China LotSynergy

Annual Report 2010

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

(Incorporated in Bermuda with limited liability)

Stock code: 8161

* For identification purposes only

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

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

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CORPORATE INFORMATION

DIRECTORS

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

Non-Executive Director
HOONG Cheong Thard

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

COMPANY SECRETARY

TAN Yung Kai, Richard

COMPLIANCE OFFICER

LIAO Yuang-whang

AUTHORISED REPRESENTATIVES

LIAO Yuang-whang
TAN Yung Kai, Richard

AUDIT COMMITTEE

HUANG Shenglan
CHAN Ming Fai
CUI Shuming

REMUNERATION COMMITTEE

HUANG Shenglan
CHAN Ming Fai
LAU Ting

AUDITORS

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 3308, 33rd Floor
Office Tