in network system integration business for a consideration of HK$30 million (the "Disposal"). The Disposal was completed on December 30, 2009 and the Group recorded a loss of HK$14.6 million on the Disposal. The consideration was satisfied with HK$10 million settled in cash, and the remaining HK$20 million in the form of two HK$10 million promissory notes due on or before March 31, 2010 and March 31, 2011. The promissory notes are guaranteed by Mr. Chan and bear interest at the rate of 5% per annum. Through the Disposal, the Group can focus on the development of the lottery business in order to strive for the highest return to the shareholders. Details of the Disposal are contained in the circular of the Company dated December 8, 2009.

SIGNIFICANT INVESTMENTS HELD

Available-for-sale investment

At December 31, 2009, the available-for-sale investment with carrying amount of HK$138.1 million (2008: HK$132.5 million) represented an investment in 14% equity interest in Nanum Lotto, a consortium incorporated in South Korea and formed by renowned international and Korean partners, possessing an exclusive lottery license to operate nation wide lotto games in South Korea.

Jointly controlled entities

During the year, the share of profits of jointly controlled entities amounted to HK$116,000 (2008: loss of HK$15.7 million), principally contributed by Beijing Telenet Information Technology Limited ("BTI"), indirectly owned as to 52.5% by the Group. BTI, being one of the largest authorised lottery terminal distributors approved by China Sports Lottery Administration Center, is engaged in the distribution of lottery terminals mainly supplied by the Group over 20 provinces in mainland China.

MANAGEMENT DISCUSSION AND ANALYSIS

ACQUISITION

On February 24, 2010, the Group entered into a conditional framework agreement to acquire 35% equity interest in China Excellent Net Technology Investment Limited which is engaged in the provision of management services for the mobile lottery business in mainland China.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

During the year, the Group kept its conservative policies in cash and financial management. Surplus funds were placed on interest-bearing deposits with banks. The Group generally financed its operations and serviced its debts with its internal resources, bank and other borrowings, loan from a related company and convertible bonds.

The Group's financial and liquidity position remained healthy for the year. As at December 31, 2009, bank balances and cash, denominated principally in Hong Kong dollars and Renminbi amounted to HK$61.6 million (2008: HK$157.0 million). The decrease during the year was mainly due to the Disposal. This balance does not include the consideration for the Disposal of HK$30 million satisfied by way of HK$10 million received in cash after the year end date, with the remaining HK$20 million to be settled by two payments of HK$10 million each on or before March 31, 2010 and March 31, 2011, respectively. As a measure of liquidity, at December 31, 2009, the Group had net current assets of HK$114.3 million, a decrease of 42.9% from last year end of HK$200.0 million, mainly because of the Disposal. However, the current ratio (ratio of current assets to current liabilities) has been improved to 2.9 as at December 31, 2009 (2008: 1.8).

The Group had net liabilities exceeding its assets of HK$201.2 million as at December 31, 2009, which was mainly because of the liability component of the convertible bonds amounting to HK$565.6 million and the non-cash accounting charges mentioned earlier. The convertible bonds, which are held entirely by the three strategic shareholders of the Group, are denominated in Hong Kong dollars and bear interest at 0.1% per annum. Maturity dates of the convertible bonds are December 12, 2012 and December 8, 2013. After the Disposal, the Group had no other borrowing as at December 31, 2009 except for the loan of HK$80 million from a related company beneficially owned by shareholders of the Company due on July 14, 2011. The Directors have carefully reviewed the Group's cash position and the cash flow forecast for the next twelve months and believe that the Group is able to meet its financial obligations in full as and when they fall due and balance its overall capital structure through new share issues and refinancing of debt as necessary.

At December 31, 2009, the Group had no significant capital commitments contracted but not provided for in the consolidated financial statements.

CHARGES ON GROUP ASSETS

The convertible bonds of the Company are secured by the shares of certain subsidiaries of the Company at December 31, 2009.

FOREIGN EXCHANGE EXPOSURE

As at December 31, 2009, all assets and liabilities of the Group were denominated in United States dollars, Hong Kong dollars, Renminbi and Korean Won. During the year, the business activities of the Group were mainly denominated in Hong Kong dollars and Renminbi. As the impact of foreign exchange exposure has been insignificant, no hedging or other alternatives have been implemented.

CHANGE OF COMPANY NAME

As announced on January 15, 2009, the company name was changed to MelcoLot Limited from Melco LottVentures Limited. We believe that the new name would more accurately reflect the close business relationship with the two substantial shareholders of the Company, Melco International Development Limited ("Melco") and Intralot.

OUTLOOK

Looking forward, the Chinese lottery market is expected to receive a boost from the following factors:

– Expansion of the lottery market through the new lottery entertainment avenues provided by the launch of skill games (similar to fixed odds betting) in China;

– External events that are positive to the industry, namely the 2010 FIFA World Cup, and Guangzhou Asian Games; and

– New opportunities in distribution platforms and technologies under the lottery regulations announced on July 1, 2009.

The Group's existing venue management business and manufacturing and distributions are already well placed to participate in the uptrend of sales. Furthermore, the Group has competitive advantage by virtue of its technology licencing arrangements with Intralot, and also strategic support from industry expertise of strategic shareholders namely Melco, Intralot and Firich. We believe that after the Disposal, the Group's enhanced focus of the lottery related business in China will bear fruit over the coming years.

In addition, with the steady consolidation of operations in South Korea's national lotto games, Nanum Lotto, the Group will be better placed to capitalise on developing opportunities in the Asian region.

EMPLOYEE INFORMATION

As at December 31, 2009, the Group had a total of 129 full-time employees (2008: 322). The decrease was mainly due to the Disposal and streamlining of operations in China. The Group continues to provide remuneration package to employees according to market practices and past performance. In addition to basic remuneration, the Group also provides employees with other benefits such as a mandatory provident fund, medical insurance scheme, share option schemes and staff training program.

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at December 31, 2009.

EXECUTIVE DIRECTORS

Mr. Ko Chun Fung, Henry, aged 50, is an executive Director and Chief Executive Officer ("CEO") of the Company and the Group and a member of the Nomination Committee of the Board. He was appointed to the Board in January 2008.

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

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

Mr. Moumouris, Christos, aged 41, is an executive Director of the Company and a member of the Nomination Committee of the Board. Mr. Moumouris was appointed as an executive Director of the Company since January 2009.

Mr. Moumouris graduated from the University of Westminster in London, England with a Bachelor of Engineering Honours Degree in Electronic Engineering. In 1992 he was awarded a Master's degree in Electronic Engineering from the Eindhoven University of Technology in the Netherlands.

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

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

NON-EXECUTIVE DIRECTORS

Mr. Chan Sek Keung, Ringo, aged 50, is the founder and was Chairman of the Board until he was re-designated a non-executive Director on December 30, 2009. He was re-elected as non-executive Chairman of the Group on March 5, 2010. He is also a member of the Remuneration Committee of the Board. Mr. Chan was first appointed to the Board in November 1998 and was Chairman of the Board between September 24, 2001 and December 30, 2009.

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

Mr. Wang, John Peter Ben, aged 49, is a non-executive Director of the Company. Mr. Wang qualified as a chartered accountant with the Institute of Chartered Accountants of England and Wales in 1985. He has over 20 years of experience in the financial and investment banking industry. Before joining Melco International Development Limited in 2004 where he held the position of group chief financial officer till September 2009, Mr. Wang had worked for Deutsche Bank (HK), CLSA Asia-Pacific markets (HK), Bear Stearns Asia Limited (HK), Barclays Capital (Singapore), S.G. Warburgs & Co. (London), Salomon Brothers (London), the London Stock Exchange and Deloitte Haskins & Sells (London).

Mr. Wang is a director of Melco Crown Entertainment Limited, a company listed on the NASDAQ Global Select Market in the United States. Mr. Wang is also a non-executive director of Oriental Ginza Holdings Limited, a company listed on the main board of the Stock Exchange.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Tsoi, David, aged 62, is an independent non-executive Director and chairman of both the Audit Committee and Remuneration Committee and a member of the Nomination Committee of the Board. Mr. Tsoi was appointed as an independent non-executive Director of the Company in October 2001.

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

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

Mr. Pang Hing Chung, Alfred, aged 48, is an independent non-executive Director and a member of both the Audit Committee and Nomination Committee of the Board. Mr. Pang was appointed as an independent non-executive Director of the Company in March 1999.

Mr. Pang is the Vice Chairman, Asia Coverage & Banking, and a director of Standard Bank Asia Ltd. Mr. Pang holds a Bachelor of Arts degree in economics from Cornell University and also an MBA degree from the Stanford Graduate School of Business in the United States.

Mr. So Lie Mo, Raymond, aged 60, is an independent non-executive Director, chairman of the Nomination Committee and a member of both the Audit Committee and Remuneration Committee of the Board. Mr. So was appointed as an independent non-executive Director of the Company in September 2007.

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

SENIOR MANAGEMENT

Mr. Yip Ho Chi, aged 40, joined the Group in June 2009 as Chief Financial Officer.

Prior to joining the Company, Mr. Yip had worked over 9 years with Sandmartin International Holdings Limited which is listed on the main board of the Stock Exchange and had been serving as its executive director, finance director and company secretary for the last 4 years. Mr. Yip was also an audit manager of Deloitte Touche Tohmatsu with whom he worked for over 7 years.

Mr. Yip holds a Bachelor of Business Administration degree from the University of Hong Kong. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants.

Mr. Ling Wai Man, Edgar, aged 50, joined the Group in November 2008, is the Director, Marketing & Lottery Product Distribution of the Group.

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

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

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

Mr. Hussain, Aziz Zahid, aged 36, joined the Group in March 2007 and is the Director- Strategic Development of the Group.

Mr. Hussain is responsible for business development and strategic new initiatives for the Group. As Director – Strategic Development, Mr. Hussain is in charge of developing and leading the implementation of strategies which shape future business delivery. This includes mergers and acquisitions, identification and evaluation of new business opportunities and corporate finance initiatives. Mr. Hussain comes from a "Big 4" multinational accounting firm background and has several years of experience across various countries in Asia, structuring local and cross border transactions.

Mr. Hussain holds a Bachelor of Commerce degree from the University of Mumbai. He is also a qualified Charted Accountant and a member of the Institute of Chartered Accountants of India.

Ms. Chan Lai Shan, Camily, aged 39, joined the Group in November 2006. She is currently the Director – Operations Control of the Group.

Ms. Chan possesses a wealth of experience in financial and project management gained from various listed companies and is responsible for the planning, budgeting and monitoring of the finance and operations of the Group.

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

Mr. Pang Kin Man, Edmond, aged 62, joined the Group in August 2001 is the Company Secretary of the Company.

As Company Secretary, Mr. Pang co-ordinates the work of the Board and its committees and assists the Board in the corporate governance and compliance matters of the Group. Mr. Pang is a fellow member of the Institute of Chartered Secretaries and Administrators of United Kingdom and Hong Kong Institute of Chartered Secretaries. He is also a fellow member of the Hong Kong Institute of Directors. Mr. Pang holds a Master of Science degree in corporate governance and directorship from the Baptist University of Hong Kong.

(a) Corporate governance practices

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

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

During the year ended December 31, 2009 under review, the Company complied with all the provisions on the Code contained in Appendix 15 to the GEM Listing Rules and, where appropriate, recommended best practices.

(b) Directors' securities transactions

The Company has adopted a code of conduct on terms no less exacting than that required in rules 5.48 to 5.67 of the GEM Listing Rules on directors' transactions in the securities of the Company.

Specific enquiries have been made to all directors and they have confirmed their compliance with the Company's code of conduct during the year.

(c) Board of directors

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

Executive directors:

Mr. Ko Chun Fung, Henry	
Mr. Moumouris, Christos	(appointed on January 30, 2009)
Mr. Derempeoglou, Georgios	(appointed on November 16, 2009 and resigned on February 1, 2010)

Non-executive directors:

Mr. Wang, John Peter Ben	(appointed on November 16, 2009)
Mr. Chan Sek Keung, Ringo	(re-designated from executive director on December 30, 2009)

Independent non-executive directors:

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

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

During the year, he Board met eleven times with attendance as shown below:

Director	**Attendance (Rate)**
Mr. Chan Sek Keung, Ringo	11 (100%)
Mr. Ko Chun Fung, Henry	11 (100%)
Mr. Tsoi, David	11 (100%)
Mr. Pang Hing Chung, Alfred	11 (100%)
Mr. So Lie Mo, Raymond	11 (100%)
Mr. Moumouris, Christos	11 (100%)
Mr. Wang, John Peter Ben*	1 (100%)
Mr. Derempeoglou, Georgios*	1 (100%)

*Note:**
These 2 directors were appointed on November 16, 2009. Since then and up to the end of the year, only 1 board meeting was held.

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

To assist Directors to discharge their duties, written guidelines and procedures have been set out to enable them to seek independent professional advice, at the Company's expense, in appropriate circumstances.

Throughout the year, the Company has complied with the requirements of the GEM Listing Rules with three independent non-executive directors on the board, one of whom, Mr. Tsoi, David, is a practising certified public accountant, who acted as chairman of the Audit Committee.

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

(d) Chairman and chief executive officer

During the year under review, the roles of the chairman and chief executive officer were segregated and not exercised by the same individual.

Mr. Chan Sek Keung, Ringo, executive director, was the Chairman of the Board until he was re-designated as non-executive director on December 30, 2009. He was re-elected non-executive Chairman on March 5, 2010.

Mr. Ko Chun Fung, Henry, executive director, was the Chief Executive Officer of the Group throughout the year.

(e) Non-executive directors

Both non-executive Directors of the Company, Mr. Chan Sek Keung, Ringo and Mr. Wang, John Peter Ben, have been appointed for a term of two years.

(f) Remuneration of directors

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

The Remuneration Committee of the Board was set up in February 2004 with written terms of reference. Duties of the Committee are to advise the Board on matters of policy relating to the organisation and human resources matters of the Group. It also determines the remuneration and compensation levels of individual Directors and the senior management staff.

Members of the Remuneration Committee during the year include the following members who served the Remuneration Committee for the entire year:

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

During the year, the Remuneration Committee met four times with attendance as shown below:

Director	**Attendance (rate)**
Mr. Tsoi, David	4 (100%)
Mr. Chan Sek Keung, Ringo	4 (100%)
Mr. So Lie Mo, Raymond	4 (100%)

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

Apart from determining the remuneration to Directors and senior management staff, the Remuneration Committee also made decisions on the grants to them share options of the Company.

(g) Nomination of directors

The Nomination Committee of the Board was set up on March 26, 2009 with written terms of reference. Duties of the Committee are to advise the Board and make recommendations on the structure, size and composition of the Board, identity and recommend addition to the Board where deemed suitable, assess the independence of independent non-executive directors and succession plans of the Board.

The Nomination Committee was made up of the following Directors:

Mr. So Lie Mo, Raymond *(Chairman)*
Mr. Ko Chun Fung, Henry
Mr. Moumouris, Christos
Mr. Pang Hing Chung, Alfred
Mr. Tsoi, David

Note:
Mr. Ko, Mr. Moumouris and Mr. Pang were appointed to the Nomination Committee on March 26, 2009 while Mr. So and Mr. Tsoi were appointed to the Committee on August 11, 2009.

During the year, the Nomination Committee met once with attendance as shown below:

Director	**Attendance (rate)**
Mr. So Lie Mo, Raymond	1 (100%)
Mr. Ko Chun Fung, Henry	1 (100%)
Mr. Moumouris, Christos	1 (100%)
Mr. Pang Hing Chung, Alfred	1 (100%)
Mr. Tsoi, David	1 (100%)

(h) Auditor's remuneration

At the annual general meeting of the Company held on May 8, 2009, Messrs. Deloitte Touche Tohmatsu ("**Deloitte**") were re-appointed as auditor of the Company and the Group until the conclusion of the next annual general meeting at a fee to be agreed by the Directors.

On the recommendation of the Audit Committee, the Board has agreed to the fee of HK$1,040,000 for the audit of the Group's accounts for the year ended December 31, 2009.

A separate audit fee charge of HK$460,000 for the audit of the accounts of Wafer Systems Limited and its subsidiaries, the discontinued operations of the Group, has been accepted and will be met by Wafer Systems Limited.

During the year, Deloitte was also engaged, at a total fee of HK$220,000, as the reporting accountant in the Major and Connected Transaction as detailed in the Company's circular dated December 8, 2009 issued to shareholders.

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

(i) Audit Committee

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

Members of the Audit Committee during the year include all the three independent non-executive Directors who served the Audit Committee for the entire year:

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

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

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

During the year, the Audit Committee held meetings to discuss and review quarterly, interim and annual results of the Company and the Group. It also discussed with the external auditor on significant audit, accounting and internal control issues arising from the external auditor's audit of the annual accounts for 2009. An overall review on the effectiveness of the system of internal controls of the Group was conducted by the Audit Committee with special focus, by rotation and engaging external professionals, where applicable.

(j) Directors duty to prepare accounts

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

For and on behalf of the Board

Ko Chun Fung, Henry
Executive Director and
Chief Executive Officer

Hong Kong, March 25, 2010

The directors present their annual report and the consolidated audited financial statements for the year ended December 31, 2009.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company while its subsidiaries are principally engaged in the lottery business.

The activities of the Company's principal subsidiaries and jointly controlled entities are set out in notes 43 and 18 respectively to the consolidated financial statements.

In prior years, the Group was also engaged in the business of network system integration solutions. These operations were discontinued in the current year as set out in note 10.

RESULTS

The results of the Group for the year ended December 31, 2009 are set out in the consolidated statement of comprehensive income on page 35 of this annual report.

The directors do not recommend the payment of a dividend.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of the movements during the year in the share capital of the Company are set out in note 28 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at December 31, 2009, no reserve was available for distribution to the owners of the Company (2008: Nil).

DIRECTORS

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

Executive directors:

Mr. Ko Chun Fung, Henry	*(Chief Executive Officer)*
Mr. Moumouris, Christos	(appointed on January 30, 2009)
Mr. Derempeoglou, Georgios	(appointed on November 16, 2009 and resigned on February 1, 2010)

Non-executive directors:

Mr. Chan Sek Keung, Ringo	*(Chairman)* (re-designated from executive director on December 30, 2009)
Mr. Wang, John Peter Ben	(appointed on November 16, 2009)

Independent non-executive directors:

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

In accordance with Article 87 of the Company's Articles of Association, Mr. Ko Chun Fung, Henry and Mr. Chan Sek Keung, Ringo retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

In accordance with Article 86(3) of the Company's Articles of Association, Mr. Wang, John Peter Ben will retire and, being eligible, offer himself for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

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

As at December 31, 2009, the interests of the directors, the chief executive and their respective associates in the shares, underlying shares and debentures or short positions and share options of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of the Company as referred to in Rule 5.46 of the GEM Listing Rules, were as follows:

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

	Number of shares			
Name of director	**Beneficial owner**	**Held by controlled corporation(s)**	**Total number of shares**	**Approximate percentage of issued share capital of the Company**
				(Note 1)
Mr. Chan Sek Keung, Ringo ("Mr. Chan")	18,876,000	34,400,000 *(Note 2)*	53,276,000	10.64%
Mr. Tsoi, David	601,000	–	601,000	0.12%
Mr. Pang Hing Chung, Alfred	1,500,000	–	1,500,000	0.30%

Notes:

1. As at December 31, 2009, the total number of issued shares of the Company was 500,813,433.

2. Mr. Chan is deemed to be interested in 34,400,000 ordinary shares of the Company beneficially held by Woodstock Management Limited, a company wholly owned by him.

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

Name of director	**Capacity**	**Number of share options held**	**Number of underlying shares**
Mr. Ko Chun Fung, Henry	Beneficial owner	8,354,000	8,354,000
Mr. Moumouris, Christos	Beneficial owner	4,620,000	4,620,000
Mr. Derempeoglou, Georgios	Beneficial owner	3,000,000	3,000,000
Mr. Chan Sek Keung, Ringo	Beneficial owner	7,200,000	7,200,000
Mr. Wang, John Peter Ben	Beneficial owner	6,846,000	6,846,000
Mr. Tsoi, David	Beneficial owner	575,000	575,000
Mr. Pang Hing Chung, Alfred	Beneficial owner	200,000	200,000
Mr. So Lie Mo, Raymond	Beneficial owner	200,000	200,000
		30,995,000	30,995,000

Save as disclosed above, none of the directors, chief executive and their respective associates, had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at December 31, 2009.

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 29 to the consolidated financial statements.

The Company, at the general meeting held on April 20, 2002, adopted both a pre-IPO share option scheme (the "**pre-IPO share option scheme**") and a post-IPO share option scheme (the "**post-IPO share option scheme**").

Details of the movements in the number of share options during the year for both schemes are as follows:

(a) Pre-IPO share option scheme

Type of participant	Date of grant	Exercisable period	Exercise price per share *HK$*	Number of share options outstanding as at 1.1.2009 and 12.31.2009
Director:				
Mr. Chan Sek Keung, Ringo	4.30.2002	11.17.2002 to 4.29.2012	0.550	3,000,000

No option has been granted, exercised, cancelled or lapsed during the year ended December 31, 2009.

Pre-IPO share options are exercisable as to (i) a maximum of 25% of the total number of options granted between six months and twelve months after May 17, 2002 (the "**Listing Date**"); (ii) a maximum additional 6.25% of the total number of options granted after the expiry of each successive 3-month period, twelve months after the Listing Date; and (iii) the remaining options on or after the third anniversary of the Listing Date until the end of the option period or lapse of an option.

(b) Post-IPO share option scheme

Type of participants	Date of grant	Exercisable period	Exercise price per share	Number of share options: Outstanding at 1.1.2009	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 12.31.2009
			HK$			*(Note 8)*		
Directors:								
Mr. Ko Chun Fung, Henry	3.31.2008 *(Note 4)*	10.1.2008 to 3.31.2018	0.890	4,354,000	–	–	–	4,354,000
	7.10.2009 *(Note 5)*	7.10.2010 to 7.9.2019	0.367 *(Note 7)*	–	4,000,000	–	–	4,000,000
Mr. Moumouris, Christos	2.16.2009 *(Note 5)*	2.16.2010 to 2.15.2019	0.300 *(Note 6)*	–	2,120,000	–	–	2,120,000
	7.10.2009 *(Note 5)*	7.10.2010 to 7.9.2019	0.367 *(Note 7)*	–	2,500,000	–	–	2,500,000
Mr. Derempeoglou, Georgios	2.16.2009 *(Note 5)*	2.16.2010 to 2.15.2019	0.300 *(Note 6)*	–	1,500,000	–	–	1,500,000
	7.10.2009 *(Note 5)*	7.10.2010 to 7.9.2019	0.367 *(Note 7)*	–	1,500,000	–	–	1,500,000
Mr. Chan Sek Keung, Ringo	2.20.2003 *(Note 2)*	2.20.2004 to 2.19.2013	0.138	1,200,000	–	–	–	1,200,000
	7.10.2009 *(Note 5)*	7.10.2010 to 7.9.2019	0.367 *(Note 7)*	–	3,000,000	–	–	3,000,000
Mr. Wang, John Peter Ben	3.31.2008 *(Note 4)*	10.1.2008 to 3.31.2018	0.890	3,846,000	–	–	–	3,846,000
	7.10.2009 *(Note 5)*	7.10.2010 to 7.9.2019	0.367 *(Note 7)*	–	3,000,000	–	–	3,000,000
Mr. Tsoi, David	1.12.2007 *(Note 2)*	1.12.2008 to 1.11.2017	0.088	562,500	–	(187,500)	–	375,000
	12.7.2007 *(Note 3)*	6.7.2008 to 12.6.2009	2.720	200,000	–	–	(200,000)	–
	7.10.2009 *(Note 5)*	7.10.2010 to 7.9.2019	0.367 *(Note 7)*	–	200,000	–	–	200,000
Mr. Pang Hing Chung, Alfred	12.7.2007 *(Note 3)*	6.7.2008 to 12.6.2009	2.720	200,000	–	–	(200,000)	–
	7.10.2009 *(Note 5)*	7.10.2010 to 7.9.2019	0.367 *(Note 7)*	–	200,000	–	–	200,000
Mr. So Lie Mo, Raymond	12.7.2007 *(Note 3)*	6.7.2008 to 12.6.2009	2.720	750,000	–	–	(750,000)	–
	7.10.2009 *(Note 5)*	7.10.2010 to 7.9.2019	0.367 *(Note 7)*	–	200,000	–	–	200,000
				11,112,500	18,220,000	(187,500)	(1,150,000)	27,995,000

Type of participants	Date of grant	Exercisable period	Exercise price per share	Number of share options: Outstanding at 1.1.2009	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 12.31.2009
			HK$			(Note 8)		
Substantial shareholder:								
Mr. Ho, Lawrence Yau Lung	3.31.2008 (Note 4)	10.1.2008 to 3.31.2018	0.890	4,354,000	–	–	–	4,354,000
	7.10.2009 (Note 5)	7.10.2010 to 7.9.2019	0.367 (Note 7)	–	4,000,000	–	–	4,000,000
				4,354,000	4,000,000	–	–	8,354,000
Employees:	2.23.2004 (Note 2)	2.23.2005 to 2.22.2014	0.165	57,500	–	(10,000)	(5,000)	42,500
	10.11.2004 (Note 2)	10.11.2005 to 10.10.2014	0.124	65,000	–	–	(7,500)	57,500
	1.12.2007 (Note 2)	1.12.2008 to 1.11.2017	0.088	322,500	–	(107,500)	–	215,000
	12.7.2007 (Note 3)	6.7.2008 to 12.6.2009	2.720	1,616,000	–	–	(1,616,000)	–
	3.31.2008 (Note 4)	10.1.2008 to 3.31.2018	0.890	10,840,000	–	–	(1,467,000)	9,373,000
	2.16.2009 (Note 5)	2.16.2010 to 2.15.2019	0.300 (Note 6)	–	3,200,000	–	–	3,200,000
	7.10.2009 (Note 5)	7.10.2010 to 7.9.2019	0.367 (Note 7)	–	9,488,000	–	(10,000)	9,478,000
				12,901,000	12,688,000	(117,500)	(3,105,500)	22,366,000
Advisors: (Note 1)	2.23.2004 (Note 2)	2.23.2005 to 2.22.2014	0.165	24,000	–	–	–	24,000
	10.11.2004 (Note 2)	10.11.2005 to 10.10.2014	0.124	17,000	–	(10,000)	–	7,000
	1.12.2007 (Note 2)	1.12.2008 to 1.11.2017	0.088	3,788,000	–	(1,068,000)	–	2,720,000
	12.7.2007 (Note 3)	6.7.2008 to 12.6.2009	2.720	1,744,000	–	–	(1,744,000)	–
	3.31.2008 (Note 4)	10.1.2008 to 3.31.2018	0.890	6,606,000	–	–	(700,000)	5,906,000
	2.16.2009 (Note 5)	2.16.2010 to 2.15.2019	0.300 (Note 6)	–	6,180,000	–	–	6,180,000
	7.10.2009 (Note 5)	7.10.2010 to 7.9.2019	0.367 (Note 7)	–	6,880,000	–	–	6,880,000
				12,179,000	13,060,000	(1,078,000)	(2,444,000)	21,717,000
				40,546,500	47,968,000	(1,383,000)	(6,699,500)	80,432,000

Notes:

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

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

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

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

(5) These grants under the post-IPO share option scheme are exercisable for a period not later than 10 years from the date of grant, within which there is a total vesting period of three years, starting from the first anniversary of the grant date at stepped annual increments of 33% of the total options granted.

(6) The closing price of the Company's shares immediately before February 16, 2009, the date of grant of the options, was HK$0.30.

(7) The closing price of the Company's shares immediately before July 10, 2009, the date of grant of the options, was HK$0.36.

(8) In respect of the share options exercised during the year, the weighted average closing price of the Company's shares immediately before the dates on which the share options were exercised was HK$0.27.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the share 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 OF SIGNIFICANCE

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

SUBSTANTIAL SHAREHOLDERS

As at December 31, 2009, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of certain directors and the chief executive, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

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

Name of shareholder	Number of shares: Beneficial owner	Number of shares: Held by controlled corporation(s)	Number of shares: Total number of shares	Approximate percentage of issued share capital of the Company *(Note 1)*
Melco International Development Limited ("**Melco International**")	–	55,551,619 *(Note 2)*	55,551,619	11.09%
Mr. Ho, Lawrence Yau Lung ("**Mr. Ho**")	–	55,551,619 *(Note 3)*	55,551,619	11.09%
Intralot S.A. Integrated Lottery Systems and Services ("**Intralot S.A.**")	–	50,908,779 *(Note 4)*	50,908,779	10.17%
Firich Enterprises Co., Ltd. ("**Firich**")	2,097,498	30,499,042 *(Note 5)*	32,596,540	6.51%
Legg Mason, Inc.	–	27,304,000	27,304,000	5.45%

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

Name of shareholder	Number of underlying shares: Beneficial owner	Number of underlying shares: Held by controlled corporation(s)	Number of underlying shares: Total number of underlying shares	Approximate percentage of issued share capital of the Company *(Note 1)*
Melco International Development Limited	–	470,006,742 *(Note 2)*	470,006,742	93.85%
Mr. Ho, Lawrence Yau Lung	8,354,000 *(Note 6)*	470,006,742 *(Note 3)*	478,360,742	95.52%
Intralot S.A. Integrated Lottery Systems and Services.	–	366,376,270 *(Note 4)*	366,376,270	73.16%
Firich Enterprises Co., Ltd.	20,796,765	206,104,195 *(Note 5)*	226,900,960	45.31%

Notes:

(1) As at December 31, 2009, the total number of issued shares of the Company was 500,813,433.

(2) Melco International is deemed by the SFO to be interested in 55,551,619 shares and 470,006,742 underlying shares of the Company from convertible bonds in the Company as described in (7) below by virtue of its indirect holding of its wholly owned subsidiaries, Melco Leisure and Entertainment Group Limited and Melco LottVentures Holdings Limited.

(3) Mr. Ho is deemed by the SFO to be interested in 55,551,619 shares and 470,006,742 underlying shares of the Company from convertible bonds in the Company as described in (7) below by virtue of his controlling interests in Melco International, which is held by his controlled corporations, and his indirect holding of Melco Leisure and Entertainment Group Limited and Melco LottVentures Holdings Limited.

(4) Intralot S.A. is deemed by the SFO to be interested in 50,908,779 shares and 366,376,270 underlying shares of the Company from convertible bonds in the Company as described in (8) below by virtue of its indirect holding of its wholly owned subsidiaries, Intralot Holdings International Limited and Intralot International Limited.

(5) Firich is deemed by the SFO to be interested in 30,499,042 shares and the 206,104,195 underlying shares from convertible bonds in the Company as described in (7) below by virtue of its indirect holding of its wholly owned subsidiaries, Firich International Co., Ltd., Global Crossing Holdings Ltd. and Toprich Company Limited.

(6) Mr. Ho renders consultancy services in respect of the business development of the Group without receiving any compensation. The Company granted share options to him for recognising his services similar to those rendered by other employees.

(7) On December 13, 2007, the Company issued convertible bonds (the "Convertible Bonds I") with principal amount of HK$606,800,000 to Power Way Group Limited as part of the consideration for the acquisition of subsidiaries, which entitle the holder to convert them into 713,882,352 ordinary shares of the Company within 5 years from the date of issue at a conversion price of HK$0.85 per share subject to anti-dilutive adjustments. If the Convertible Bonds I have not been converted, they will be redeemed on maturity date of December 12, 2012. Power Way Group Limited had subsequently distributed all Convertible Bonds I to its shareholders, and as at December 31, 2009, as to principal amount of HK$399,585,732 by Melco LottVentures Holdings Limited, HK$192,865,817 by Firich and its associates and the balance of HK$14,428,451 by Intralot International Limited.

(8) Pursuant to an agreement dated September 7, 2008 (as amended by a supplemental agreement dated September 26, 2008) entered into between the Company and Intralot International Limited, the Company issued convertible bonds (the "Convertible Bonds II") with principal amount of HK$277,175,310 to Intralot International Limited, as part of the consideration for the acquisition of intangible assets on December 9, 2008, which entitle the holder to convert them into 279,692,542 ordinary shares of the Company within 5 years from the date of issue at a conversion price of HK$0.991 per share subject to anti-dilutive adjustments. If the Convertible Bonds II have not been converted, they will be redeemed on maturity date of December 8, 2013. In addition, upon obtaining two agreements in connection with the recognised projects in China, the Company shall pay the success payment, satisfied by convertible bonds, to Intralot International Limited, which are convertible into 69,709,080 ordinary shares of the Company at a conversion price of HK$1.0759 per share.

Save as disclosed above, the Company had not been notified of any other relevant interests or short positions in the shares or underlying shares in the Company as at December 31, 2009.

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

CONNECTED TRANSACTION

On November 5, 2009, the Company entered into a sale and purchase agreement with Fortune Grace Management Limited ("Fortune Grace") to dispose of a wholly owned subsidiary of the Company, Wafer Systems Limited and its subsidiaries, for a consideration of HK$30 million.

As Mr. Chan Sek Keung, Ringo, Chairman and a director of the Company, is a beneficial owner of Fortune Grace, the disposal constituted a connected transaction for the Company within the meanings of the GEM Listing Rules, details of which were disclosed in the Company's circular dated December 8, 2009.

CONTINUING CONNECTED TRANSACTIONS

On January 9, 2008, Wu Sheng Computer Technology (Shanghai) Co., Ltd. ("Wu Sheng"), an indirect non-wholly owned subsidiary of the Company entered into a purchase agreement (the "Purchase Agreement") with Firich for a term of three years ending December 31, 2010 whereby Wu Sheng will purchase from Firich certain materials/unfinished parts for the manufacture of point of sale and lottery vending terminals, annual cap amounts of which are HK$265 million, HK$275 million and HK$350 million for each of the three years, respectively. On January 9, 2008, Wu Sheng also entered into a supply agreement (the "Supply Agreement") with Firich for a term of three years ending December 31, 2010 whereby Wu Sheng will sell and deliver to Firich the finished point of sale, lottery vending terminals and accessory products, annual cap amounts of which are HK$115 million, HK$200 million and HK$260 million for each of the three years, respectively. Details of the transactions were set out in the circular of the Company dated January 28, 2008.

Firich, being a substantial shareholder of Oasis Rich International Limited, a company which is owned as to 60% by the Group, is a connected person of the Company within the meanings of the GEM Listing Rules.

The aggregate amounts for the year ended December 31, 2009 attributable to the Purchase Agreement and the Supply Agreement were HK$41.6 million and HK$26.1 million respectively.

All the independent non-executive directors of the Company have reviewed the continuing connected transactions and confirmed that they have been entered into (i) in the ordinary and usual course of business of the Group; (ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

As at December 31, 2009, none of the directors or the management shareholders (as defined in the GEM Listing Rules) of the Company or their respective associates had any interests in any business which competes or may compete with the business of the Group.

EMOLUMENT POLICY

The emolument policy for the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

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

The Company has adopted the share option schemes as an incentive to Directors, eligible employees and advisors. Transactions of the schemes during the year are set out in note 29 to the consolidated financial statements.

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

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

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended December 31, 2009.

DONATIONS

During the year, the Group did not make any charitable and other donations (2008: HK$38,000).

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the purchases attributable to the Group's largest supplier, a substantial shareholder, Firich, of the Company amounted to approximately 99% of the Group's total purchases. The five largest suppliers of the Group comprised approximately 100% of the Group's total purchases.

During the year, the turnover attributable to the Group's largest customer, a jointly controlled entity of the Company, amounted to approximately 53% of the Group's total revenue. The five largest customers of the Group comprised approximately 92% of the Group's total revenue and Firich is a one of the five largest customers.

Save as disclosed above, at no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors owned more than 5% of the Company's share capital) have an interest in any of the Group's five largest customers or suppliers.

EVENTS AFTER THE REPORTING PERIOD

Details of significant events occurring after the reporting period are set out in note 44 to the consolidated financial statements.

AUDITOR

The consolidated financial statements for the year ended December 31, 2007 were audited by CCIF CPA Limited, who resigned as auditor of the Company with effect from December 23, 2008 and Messrs. Deloitte Touche Tohmatsu have been appointed as auditor of the Company.

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

Ko Chun Fung, Henry
Executive Director and
Chief Executive Officer

Hong Kong, March 25, 2010

Deloitte.
德勤

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

We have audited the consolidated financial statements of MelcoLot Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 35 to 99 which comprise the consolidated statement of financial position as at December 31, 2009, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and 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 consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
March 25, 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2009

	Notes	2009 HK$'000	2008 HK$'000 (restated)
Continuing operations			
Revenue	6	**86,110**	180,716
Changes in inventories of finished goods and work-in-progress		**(22,276)**	37,157
Purchase of inventories and raw materials consumed		**(42,176)**	(144,538)
Other income and gains		**1,867**	5,226
Employee benefits costs		**(22,939)**	(27,702)
Depreciation and amortisation		**(26,115)**	(54,590)
Impairment loss on goodwill	16	**(216,938)**	(259,943)
Impairment loss on intangible assets	17	**–**	(95,958)
Share of profits (losses) of jointly controlled entities		**116**	(15,701)
Other expenses		**(47,773)**	(57,717)
Finance costs	8	**(69,147)**	(41,202)
Loss before taxation		**(359,271)**	(475,252)
Taxation	9	**3,368**	13,653
Loss for the year from continuing operations		**(355,903)**	(461,599)
Discontinued operations			
Loss for the year from discontinued operations	10	**(41,457)**	(7,485)
Loss for the year	11	**(397,360)**	(469,084)
Other comprehensive income (expense)			
Exchange differences arising on translation of foreign operations		**6,681**	33,304
Reclassification adjustment of exchange reserve on disposal of subsidiaries		**(6,457)**	–
Total comprehensive income and expense for the year		**(397,136)**	(435,780)
Loss for the year attributable to:			
Owners of the Company		**(388,019)**	(442,141)
Non-controlling interests		**(9,341)**	(26,943)
		(397,360)	(469,084)
Total comprehensive income and expense attributable to:			
Owners of the Company		**(387,795)**	(409,440)
Non-controlling interests		**(9,341)**	(26,340)
		(397,136)	(435,780)
Loss per share	14		
From continuing and discontinued operations			
Basic and diluted		**(HK77.53 cents)**	(HK98.89 cents)
From continuing operations			
Basic and diluted		**(HK69.24 cents)**	(HK97.22 cents)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2009

	Notes	2009 HK$'000	2008 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**12,088**	30,809
Goodwill	16	**66,694**	283,632
Intangible assets	17	**95,524**	121,121
Interests in jointly controlled entities	18	**11,635**	11,519
Available-for-sale investment	19	**138,102**	132,502
Amount due from a related company – due after one year	20	**10,000**	–
		334,043	579,583
CURRENT ASSETS			
Inventories	21	**18,779**	70,878
Trade and other receivables	22	**39,762**	174,591
Loan receivable	23	**–**	3,890
Amount due from jointly controlled entities	24	**34,477**	44,458
Amounts due from related companies	20	**20,153**	148
Pledged bank deposits	25	**–**	15,310
Bank balances and cash	25	**61,555**	156,967
		174,726	466,242
CURRENT LIABILITIES			
Trade and other payables	26	**42,004**	213,478
Amount due to a shareholder	20	**–**	1,695
Amounts due to related companies	20	**8,029**	1,098
Tax payable		**10,385**	14,541
Bank and other borrowings – due within one year	27	**–**	35,408
		60,418	266,220
NET CURRENT ASSETS		**114,308**	200,022
		448,351	779,605

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2009

	Notes	2009 HK$'000	2008 HK$'000
CAPITAL AND RESERVES			
Share capital	28	**5,008**	4,994
Reserves		**(227,073)**	154,521
Equity attributable to owners of the Company		**(222,065)**	159,515
Non-controlling interests		**20,883**	30,224
TOTAL EQUITY (CAPITAL DEFICIENCY)		**(201,182)**	189,739
NON-CURRENT LIABILITIES			
Other borrowings – due after one year	27	**80,000**	80,000
Convertible bonds	30	**565,594**	501,331
Deferred tax liabilities	31	**3,939**	8,535
		649,533	589,866
		448,351	779,605

The consolidated financial statements on pages 35 to 99 were approved and authorised for issue by the Board of Directors on March 25, 2010 and are signed on its behalf by:

Chan Sek Keung, Ringo
DIRECTOR

Ko Chun Fung, Henry
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2009

	Attributable to owners of the Company									
	Share capital HK$'000	Share premium HK$'000	Share-based payment reserve HK$'000	PRC statutory reserves HK$'000 (note)	Convertible bonds equity reserve HK$'000	Exchange reserve HK$'000	Accumulated losses HK$'000	Sub-total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At January 1, 2008	4,322	334,020	359	2,007	611,692	4,483	(472,805)	484,078	56,189	540,267
Exchange differences arising on translation of foreign operations	–	–	–	–	–	32,701	–	32,701	603	33,304
Loss for the year	–	–	–	–	–	–	(442,141)	(442,141)	(26,943)	(469,084)
Total comprehensive income and expense for the year	–	–	–	–	–	32,701	(442,141)	(409,440)	(26,340)	(435,780)
Recognition of equity-settled share-based payments	–	–	15,979	–	–	–	–	15,979	–	15,979
Transfer	–	–	–	3,582	–	–	(3,582)	–	–	–
Issue of ordinary shares upon exercise of share options	33	825	(94)	–	–	–	–	764	–	764
Issue of convertible bonds	–	–	–	–	33,800	–	–	33,800	–	33,800
Shares issued	639	33,695	–	–	–	–	–	34,334	–	34,334
Non-controlling interests arising from acquisition of a subsidiary	–	–	–	–	–	–	–	–	375	375
At December 31, 2008	4,994	368,540	16,244	5,589	645,492	37,184	(918,528)	159,515	30,224	189,739
Exchange differences arising on translation of foreign operations	–	–	–	–	–	6,681	–	6,681	–	6,681
Realised on disposal of subsidiaries	–	–	–	–	–	(6,457)	–	(6,457)	–	(6,457)
Loss for the year	–	–	–	–	–	–	(388,019)	(388,019)	(9,341)	(397,360)
Total comprehensive income and expense for the year	–	–	–	–	–	224	(388,019)	(387,795)	(9,341)	(397,136)
Recognition of equity-settled share-based payments	–	–	6,103	–	–	–	–	6,103	–	6,103
Issue of ordinary shares upon exercise of share options	14	155	(57)	–	–	–	–	112	–	112
Transfer upon disposal of subsidiaries	–	–	–	(2,046)	–	–	2,046	–	–	–
At December 31, 2009	5,008	368,695	22,290	3,543	645,492	37,408	(1,304,501)	(222,065)	20,883	(201,182)

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2009

	2009 *HK$'000*	2008 *HK$'000*
OPERATING ACTIVITIES		
Loss for the year	**(397,360)**	(469,084)
Adjustments for:		
Income tax credit recognised in profit or loss	**(1,368)**	(11,826)
Impairment loss on goodwill	**216,938**	259,943
Impairment loss on intangible assets	**8,412**	98,587
Impairment loss on amount due from a jointly controlled entity	**–**	1,788
(Reversal of) impairment loss on trade and other receivables	**(1,820)**	9,521
Impairment loss on loan receivable	**3,890**	396
Allowance for inventories	**1,036**	1,322
Depreciation and amortisation	**28,761**	58,442
Loss on disposal of/write off of property, plant and equipment	**8,498**	1,879
Interest expenses	**72,066**	46,088
Interest income	**(440)**	(1,405)
Equity-settled share-based payment expenses	**6,103**	15,979
Share of (profits) losses of jointly controlled entities	**(116)**	15,701
Loss on disposal of subsidiaries	**14,637**	–
Operating cash flows before movements in working capital	**(40,763)**	27,331
Decrease (increase) in inventories	**42,920**	(60,143)
Decrease (increase) in trade and other receivables	**42,976**	(35,121)
Decrease (increase) in amounts due from jointly controlled entities	**9,981**	(44,815)
Increase in amounts due from related companies	**(5)**	–
(Decrease) increase in trade and other payables	**(111,991)**	126,018
Cash (used in) generated from operations	**(56,882)**	13,270
Income taxes paid	**(5,400)**	(1,243)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	**(62,282)**	12,027

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2009

	Notes	2009 HK$'000	2008 HK$'000
INVESTING ACTIVITIES			
Disposal of subsidiaries (net of cash and cash equivalents disposed of)	37	(34,970)	–
Purchase of property, plant and equipment		(4,621)	(5,961)
Capital expenditure on intangible assets		(3,161)	(5,936)
Decrease (increase) in pledged bank deposits		13,876	(2,886)
Interest received		440	1,405
Proceeds from disposal of property, plant and equipment		16	1,215
Acquisition of assets through acquisition of a subsidiary (net of cash and cash equivalents acquired)	35	–	(66,588)
Advance to a shareholder of a jointly controlled entity		–	(1,612)
Advance to a related company		–	(148)
Proceeds from disposal of intangible assets		–	3,420
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	36	–	206
NET CASH USED IN INVESTING ACTIVITIES		(28,420)	(76,885)
FINANCING ACTIVITIES			
Repayment of bank and other borrowings		(65,439)	(171,575)
Interest paid		(3,803)	(7,192)
Bank and other borrowings raised		62,103	204,106
Advances from related companies		1,236	1,098
Proceeds from exercise of share options		112	764
Cash proceeds from issuance of shares and convertible bonds	17(b)	–	50,000
Advance from a shareholder		–	1,695
Repayment to a jointly controlled entity		–	(2,140)
NET CASH (USED IN) FROM FINANCING ACTIVITIES		(5,791)	76,756
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(96,493)	11,898
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		156,967	143,816
EFFECTS OF FOREIGN EXCHANGE RATE CHANGES		1,081	1,253
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash		61,555	156,967

1. GENERAL

The Company is a public limited company incorporated in the Cayman Islands and its shares are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since May 17, 2002. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information attached to the annual report.

The functional currency of the Company was originally Hong Kong dollars ("HK$"). On December 30, 2009, the Company disposed of Wafer Systems Limited and it subsidiaries ("Wafer Group"), all of which have HK$ as their functional currency. The directors are of the opinion that after the disposal of Wafer Group, the primary economic environment in which the Company operates is the People's Republic of China (the "PRC"), taking into consideration the operations of the Company's subsidiaries. The directors have therefore determined that the functional currency of the Company has been changed to Renminbi ("RMB") after disposal of Wafer Group.

The consolidated financial statements are presented in HK$ for the convenience of the shareholders, as the Company is listed in Hong Kong.

The Company acts as an investment holding company. Its subsidiaries are principally engaged in lottery business in the PRC. The Group was also engaged in the provision of network system integration in Hong Kong and the PRC which was discontinued in current year (see note 10).

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been prepared on a going concern basis. The Company and its subsidiaries (the "Group") incurred a loss of HK$397,360,000 and reported a net decrease in cash and cash equivalents of HK$96,493,000 for the year ended December 31, 2009 and as at that date, the Group had net liabilities of HK$201,182,000. In preparing the consolidated financial statements, the directors of the Company have carefully reviewed the Group's financial position, future liquidity and cash flow forecast. In reviewing the Group's current and future financial position, the directors have considered the following factors:

- The ability to successfully replace the convertible bonds with equity instruments;
- The ability to successfully capitalise other loans to equity;
- Cost control measures.

The directors of the Company believe the above measures, if successfully implemented, will improve the Group's financial position and strengthen the capital base of the Group and accordingly, have prepared the consolidated financial statements on a going concern basis.

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

In the current year, the Group has applied the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants.

HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC)-Int 9 & HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC)-Int 13	Customer Loyalty Programmes
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC)-Int 18	Transfers of Assets from Customers
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning on or after July 1, 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

In addition, in the current year, the Group has elected to early adopt the amendment to HKFRS 5 as part of Improvements to HKFRSs 2009 (adopted in advance of effective date of January 1, 2010).

Early adoption of amendment to HKFRS 5 as part of Improvements to HKFRSs 2009

The amendment has clarified that HKFRS 5 has specified the disclosure required in respect of disposal groups classified as discontinued operations. Disclosures requirements in other HKFRSs do not generally apply to such disposal groups.

Except as described below, the adoption of the new and revised HKFRSs has had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

New and revised HKFRSs affecting presentation and disclosure only

HKAS 1 (Revised 2007) Presentation of Financial Statements

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the consolidated financial statements.

During the year, the Company disposed of Wafer Group and the provision of network system integration business was classified as discontinued operations. No consolidated statement of financial position as at January 1, 2008 has been presented as the directors of the Company considered that the restatement of statement of comprehensive income for presentation of discontinued operations has no impact on the financial position of the Group presented in the consolidated statement of financial position in respect of the end of the previous financial year.

HKFRS 8 Operating Segments

HKFRS 8 is a disclosure standard that has resulted in a redesignation of the Group's reportable segments (see note 7).

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

Improving Disclosures about Financial Instruments
(Amendments to HKFRS 7 Financial Instruments: Disclosures)

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments. The amendments also expand and amend the disclosures required in relation to liquidity risk.

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

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009 except for amendment to HKFRS5[2]
HKAS 24 (Revised)	Related Party Disclosures[6]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKAS 32 (Amendment)	Classification of Right Issues[4]
HKAS 39 (Amendment)	Eligible Hedged Items[1]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[3]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[5]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[3]
HKFRS 3 (Revised)	Business Combinations[1]
HKFRS 9	Financial Instruments[7]
HK(IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[6]
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners[1]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[5]

1 Effective for annual periods beginning on or after July 1, 2009
2 Amendments that are effective for annual periods beginning on or after July 1, 2009 or January 1, 2010, as appropriate
3 Effective for annual periods beginning on or after January 1, 2010
4 Effective for annual periods beginning on or after February 1, 2010
5 Effective for annual periods beginning on or after July 1, 2010
6 Effective for annual periods beginning on or after January 1, 2011
7 Effective for annual periods beginning on or after January 1, 2013

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

HKFRS 9 "Financial Instruments" introduces new requirements for the classification and measurement of financial assets and will be effective from January 1, 2013, with earlier application permitted. The standard requires all recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 will affect the classification and measurement of the Group's financial assets.

The directors of the Company anticipate that the application of the application of the other new or revised standards, amendments or interpretations will have no material impact on the consolidated financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

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

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

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

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

Business combinations

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses and is presented separately in the consolidated statement of financial position.

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

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

Jointly controlled entities

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

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

Revenue from provision of management services for distribution of lottery products is recognised when the service is rendered and when the right to receive the income has been established.

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

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

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

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

Property, plant and equipment

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

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

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

Leasing

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

Operating lease payments are recogsied as expenses on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income in the consolidated financial statements and will be reclassified from equity to profit or loss on disposal of foreign operation.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transitions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (exchange reserve).

The effect of the change of the functional currency of the Company has been accounted for prospectively. All items of the financial statements of the Company were translated into RMB using the exchange rate at the date of change. The resulting translated amounts for non-monetary items are treated as their historical cost. Exchange differences arising from the translation of a foreign operation previously classified in equity are not recognised in profit or loss until the disposal of the operation.

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Retirement benefit costs

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

Taxation

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised to profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

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

Research and development expenditure

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

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets *(Continued)*

Intangible assets acquired in a business combination

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

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

Impairment losses on tangible and intangible assets other than goodwill

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

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

Inventories

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

Financial instruments

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets

The Group's financial assets are classified into loans and receivables and available-for-sale financial assets.

Effective interest method

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

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

Loans and receivables

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

Available-for-sale investments

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

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment of financial assets below).

Impairment of financial assets

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment of financial assets *(Continued)*

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

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

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

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

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

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

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

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in investment revaluation reserve.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity

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

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Other financial liabilities

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

Convertible bonds

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Convertible bonds *(Continued)*

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

Equity instruments

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

Derecognition

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

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

Share-based payment transactions

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

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

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

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share-based payment reserve).

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payment transactions *(Continued)*

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

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss with a corresponding adjustment to share-based payment reserve.

At the time when the share options are exercised, the amount previously recognised in share-based payment reserve will be transferred to share premium. When the share options are forfeited after vesting date or are still not exercised at the expiry date, the amount previously recognised in share-based payment reserve will be transferred to accumulated losses.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. During the year, the management performed an impairment assessment on goodwill and an impairment loss of HK$216,938,000 (2008: HK$259,943,000) was recognised in the consolidated financial statements.

As at December 31, 2009, the carrying amount of goodwill is HK$66,694,000 (2008: HK$283,632,000), net of accumulated impairment loss of HK$984,021,000 (2008: HK$767,083,000). Details of the recoverable amount calculation are disclosed in note 16.

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

Estimated impairment of intangible assets

Determining whether intangible assets are impaired requires an estimation of the future cash flows expected to arise from the lottery business and a suitable discount rate in order to calculate present values. Since the lottery business is in the preliminary stage, significant estimation is required in determining the future cash flows expected to arise from the lottery business. The directors of the Company are of the view that there is great potential for its lottery business as there are not many companies providing such similar service. Where the actual future cash flows are less than expected, a material impairment loss may arise. During the year, the management performed an impairment assessment on intangible assets and no impairment loss was recognised in the consolidated financial statements.

As at December 31, 2009, the carrying amount of intangible assets related to lottery business is HK$95,524,000 (2008: HK$114,647,000), net of accumulated impairment loss of HK$95,958,000 (2008: HK$95,958,000). Details of the recoverable amount calculation are disclosed in note 17.

Allowance for inventories

Inventories are stated at the lower of cost and net realisable value. The cost of lottery terminals and POS machines are calculated using the weighted average cost method whereas the cost of other inventories are calculated using the first-in, first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of change in customer taste and competitor actions in response to a severe industry cycle. If the market price of inventories of the Group subsequently becomes lower than its carrying amount, an additional allowance may be required. The Group reassesses these estimates at the end of the reporting period.

Where the Group identifies items of inventories which have a market price that is lower than its carrying amount, the Group accounts for the inventory loss in the consolidated statement of comprehensive income as allowance for inventories. Included in discontinued operations is an amount of HK$1,036,000 (2008: HK$1,068,000) in respect of write-down of raw materials, work-in-progress and finished goods to estimated net realisable values. No write-down of inventories was made for continuing operations during the year ended December 31, 2009 (2008: HK$254,000). As at December 31, 2009, the carrying amount of inventories is HK$18,779,000 (2008: HK$70,878,000).

Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at December 31, 2009, the carrying amount of trade receivables is HK$13,580,000 (2008: HK$127,790,000) net of allowance for doubtful debts of HK$nil (2008: HK$18,895,000).

6. REVENUE

An analysis of the Group's revenue for the year from continuing operations, is as follows:

	2009	2008
	HK$'000	*HK$'000*
Lottery business		
Provision of management services for distribution of lottery products	**11,101**	22,824
Manufacturing and sales of lottery terminals and POS machines	**75,009**	157,892
	86,110	180,716

7. SEGMENT INFORMATION

The Group has adopted HKFRS 8 "Operating Segments" with effect from January 1, 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to segments and assessing their performance. In contrast, the predecessor standard (HKAS 14, "Segment Reporting") required an entity to identify two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format under HKAS 14 was business segments, comprising lottery and network system integration business. The application of HKFRS 8 has resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14.

The Group was involved in the network system integration, which was reported as a separate business segment under HKAS14. That operation was discontinued with effect from December 30, 2009.

After the disposal of the network system integration business, the Group's revenue and contribution to loss were mainly derived from provision of management services for distribution of lottery products and manufacturing and sales of lottery terminals and POS machines. The chief operating decision makers treat lottery business as a single reportable segment as a whole and review the consolidated financial information of the Group and for purposes of resource allocation and performance assessment. Accordingly, no segment analysis is presented other than entity-wide disclosures.

The revenue of product and service is set out in note 6.

Geographical information

The Group's operations and revenue from continuing operations from external customers are in the PRC. All the non-current assets are located in the PRC.

Note: Non-current assets excluded those relating to discontinued operations and financial instruments.

7. SEGMENT INFORMATION *(Continued)*

Information about major customers

Revenues from customers of the corresponding years contributing over 10% of the total sales of the Group from continuing operations are as follows:

Each of the two (2008: three) largest customers of the Group contributes more than 10% of the Group's revenue for the current year. For the year ended December 31, 2009, revenue of HK$45,462,000 and HK$22,200,000 are attributed to these two customers, respectively. For the year ended December 31, 2008, revenue of HK$66,312,000, HK$54,954,000 and HK$22,289,000 were attributed to those three customers, respectively.

8. FINANCE COSTS

	2009	2008
	HK$'000	*HK$'000*
Continuing operations		
Interest on:		
Other borrowings wholly repayable within five years	**4,000**	1,699
Effective interest expense on convertible bonds	**65,147**	39,503
	69,147	41,202

9. TAXATION

	2009	2008
	HK$'000	*HK$'000*
Continuing operations		
PRC Enterprise Income Tax		
– Current year	**1,228**	11,794
Deferred taxation *(note 31)*		
– Current year	**(4,596)**	(25,447)
	(3,368)	(13,653)

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

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from January 1, 2008 onwards.

9. TAXATION *(Continued)*

Pursuant to an approval by the relevant PRC tax authority, one of the Company's PRC subsidiaries is granted advanced-technology relief from PRC income tax for three years which commenced from the year of grant, followed by 50% relief for the next three years. The first year of tax exemption granted to that subsidiary was year 2007. Under the EIT Law, the subsidiary continues to enjoy the tax relief and will enjoy concessionary tax rate of 7.5% starting from year 2010.

The domestic income tax rate in the jurisdiction where the operation of the Group is substantially based is used and the change of the domestic income tax rate is as a result of the operations in the PRC for the continuing operations.

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

	2009	2008
	HK$'000	*HK$'000*
Loss before taxation from continuing operations	**(359,271)**	(475,252)
Tax at the domestic income tax at the rate of 25%	**(89,818)**	(118,813)
Tax effect of income not taxable for tax purposes	**(140)**	(213)
Tax effect of expenses not deductible for tax purposes	**77,599**	93,169
Tax effect of tax losses not recognised	**9,020**	8,279
Tax effect of share of results of jointly controlled entities	**(29)**	3,925
Taxation for the year relating to continuing operations	**(3,368)**	(13,653)

At December 31, 2009, the Group has unused tax losses of approximately HK$72,118,000 (2008: HK$36,037,000) available to offset against future profits. No deferred tax asset has been recognised in respect of unused tax losses due to the unpredictability of future profit streams.

10. DISCONTINUED OPERATIONS

On November 5, 2009, the Group entered into a sale and purchase agreement with a related company, in which a director of the Company has beneficial interest, to dispose of Wafer Group, which carried out all of the Group's network system integration operations. The disposal was effected in order to generate cash flows for the expansion of the Group's lottery business. The disposal was completed on December 30, 2009, on which date control of the Wafer Group passed to the acquirer.

10. DISCONTINUED OPERATIONS *(Continued)*

The loss for the year from the discontinued operations is analysed as follows:

	2009	2008
	HK$'000	*HK$'000*
Loss of network system integration operations for the period/year	**(26,820)**	(7,485)
Loss on disposal of network system integration operations *(see note 37)*	**(14,637)**	–
	(41,457)	(7,485)

The results of the network system integration operations for the period from January 1, 2009 to December 30, 2009 and the year ended December 31, 2008, were as follows:

	1.1.2009 to 12.30.2009	1.1.2008 to 12.31.2008
	HK$'000	*HK$'000*
Revenue	**240,319**	426,300
Changes in inventories of finished goods and work-in-progress	**(23,497)**	19,583
Purchase of inventories and raw materials consumed	**(174,534)**	(357,623)
Other income and gains	**1,142**	694
Employee benefits costs	**(29,276)**	(25,667)
Depreciation and amortisation	**(2,646)**	(3,852)
Impairment loss on intangible assets	**(8,412)**	(2,629)
Other expenses	**(24,997)**	(57,578)
Finance costs	**(2,919)**	(4,886)
Loss before taxation	**(24,820)**	(5,658)
Taxation	**(2,000)**	(1,827)
Loss for the period/year	**(26,820)**	(7,485)

10. DISCONTINUED OPERATIONS *(Continued)*

	1.1.2009 to 12.30.2009	1.1.2008 to 12.31.2008
	HK$'000	*HK$'000*
Loss for the period/year from discontinued operations include the following:		
Amortisation of intangible assets	**1,223**	2,539
Depreciation of property, plant and equipment	**1,423**	1,313
Total depreciation and amortisation	**2,646**	3,852
Directors' emoluments, including retirement benefit scheme contributions	**1,542**	1,542
Other staff costs:		
salaries and other benefits	**23,782**	20,831
retirement benefit scheme contributions	**3,952**	3,294
Total employee benefit expenses	**29,276**	25,667
Auditor's remuneration	**460**	720
Allowance for inventories	**1,036**	1,068
Impairment loss on intangible assets	**8,412**	2,629
Research and development costs recognised as an expense	**452**	385
(Reversal of) impairment loss on trade receivables	**(2,342)**	9,521
Operating lease rentals in respect of office properties	**3,867**	2,667
Net foreign exchange loss	**77**	365
and after crediting:		
Bank interest income	**310**	530

During the year, Wafer Group experienced a cash outflow of HK$46,115,000 (2008: cash inflow of HK$73,415,000) to the Group's net operating cash flows, received HK$9,261,000 (2008: HK$29,964,000) in respect of investing activities and paid HK$6,255,000 (2008: HK$145,519,000) in respect of financing activities.

The carrying amounts of the assets and liabilities of Wafer Group at the date of disposal are disclosed in note 37. Comparative information in consolidated statement of comprehensive income have been restated to present separately the results of the network system integration business as discontinued operations.

11. LOSS FOR THE YEAR

Continuing operations

Loss for the year has been arrived at after charging:

	2009 *HK$'000*	2008 *HK$'000*
Amortisation of intangible assets	**19,123**	48,841
Depreciation of property, plant and equipment	**6,992**	5,749
Total depreciation and amortisation	**26,115**	54,590
Directors' emoluments	**4,490**	5,017
Other staff costs:		
Salaries and other benefits	**12,951**	14,819
Retirement benefit scheme contributions	**1,430**	1,545
Share-based payments	**4,068**	6,321
Total employee benefit expenses	**22,939**	27,702
Auditor's remuneration	**1,040**	610
Allowance for inventories	**–**	254
Impairment loss on amount due from a jointly controlled entity	**–**	1,788
Impairment loss on trade and other receivables	**522**	–
Impairment loss on loan receivable	**3,890**	396
Loss on disposal of/write-off of property, plant and equipment	**8,498**	1,879
Operating lease rentals in respect of land and buildings	**5,013**	5,418
and after crediting:		
Bank interest income	**119**	315
Loan and other interest income	**5**	560
Net foreign exchange gain	**449**	3,214

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

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

	Chan Sek Keung, Ringo HK$'000	Ko Chun Fung, Henry HK$'000	Moumouris, Christos HK$'000 (note i)	Derempeoglou, Georgios HK$'000 (note ii)	Wang, John Peter Ben HK$'000 (note iii)	Tsoi, David HK$'000	Pang Hing Chung, Alfred HK$'000	So Lie Mo, Raymond HK$'000	Total HK$'000
2009									
Fees	–	–	–	–	15	144	120	124	403
Other emoluments									
Salaries and other benefits	1,530	2,040	–	–	–	–	–	–	3,570
Contributions to retirement benefit schemes	12	12	–	–	–	–	–	–	24
Share-based payments	164	481	338	213	421	78	78	262	2,035
Total emoluments	1,706	2,533	338	213	436	222	198	386	6,032

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

Notes:

(i) Moumouris, Christos was appointed as a director of the Company on January 30, 2009.

(ii) Derempeoglou, Georgios was appointed as a director of the Company on November 16, 2009 and resigned on February 1, 2010.

(iii) Wang, John Peter Ben were appointed as a director of the Company on November 16, 2009.

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

Of the five individuals with the highest emoluments in the Group, two (2008: three) were directors of the Company whose emoluments are included in the disclosures as above. The emoluments of the remaining three (2008: two) individuals were as follows:

	2009	2008
	HK$'000	*HK$'000*
Salaries and other benefits	**2,563**	1,241
Contributions to retirement benefit schemes	**36**	64
Share-based payments	**243**	1,241
	2,842	2,546

Their emoluments were within the following bands:

	2009	2008
	No. of employees	No. of employees
Nil to HK$1,000,000	**2**	1
HK1,000,001 to HK$1,500,000	**1**	–
HK$1,500,001 to HK$2,000,000	**–**	1

During the years ended December 31, 2009 and 2008, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the two years.

13. DIVIDENDS

No dividend was declared or proposed during 2009, nor has any dividend been proposed since the end of the reporting period (2008: Nil).

14. LOSS PER SHARE

For continuing and discontinued operations

The calculation of the basic and diluted loss per share for the year is based on the loss attributable to the owners of the Company of HK$388,019,000 (2008: HK$442,141,000) and on the weighted average number of 500,495,926 (2008: 447,094,096) ordinary shares in issued during the year.

The computation of diluted loss per share does not include the Company's outstanding convertible bonds and share options since their assumed conversion and exercise would result in a decrease in loss per share.

From continuing operations

The calculation of the basic and diluted loss per share from continuing operations attributable to the owners of the Company is based on the following data:

Loss per share are calculated as follows:

	2009	2008
	HK$'000	*HK$'000*
Loss for the year attributable to owners of the Company	**(388,019)**	(442,141)
Less: loss for the year from discontinued operations	**41,457**	7,485
Loss for the purpose of basic and diluted loss per share from continuing operations	**(346,562)**	(434,656)

The denominators used are the same as those detailed above for basic and diluted loss per share.

From discontinued operations

The basic and diluted loss per share for the discontinued operations is HK8.28 cents per share (2008: HK1.67 cents per share), based on the loss for the year from discontinued operations of HK$41,457,000 (2008: HK$7,485,000) and the denominators detailed above for basic and diluted loss per share.

15. PROPERTY, PLANT AND EQUIPMENT

	Lottery terminals	Machinery and equipment	Furniture, fixtures and equipment	Motor vehicles	Tools	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST						
At January 1, 2008	13,865	12,680	15,941	1,218	7,275	50,979
Exchange adjustments	981	847	795	43	313	2,979
Additions	–	2,438	3,025	–	498	5,961
Disposals	(40)	(1,264)	(2,683)	–	(14)	(4,001)
Acquisition of a subsidiary	–	–	1,164	–	–	1,164
At December 31, 2008	14,806	14,701	18,242	1,261	8,072	57,082
Additions	–	2,245	887	61	1,428	4,621
Write-off	(10,314)	(896)	(9,031)	–	–	(20,241)
Disposals	–	–	–	–	(22)	(22)
Disposal of subsidiaries	–	(9,987)	(3,168)	(1,092)	(9,478)	(23,725)
At December 31, 2009	4,492	6,063	6,930	230	–	17,715
DEPRECIATION						
At January 1, 2008	99	9,629	2,090	864	6,246	18,928
Exchange adjustments	155	508	220	37	270	1,190
Provided for the year	2,244	1,506	2,633	160	519	7,062
Eliminated on disposals	(8)	(691)	(194)	–	(14)	(907)
At December 31, 2008	2,490	10,952	4,749	1,061	7,021	26,273
Provided for the year	2,307	2,116	3,200	101	691	8,415
Eliminated on write-off	(3,250)	(381)	(4,122)	–	–	(7,753)
Disposal of subsidiaries	–	(9,651)	(2,853)	(1,092)	(7,706)	(21,302)
Eliminated on disposals	–	–	–	–	(6)	(6)
At December 31, 2009	1,547	3,036	974	70	–	5,627
CARRYING AMOUNTS						
At December 31, 2009	2,945	3,027	5,956	160	–	12,088
At December 31, 2008	12,316	3,749	13,493	200	1,051	30,809

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

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

Lottery terminals	20%
Machinery and equipment	20% – $33^1/_3$%
Furniture, fixtures and equipment	20% – $33^1/_3$%
Motor vehicles	20% – $33^1/_3$%
Tools	$33^1/_3$%

16. GOODWILL

	2009	2008
	HK$'000	*HK$'000*
COST		
At January 1	**1,050,715**	984,918
Exchange adjustments	**–**	64,434
Acquired on acquisition of subsidiaries	**–**	1,363
At December 31	**1,050,715**	1,050,715
IMPAIRMENT		
At January 1	**767,083**	476,000
Exchange adjustments	**–**	31,140
Impairment loss recognised in the year	**216,938**	259,943
At December 31	**984,021**	767,083
CARRYING AMOUNTS		
At December 31	**66,694**	283,632

For the purpose of impairment testing, goodwill with indefinite useful lives has been allocated to a group of cash generating unit ("CGU") of lottery business only.

During the year, the directors of the Company considered that in light of the decrease in operating results of the relevant subsidiaries and the general slowdown in the global economy brought by the economic crisis, the Group performed an impairment review for goodwill with reference to the valuation carried out by Vigers Appraisal & Consulting Limited ("Vigers"), independent qualified professional valuers not connected with the Group. The valuation is based on value-in-use calculations. These calculations use cash flow projections based on most recent financial budgets approved by management of the Group, for the coming year and extrapolates the cash flow projections for the following 9 years with 5% growth rate (2008: 7%) and discount rate of 13% (2008: 14%). The cash flow projection for the coming year of 2010 is prepared on the key assumption made by the management of the Company that there will be a recovery in 2010 from the poor economic conditions faced by the Group in 2009, and hence the lottery business is expected to receive a boost and there will be a turnaround on the operating cash flows generated. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

16. GOODWILL *(Continued)*

The management of the Group determined the budgeted gross margin based on past performance. The weighted average growth rate used is consistent with the forecasts in the relevant industry. The discount rate used reflects specific risks relating to the relevant segment. The recoverable amount of the CGU based on value-in-use calculation is less than its carrying amount, accordingly, an impairment loss of HK$216,938,000 (2008: HK$259,943,000) was recognised during the year.

17. INTANGIBLE ASSETS

	Software product development costs HK$'000 (note a)	Lottery software licences HK$'000 (note b)	License rights HK$'000 (note c)	Technology know-how HK$'000 (note d)	Total HK$'000
COST					
At January 1, 2008	22,773	–	164,166	25,252	212,191
Exchange adjustments	731	–	840	–	1,571
Additions	3,594	75,035	–	–	78,629
Disposals	–	–	(3,420)	–	(3,420)
At December 31, 2008	27,098	75,035	161,586	25,252	288,971
Additions	3,161	–	–	–	3,161
Disposal of subsidiaries	(30,259)	–	–	–	(30,259)
At December 31, 2009	–	75,035	161,586	25,252	261,873
AMORTISATION AND IMPAIRMENT					
At January 1, 2008	15,172	–	2,036	272	17,480
Exchange adjustments	284	–	119	–	403
Provided for the year	2,539	–	42,532	6,309	51,380
Impairment loss recognised	2,629	–	77,287	18,671	98,587
At December 31, 2008	20,624	–	121,974	25,252	167,850
Provided for the year	1,223	–	19,123	–	20,346
Impairment loss recognised	8,412	–	–	–	8,412
Disposal of subsidiaries	(30,259)	–	–	–	(30,259)
At December 31, 2009	–	–	141,097	25,252	166,349
CARRYING AMOUNTS					
At December 31, 2009	–	75,035	20,489	–	95,524
At December 31, 2008	6,474	75,035	39,612	–	121,121

17. INTANGIBLE ASSETS *(Continued)*

Notes:

(a) The Group's software product development costs are internally generated and amortised on a straight-line basis over the estimated useful life of 3 years. During the year, the software product development costs were disposed of upon disposal of subsidiaries.

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

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

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

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the coming year and extrapolates cash flows for the following 5 years with 8% growth rate (2008: 7%), using a discount rate of 14% (2008: 14%). The directors are of the opinion that, with reference to the valuation carried out by Vigers, no impairment is recognised.

(c) The Group's license rights included certain rights of operating lottery games, sales of gaming products and the right to manufacture lottery machines in the PRC. During the year ended December 31, 2008, the directors considered that in light of the decrease in operating results from operating lottery games due to the change in the government policy for lottery games in the PRC, an impairment loss of HK$77,287,000 was recognised to write down to zero. The carrying amounts of those license rights which have been adversely affected by the changes in the government policy. During the year, for the purpose of the impairment test, the license rights of sales of gaming products and the right to manufacture lottery machines in the PRC have been allocated to the CGU of lottery business and details of the impairment test were set out in note 16. The license rights are amortised on a straight-line basis over their estimated useful life of 5 years.

(d) The Group's technology know-how represents online betting technology to be used for lottery business. During the year ended December 31, 2008, the directors considered that the income to be generated from online betting game was uncertain due to that such online betting game had not been approved by the PRC government, a full impairment loss of HK$18,671,000 was recognised accordingly.

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

18. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2009	2008
	HK$'000	*HK$'000*
Cost of unlisted investment in jointly controlled entities	**26,529**	26,529
Share of post-acquisition loss and other comprehensive income	**(14,894)**	(15,010)
	11,635	11,519

As at December 31, 2009 and 2008, the Group had interests in the following jointly controlled entities:

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

Notes:

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

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

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

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

	2009	2008
	HK$'000	*HK$'000*
Current assets	**43,279**	44,890
Non-current assets	**538**	614
Current liabilities	**30,375**	33,985
Group's share of net assets of jointly controlled entities	**11,635**	11,519
Revenue recognised in profit or loss	**53,638**	56,182
Expenses recognised in profit or loss	**53,522**	71,883
Group's share of profits (losses) of jointly controlled entities for the year	**116**	(15,701)

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

	2009	2008
	HK$'000	*HK$'000*
Unrecognised share of losses of a jointly controlled entity for the year	**43**	147
Accumulated unrecognised share of losses of a jointly controlled entity	**190**	147

19. AVAILABLE-FOR-SALE INVESTMENT

The available-for-sale investment represents an investment in unlisted equity securities issued by a limited liability company incorporated in South Korea and possessing an exclusive lottery license to operate national lotto games in South Korea. It is measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair value cannot be measured reliably.

Details of the acquisition of available-for-sale investment are disclosed in note 35.

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

Details of amounts due from related companies are as follows:

	Notes	2009 HK$'000	2008 HK$'000
Non current			
Amount due from a company in which a director of the Company has controlling interest	*(ii)*	**10,000**	–
Current			
Amount due from a company controlled by a substantial shareholder of the Company	*(i)*	**148**	148
Amount due from a company in which a director of the Company has controlling interest	*(ii)*	**20,005**	–
		20,153	148

Notes:

(i) The amount is unsecured, interest-free and repayable on demand.

(ii) The amount relates to the deferred consideration receivable on disposal of subsidiaries during the year. The deferred consideration of HK$10,000,000 was subsequently settled by cash and the remaining HK$20,000,000 in the form of two equal promissory notes will be settled by the purchaser by two equal instalments on or before March 31, 2010 and March 31, 2011, respectively. The promissory notes are guaranteed by a director of the Company and bears interest rate of 5% per annum.

The amount due to a shareholder was unsecured, interest-free and repayable on demand. During the year, the amount due to a shareholder of HK$1,695,000 was reclassified as amount due to a related company upon the change in shareholding.

The amount due to a related company represents amount due to a company controlled by certain shareholders, which are unsecured, interest-free and repayable on demand.

21. INVENTORIES

	2009 HK$'000	2008 HK$'000
Raw materials	**3,898**	2,081
Work-in-progress	**6,133**	32,201
Finished goods	**8,748**	36,596
	18,779	70,878

22. TRADE AND OTHER RECEIVABLES

	2009	2008
	HK$'000	*HK$'000*
Trade receivables	**13,580**	146,685
Less: allowance for doubtful debts	**–**	(18,895)
	13,580	127,790
Retention money receivables *(note)*	**–**	7,806
Other receivables	**24,748**	30,559
Prepayments and deposits	**1,434**	8,436
	39,762	174,591

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

The Group allows credit periods ranging from 30 to 90 days to its trade customers. The following is an aged analysis of trade receivables net of allowance for doubtful debts based on the invoice date at the end of the reporting period.

	2009	2008
	HK$'000	*HK$'000*
Within 30 days	**8,847**	63,041
31 – 90 days	**3**	24,120
91 – 180 days	**5**	23,768
181 – 365 days	**51**	16,861
Over 365 days	**4,674**	–
	13,580	127,790

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

Included in the Group's trade receivable balance were debtors with aggregate carrying amount of HK$4,730,000 (2008: HK$40,629,000) which were past due at the reporting date but not considered as impaired. Majority of the trade receivables that were neither past due nor impaired had no default repayment history. Included in trade receivables are amounts of HK$9,257,000 (2008: nil) due from non-controlling shareholders of a subsidiary. The amounts are unsecured, interest-free and repayable according to credit terms granted to the non-controlling shareholders.

22. TRADE AND OTHER RECEIVABLES *(Continued)*

Aging of trade receivables which are past due but not impaired

	2009	2008
	HK$'000	*HK$'000*
91 – 180 days	**5**	23,768
181 – 365 days	**51**	16,861
Over 365 days	**4,674**	–
	4,730	40,629

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

Movement in the allowance for trade and other receivables

	2009	2008
	HK$'000	*HK$'000*
Balance at beginning of the year	**18,895**	10,562
Exchange adjustments	**–**	753
Amounts written off during the year	**(156)**	(1,941)
Reversal of impairment loss recognised in prior year	**–**	(7,877)
Increase in allowance recognised in profit or loss	**–**	17,398
Disposal of subsidiaries	**(18,739)**	–
Balance at end of the year	**–**	18,895

Trade receivables which over 365 days as at December 31, 2009 has been fully settled after the reporting period.

As at December 31, 2008, the Group had provided fully for receivables over 365 days because the directors were of opinion that these receivables were not recoverable.

23. LOAN RECEIVABLE

The loan was advanced to a subsidiary of a shareholder of a jointly controlled entity. It was of a non-trade nature, secured by corporate guarantee from the shareholder of a jointly controlled entity and repayable on July 19, 2009. During the year, the directors considered the loan is unlikely to be recovered and an impairment loss of HK$3,890,000 was recognised accordingly.

24. AMOUNTS DUE FROM JOINTLY CONTROLLED ENTITIES

	2009	2008
	HK$'000	*HK$'000*
Amounts due from jointly controlled entities	**36,265**	46,246
Impairment loss recognised	**(1,788)**	(1,788)
	34,477	44,458

The amounts are unsecured and interest-free. Amounts due from jointly controlled entities are of a trade nature and have a credit period of 90 days.

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

	2009	2008
	HK$'000	*HK$'000*
Within 30 days	**16,638**	40,385
31 – 90 days	**7,103**	4,073
Over 90 days	**10,736**	–
	34,477	44,458

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

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

25. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

(a) Pledged bank deposits

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

As at December 31, 2008, the deposits carried an average fixed interest rate of 1.69% per annum. The pledged bank deposits would be released upon the settlement of relevant bank borrowings.

(b) Bank balances and cash

Bank balances and cash comprised of bank deposits with maturity of less than three months at prevailing market interest rate of 0.02% (2008: 0.1%) per annum and cash on hand.

26. TRADE AND OTHER PAYABLES

	2009	2008
	HK$'000	*HK$'000*
Trade payables *(note)*	**31,311**	155,697
Other payables	**4,702**	20,893
Accruals	**5,991**	36,888
	42,004	213,478

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period.

	2009	2008
	HK$'000	*HK$'000*
Within 30 days	**31,311**	79,928
31-90 days	**–**	57,157
91-180 days	**–**	15,156
181-365 days	**–**	1,115
Over 365 days	**–**	2,341
	31,311	155,697

Note: Included in trade payables are amounts of HK$31,265,000 (2008: HK$64,824,000) due to non-controlling shareholders of a subsidiary. The amounts are unsecured, interest-free and repayable according to credit terms granted by the non-controlling shareholders.

27. BANK AND OTHER BORROWINGS

	2009 HK$'000	2008 HK$'000
Unsecured:		
Short-term bank loan	–	17,100
Other loan from a financial institution	–	18,308
Other loan from a shareholder	–	80,000
Other loan from a related company	80,000	–
	80,000	115,408

The bank and other borrowings are repayable as follows:

	2009 HK$'000	2008 HK$'000
Within one year or on demand	–	35,408
In more than one year but not more than two years	80,000	80,000
	80,000	115,408
Less: Amount due within one year shown under current liabilities	–	(35,408)
Amount due after one year	80,000	80,000

During the year, other loan from a shareholder of HK$80,000,000 was reclassified as other loan from a related company upon the change in shareholding.

As at December 31, 2008, short-term bank loan carried interest at fixed market rate ranging from 7.33% to 8.22% per annum.

As at December 31, 2008, other loans from a financial institution relates to a loan from a financial institution which was related to a major supplier of the Group and carried interest ranging from 6.00% to 10.02% per annum.

As at December 31, 2009, other loan from a related company beneficially owned by shareholders of the Company carries interest at 5% from drawdown date on July 14, 2008 up to July 10, 2010 and 1% from July 11, 2010 up to July 10, 2011 and is repayable on July 10, 2011 together with all interests accrued.

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

	2009 HK$'000	2008 HK$'000
United States dollars ("USD")	–	18,308

28. SHARE CAPITAL

	Notes	**Number of ordinary shares**	**Amount** *HK$'000*
Ordinary shares of HK$0.01 each:			
Authorised:			
At January 1, 2008, December 31, 2008 and December 31, 2009		2,000,000,000	20,000
Issued and fully paid:			
At January 1, 2008		432,198,495	4,322
Shares issued on acquisition of an available-for-sale investment through an acquisition of a subsidiary	*(a)*	35,700,000	357
Shares issued on acquisition of intangible assets	*(b)*	28,208,938	282
Exercise of share options		3,323,000	33
At December 31, 2008		499,430,433	4,994
Exercise of share options		1,383,000	14
At December 31, 2009		500,813,433	5,008

Notes:

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

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

29. SHARE-BASED PAYMENT TRANSACTIONS

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

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

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

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

Type of participant	Date of grant	Exercisable period	Exercise price per share	Number of share options		
				Outstanding at 1/1/2008	Exercised during the year	Outstanding at 12/31/2008 and 12/31/2009
			HK$			
Directors	4/30/2002 *(note)*	11/17/2002 to 4/29/2012	0.55	3,000,000	–	3,000,000
Others	4/30/2002 *(note)*	11/17/2002 to 4/29/2012	0.55	937,000	(937,000)	–
				3,937,000	(937,000)	3,000,000
Exercisable at the end of the year				3,937,000		3,000,000

Note: The Group had not applied HKFRS 2 "Share-based Payment" to share options granted on or before November 7, 2002 and share options that were granted after November 7, 2002 and had vested before January 1, 2005 in accordance with the relevant transitional provisions.

In respect of the share options exercised during the year ended December 31, 2008, the weighted average share price at the dates of exercise was HK$1.47 and the weighted average share price at the dates immediately before exercise dates was HK$1.47.

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

(b) Post-IPO Share Option Scheme

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

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

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

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

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

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

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

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

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

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

Type of participant	Date of grant	Exercisable period	Exercise price per share HK$	Number of share options: Outstanding at 1/1/2009	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 12/31/2009
Directors	2/20/2003 *(note 3)*	2/20/2004 to 2/19/2013	0.138	1,200,000	–	–	–	1,200,000
	1/12/2007 *(note 3)*	1/12/2008 to 1/11/2017	0.088	562,500	–	(187,500)	–	375,000
	12/7/2007 *(note 4)*	6/7/2008 to 12/6/2009	2.720	1,150,000	–	–	(1,150,000)	–
	3/31/2008 *(note 5)*	10/1/2008 to 3/31/2018	0.890	8,200,000 *(note 7a)*	–	–	–	8,200,000
	2/16/2009 *(note 6)*	2/16/2010 to 2/15/2019	0.300	–	3,620,000	–	–	3,620,000
	7/10/2009 *(note 6)*	7/10/2010 to 7/9/2019	0.367	–	14,600,000	–	–	14,600,000
Substantial shareholder	3/31/2008 *(note 5)*	10/1/2008 to 3/31/2018	0.890	4,354,000 *(note 7b)*	–	–	–	4,354,000
	7/10/2009 *(note 6)*	7/10/2010 to 7/9/2019	0.367	–	4,000,000	–	–	4,000,000

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

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

				Number of share options				
Type of participant	Date of grant	Exercisable period	Exercise price per share *HK$*	Outstanding at 1/1/2009	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 12/31/2009
Employees	2/23/2004 *(note 3)*	2/23/2005 to 2/22/2014	0.165	57,500	–	(10,000)	(5,000)	42,500
	10/11/2004 *(note 3)*	10/11/2005 to 10/10/2014	0.124	65,000	–	–	(7,500)	57,500
	1/12/2007 *(note 3)*	1/12/2008 to 1/11/2017	0.088	322,500	–	(107,500)	–	215,000
	12/7/2007 *(note 4)*	6/7/2008 to 12/6/2009	2.720	1,616,000	–	–	(1,616,000)	–
	3/31/2008 *(note 5)*	10/1/2008 to 3/31/2018	0.890	10,840,000 *(note 7c)*	–	–	(1,467,000)	9,373,000
	2/16/2009 *(note 6)*	2/16/2010 to 2/15/2019	0.300	–	3,200,000	–	–	3,200,000
	7/10/2009 *(note 6)*	7/10/2010 to 7/9/2019	0.367	–	9,488,000	–	(10,000)	9,478,000
Advisors *(note 2)*	2/23/2004 *(note 3)*	2/23/2005 to 2/22/2014	0.165	24,000 *(note 7d)*	–	–	–	24,000
	10/11/2004 *(note 3)*	10/11/2005 to 10/10/2014	0.124	17,000 *(note 7d)*	–	(10,000)	–	7,000
	1/12/2007 *(note 3)*	1/12/2008 to 1/11/2017	0.088	3,788,000 *(note 7d)*	–	(1,068,000)	–	2,720,000
	12/7/2007 *(note 4)*	6/7/2008 to 12/6/2009	2.720	1,744,000 *(note 7d)*	–	–	(1,744,000)	–
	3/31/2008 *(note 5)*	10/1/2008 to 3/31/2018	0.890	6,606,000	–	–	(700,000)	5,906,000
	2/16/2009 *(note 6)*	2/16/2010 to 2/15/2019	0.300	–	6,180,000	–	–	6,180,000
	7/10/2009 *(note 6)*	7/10/2010 to 7/9/2019	0.367	–	6,880,000	–	–	6,880,000
				40,546,500	47,968,000	(1,383,000)	(6,699,500)	80,432,000
Exercisable at the end of the year				23,874,000				29,359,000

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

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

				Number of share options				
Type of participant	Date of grant	Exercisable period	Exercise price per share *HK$*	Outstanding at 1/1/2008	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 12/31/2008
Directors	2/20/2003 *(note 3)*	2/20/2004 to 2/19/2013	0.138	1,200,000	–	–	–	1,200,000
	1/12/2007 *(note 3)*	1/12/2008 to 1/11/2017	0.088	750,000	–	(187,500)	–	562,500
	12/7/2007 *(note 4)*	6/7/2008 to 12/6/2009	2.720	1,150,000	–	–	–	1,150,000
	3/31/2008 *(note 5)*	10/1/2008 to 3/31/2018	0.890	–	4,354,000	–	–	4,354,000
Employees	7/12/2002 *(note 3)*	7/12/2003 to 7/11/2012	0.384	16,000	–	(16,000)	–	–
	2/20/2003 *(note 3)*	2/20/2004 to 2/19/2013	0.138	25,000	–	(25,000)	–	–
	2/23/2004 *(note 3)*	2/23/2005 to 2/22/2014	0.165	402,500	–	(321,000)	–	81,500
	10/11/2004 (note 3)	10/11/2005 to 10/10/2014	0.124	112,750	–	(29,500)	(1,250)	82,000
	1/12/2007 *(note 3)*	1/12/2008 to 1/11/2017	0.088	6,230,000	–	(1,507,000)	(612,500)	4,110,500
	12/7/2007 *(note 4)*	6/7/2008 to 12/6/2009	2.720	3,668,000	–	–	(308,000)	3,360,000
	3/31/2008 *(note 5)*	10/1/2008 to 3/31/2018	0.890	–	7,740,000	–	–	7,740,000
Advisors *(note 2)*	2/20/2003 *(note 3)*	2/20/2004 to 2/19/2013	0.138	300,000	–	(300,000)	–	–
	3/31/2008 *(note 5)*	10/1/2008 to 3/31/2018	0.890	–	17,906,000	–	–	17,906,000
				13,854,250	30,000,000	(2,386,000)	(921,750)	40,546,500
Exercisable at the end of the year				1,627,250				23,874,000

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

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

Notes:

(1) The Group had not applied HKFRS 2 "Share-based Payment" to share options that were granted after November 7, 2002 and had vested before January 1, 2005 in accordance with the relevant transitional provisions.

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

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

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

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

(6) These grants under the post-IPO share option scheme are exercisable for a period not later than 10 years from the date of grant, within which there is a total vesting period of three years, starting from the first anniversary of the grant date at stepped annual increments of 33% of the total options granted.

(7) During the year, re-classification of types of participants was made according to their latest status with the Group:

a) from advisor to director
3,846,000 share options were granted to Mr. Wang, John Peter Ben as an advisor to the Group in 2008. He was appointed as non-executive director on November 16, 2009. To better reflect his position in relation to the Group, his type has been reclassified from advisor to director this year.

b) from advisor to substantial shareholder
4,354,000 share options were granted to Mr. Ho, Lawrence Yau Lung as an advisor to the Group in 2008. To better reflect his position in relation to the Group and to be in line with disclosures in other parts of the Report, his type has been reclassified from advisor to substantial shareholder this year.

c) from advisors to employees
3,100,000 share options were granted to certain advisors of the Group who were also directors of certain subsidiaries. To better reflect their positions in relation to the Group, their type has been reclassified from advisors to employees this year.

d) from employees to advisors
These share options were granted to employees of the Wafer Systems Limited, a subsidiary which was disposed by the Group on December 30, 2009, with an average of 8 years' of services to recognise their long contributions. They were appointed as advisors of the Group so that they would continue to be entitled to the exercise rights of the shares options granted, which would otherwise lapse by March 30, 2010, 3 months after a grantee leaves the employment of the Group. To better reflect their positions in relation to the Group, their type has been reclassified from employees to advisors.

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

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

In respect of the share options exercised during the year, the weighted average share price at the dates of exercise is HK$0.26 (2008: HK$2.34) and the weighted average closing price at the dates immediately before exercise dates is HK$0.27 (2008: HK$2.34).

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

	Grant date of share options 3/31/2008
Closing share price immediately before date of grant	HK$0.89
Exercise price	HK$0.89
Exercise multiplier	2.0
Expected volatility	80.00%
Option life	5 years
Risk-free interest rate	2.58%
Expected dividend yield	N/A
Fair value of an option	HK0.436

The fair value of share options granted during the year ended December 31, 2009 were calculated using the binomial pricing model. The inputs into the model were as follows:

	Grant dates of share options	
	2/16/2009	**7/10/2009**
Closing share price immediately before date of grant	HK$0.300	HK$0.360
Exercise price	HK$0.300	HK$0.367
Exercise multiplier	2.2 – 2.8	2.2 – 2.75
Expected volatility	79%	83%
Option life	10 years	10 years
Risk-free interest rate	1.65%	2.4%
Expected dividend yield	N/A	N/A
Fair value of an option	HK$0.1786	HK$0.1905

The model is one of the commonly used models to estimate the fair value of the share options which involves assumptions and variables based on the management's best estimates. Such fair value varies when different assumptions, which are necessarily subjective, and variables are used.

Expected multiplier was determined by the Company's share options exercise history.

Expected volatility was determined by using the annualised historical volatility of the Company's share price over past years up to valuation date.

The Group recognised the total expense of HK$6,103,000 for the year ended December 31, 2009 (2008: HK$15,979,000) in relation to share options granted by the Company.

30. CONVERTIBLE BONDS

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

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

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

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

	2009	2008
	HK$'000	*HK$'000*
Carrying amount at the beginning of the year	**501,331**	380,030
Issued during the year	**–**	82,405
Interest charged *(note 8)*	**65,147**	39,503
Interest paid	**(884)**	(607)
Carrying amount at the end of the year	**565,594**	501,331

31. DEFERRED TAXATION

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

	Fair value adjustments of intangible assets on business combinations *HK$'000*
At January 1, 2008	33,982
Credit to profit or loss	(25,447)
At December 31, 2008	8,535
Credit to profit or loss	(4,596)
At December 31, 2009	3,939

32. COMPANY STATEMENT OF FINANCIAL POSITION

Statement of financial position information of the Company at the end of the reporting period includes:

	2009 *HK$'000*	2008 *HK$'000*
Total assets	**401,868**	760,877
Total liabilities	**652,062**	592,516
Share capital	**5,008**	4,994
Reserves *(note)*	**(255,202)**	163,367
Total equity	**(250,194)**	168,361

32. COMPANY STATEMENT OF FINANCIAL POSITION *(Continued)*

Note:

	Share premium HK$'000	Share-based payment reserve HK$'000	Convertible bonds equity reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At January 1, 2008	334,020	359	611,692	(11,900)	934,171
Loss for the year and total comprehensive expense	–	–	–	(855,009)	(855,009)
Recognition of equity-settled share-based payments	–	15,979	–	–	15,979
Issue of ordinary shares upon exercise of share options	825	(94)	–	–	731
Issue of convertible bonds	–	–	33,800	–	33,800
Shares issued	33,695	–	–	–	33,695
At December 31, 2008	368,540	16,244	645,492	(866,909)	163,367
Loss for the year and total comprehensive expense	–	–	–	(424,770)	(424,770)
Recognition of equity-settled share-based payments	–	6,103	–	–	6,103
Issue of ordinary shares upon exercise of share options	155	(57)	–	–	98
At December 31, 2009	368,695	22,290	645,492	(1,291,679)	(255,202)

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

In the opinion of the directors, the Company had no reserves available for distribution as at December 31, 2009 and 2008.

33. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of bank and other borrowings disclosed in note 27, convertible bonds disclosed in note 30, cash and cash equivalents and equity attributable to owners holders of the Company, comprising issued share capital and reserves.

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

34. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2009	2008
	HK$'000	*HK$'000*
Financial assets		
Loans and receivables		
(including cash and cash equivalents)	**164,513**	379,196
Available-for-sale financial asset	**138,102**	132,502
Financial liabilities		
Amortised cost	**689,636**	796,122

(b) Financial risk management objectives and polices

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

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

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

34. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate consideration receivable from a related company (see note 20 for details), loan receivable (see note 23 for details), bank deposits (see note 25(a) for details), short-term bank loan, other loans from a financial institution/a shareholder (see note 27 for details) and convertible bonds issued by the Company (see note 30 for details). The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances (see note 25(b) for details). The directors of the Company consider the Group's bank balances to cash flow interest rate risk is not significant as interest bearing bank balances are within short periods.

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

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

Foreign currency risk

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

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

	Assets		**Liabilities**	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
HK$	**51,037**	–	**651,289**	–
USD	**2,322**	21,347	**9,629**	62,841

Sensitivity analysis

If RMB had strengthened by 5% against HK$, loss for the year ended December 31, 2009 would have been decreased by HK$30,013,000 (2008: nil). If RMB had strengthened by 5% against USD, loss for the year ended December 31, 2009 would have been decreased by HK$365,000. As at December 31, 2008, as HK$ is pegged with USD, the Group's currency risk in relation to the above USD monetary asset/ liabilities is expected to be minimal.

34. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk

At December 31, 2009, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to perform an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced. The Group has concentration of credit risk as 97% (2008: 25%) of the Group's trade receivables are due from the Group's five largest customers.

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

Other than concentration of credit risk on liquid funds which are deposited with several banks with good reputation, amount due from a jointly controlled entity of HK$34,477,000 (2008: HK$44,458,000) which are due from several parties only, and the amount due from a related party in relation to the deferred consideration of acquisition of subsidiaries of HK$30,005,000 (2008: HK$nil), the Group does not have any other significant concentration of credit risk.

Liquidity risk

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

34. FINANCIAL INSTRUMENTS *(Continued)*

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

Liquidity risk (Continued)

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

	Weighted average interest rate %	Less than 3 months or on demand *HK$'000*	3 months to 1 year *HK$'000*	1 – 5 years *HK$'000*	Total undiscounted cash flow *HK$'000*	Carrying amount at 12.31.2009 *HK$'000*
2009						
Non-derivative financial liabilities						
Trade and other payables	–	36,013	–	–	36,013	36,013
Amounts due to related companies	–	8,029	–	–	8,029	8,029
Convertible bonds	0.10	–	884	886,020	886,904	565,594
Other borrowings	2.37	–	–	83,133	83,133	80,000
Total		44,042	884	969,153	1,014,079	689,636

	Weighted average interest rate %	Less than 3 months or on demand *HK$'000*	3 months to 1 year *HK$'000*	1 – 5 years *HK$'000*	Total undiscounted cash flow *HK$'000*	Carrying amount at 12.31.2008 *HK$'000*
2008						
Non-derivative financial liabilities						
Trade and other payables	–	166,383	10,207	–	176,590	176,590
Amount due to a shareholder	–	1,695	–	–	1,695	1,695
Amounts due to related companies	–	1,098	–	–	1,098	1,098
Convertible bonds	0.10	–	884	886,904	887,788	501,331
Bank and other borrowings	5.70	17,380	22,810	84,000	124,190	115,408
Total		186,556	33,901	970,904	1,191,361	796,122

(c) Fair value

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

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

35. ACQUISITION OF ASSETS THROUGH ACQUISITION OF A SUBSIDIARY

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

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

	2008
	HK$'000
Net assets acquired:	
Available-for-sale investment	136,702
Other receivables	33
Bank balances and cash	2
Other payables	(1,566)
Net assets acquired	135,171
Total consideration, satisfied by:	
Cash	66,590
Shares *(note 28(a))*	27,846
Amount due from a shareholder of a jointly controlled entity	31,960
Loan receivable	7,400
Waive of interest receivable (included in other receivables)	1,375
	135,171
Net cash outflow arising on acquisition:	
Cash consideration paid	(66,590)
Bank balances and cash acquired	2
	(66,588)

36. ACQUISITION OF SUBSIDIARIES

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

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

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

The goodwill arising on the acquisition was attributable to the anticipated future operating synergies from the combination.

The subsidiary acquired during the year ended December 31, 2008 did not have any significant contribution to the Group's revenue or results for the year ended December 31, 2008.

37. DISPOSAL OF SUBSIDIARIES

As referred to in note 10, on December 30, 2009, the Group discontinued its network system integration operations at the time of disposal of the Wafer Group. The net assets of the Wafer Group at the date of disposal were as follows:

	2009
	HK$'000
NET ASSETS DISPOSED OF	
Property, plant and equipment	2,423
Inventories	8,143
Trade and other receivables	93,673
Pledged bank deposits	1,434
Bank balances and cash	34,970
Trade and other payables	(55,493)
Tax payables	(1,984)
Bank and other borrowings	(32,072)
	51,094
Exchange gain realised	(6,457)
Loss on disposal	(14,637)
Total consideration	30,000
Satisfied by:	
Deferred consideration *(Note)*	30,000
Net cash outflow arising on disposal:	
Bank balances and cash disposed of	(34,970)

Note: The deferred consideration of HK$10,000,000 was subsequently settled by cash and the remaining HK$20,000,000 in the form of two equal promissory notes will be settled by the purchaser by two equal instalments on or before March 31, 2010 and March 31, 2011, respectively. The promissory notes are guaranteed by a director of the Company and bears interest rate of 5% per annum.

The impact of the Wafer Group on the Group's results and cash flows in the current and prior periods is disclosed in note 10.

38. RETIREMENT BENEFITS PLAN

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

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

The total cost charged to the consolidated statement of comprehensive income of HK$5,406,000 (2008: HK$4,863,000) represents contributions paid and payable to the above schemes by the Group in respect of the current accounting period. As at December 31, 2009, all contributions in respect of the reporting period had been paid to the above schemes.

39. PLEDGE OF ASSETS

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

In addition, at December 31, 2008, bank deposits of HK$15,310,000 had been pledged to secure the borrowings and the general banking facilities of the Group.

40. OPERATING LEASES

The Group as lessee

At the end of the reporting period, the Group had outstanding commitments for future minimum lease payments under non-cancelable operating leases, which fall due as follows:

	2009 ***HK$'000***	2008 *HK$'000*
Within one year	**4,219**	10,281
In the second to fifth year inclusive	**7,159**	5,361
More than five years	**66**	–
	11,444	15,642

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

41. MAJOR NON-CASH TRANSACTIONS

During the year ended December 31, 2009, the Group settled its other payables of HK$3,990,000 by transfering certain property, plant and equipment with carrying amount of HK$3,990,000 to its vendors.

Part of the consideration for the purchases of lottery software licences and an available-for-sale investment that occurred during the year ended December 31, 2008 comprised the issue of shares and convertible bonds. Further details of the acquisitions are set out in notes 17 and 35, respectively.

42. RELATED PARTY DISCLOSURES

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

Class of related parties	Nature of transactions	2009 HK$'000	2008 HK$'000
Jointly controlled entity	Sales of lottery terminals and POS machines	**45,462**	64,567
Non-controlling shareholders of subsidiaries	Sales of lottery terminals and POS machines	**26,117**	21,702
	Purchases of materials	**41,589**	117,181
	Service income	**1,268**	2,721
	Consultancy fee	**–**	910
Substantial shareholders which have significant influence over the Company and its subsidiaries	Service fee expense	**886**	715
	Interest expense	**4,000**	1,695

During the year, the Group entered into a sale and purchase agreement with a related company, in which a director of the Company has beneficial interest, to dispose Wafer Group, which carried out all of the Group's network system integration operations, details of which are set out in note 10.

(b) Compensation of key management personnel

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

	2009 HK$'000	2008 HK$'000
Short-term benefits	**7,628**	6,742
Post-employment benefits	**79**	86
Share-based payments	**2,724**	3,819
	10,431	10,647

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

42. RELATED PARTY DISCLOSURES *(Continued)*

(c) Details of the share options granted to the directors are set out in note 29.

(d) The Group's outstanding balances with related parties are set out in the consolidated statement of financial position and in notes 20 and 24.

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

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

Name of the company	Country of incorporation or establishment and operations	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company				Principal activities
			2009		2008		
			Directly	Indirectly	Directly	Indirectly	
Rising Move International Limited	British Virgin Islands	USD100	**100%**	**-**	100%	-	Investment holding
Precious Success Holdings Limited	British Virgin Islands	USD100	**-**	**100%**	-	100%	Investment holding
PAL Development Limited	Hong Kong	HK$250,000,000	**-**	**80%**	-	80%	Investment holding
Global Score Asia Limited	British Virgin Islands	USD20,000	**-**	**100%**	-	100%	Investment holding
Trade Express Services Inc.	British Virgin Islands	USD20,000	**-**	**80%**	-	80%	Investment holding
寶加(北京)信息技術有限公司	PRC#	HK$123,000,000	**-**	**100%**	-	100%	Provision of management services for distribution of lottery products
北京華盈風彩科技有限公司	PRC##	RMB10,000,000	**-**	**100%**	-	100%	Provision of management services for distribution of lottery products
山東省開創紀元電子商務信息有限公司	PRC##	RMB2,666,700	**-**	**60%**	-	60%	Provision of management services for distribution of lottery products
Oasis Rich International Limited	Republic of Mauritius	USD700,000	**-**	**60%**	-	60%	Investment holding
伍盛計算機科技(上海)有限公司	PRC#	USD700,000	**-**	**100%**	-	100%	Manufacturing and sales of lottery terminals and POS machines

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

Name of the company	Country of incorporation or establishment and operations	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company 2009 Directly	2009 Indirectly	2008 Directly	2008 Indirectly	Principal activities
KTeMS Co. Limited	South Korea	KRW50,000,000	–	**100%**	–	100%	Management of lottery business
上海智珏網絡科技有限公司	PRC##	RMB4,000,000	–	**87.5%**	–	87.5%	Provision of management services for distribution of lottery products
Wafer Systems Limited	Hong Kong	HK$67,269,905	–	–	100%	–	Investment holding
北京威發新世紀信息技術有限公司 ("Beijing Wafer New Century Information Technology Co., Ltd.")	PRC#	USD8,000,000	–	–	–	100%	Operation of businesses in network system integration
上海滬威網絡系統有限公司 ("Wafer Network Systems (Shanghai) Co., Ltd.")	PRC#	USD210,000	–	–	–	100%	Operation of businesses in network system integration
Wafer Systems (China) Limited	Hong Kong	HK$10,000	–	–	–	100%	Operation of businesses in network system integration
威發（西安）軟件有限公司 ("Wafer (Xi'an) Software Co., Ltd.")	PRC#	USD700,000	–	–	–	100%	Research and development
Wafer Systems (Hong Kong) Limited	Hong Kong	HK$10,000	–	–	–	100%	Operation of businesses in network system integration

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

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

44. EVENT AFTER THE REPORTING PERIOD

On February 24, 2010, the Group entered into a conditional framework agreement with an independent third party to acquire 35% equity interest in China Excellent Net Technology Investment Limited, which is engaged in providing management services for the mobile lottery business in the PRC at a consideration of HK$7,000,000. The acquisition was completed on March 5, 2010. The directors are in the process of assessing the financial impact on such acquisition.

FINANCIAL SUMMARY

	Year ended December 31				
	2005	2006	2007	2008	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
RESULTS					
Revenue					
– Continuing operations	–	–	291	180,716	**86,110**
– Discontinued operations	368,250	326,611	361,645	426,300	**240,319**
	368,250	326,611	361,936	607,016	**326,429**
Profit/(loss) for the year attributable to owners of the Company					
– Continuing operations	–	–	(480,525)	(434,656)	**(346,562)**
– Discontinued operations	1,443	5,101	5,077	(7,485)	**(41,457)**
	1,443	5,101	(475,448)	(442,141)	**(388,019)**

	As at December 31				
	2005	2006	2007	2008	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
ASSETS AND LIABILITIES					
Total assets	152,516	200,741	1,123,233	1,045,825	**508,769**
Total liabilities	(93,090)	(135,528)	(582,966)	(856,086)	**(709,951)**
	59,426	65,213	540,267	189,739	**(201,182)**
Equity attributable to owners of the Company	59,426	65,213	484,078	159,515	**(222,065)**
Non-controlling interests	–	–	56,189	30,224	**20,883**
	59,426	65,213	540,267	189,739	**(201,182)**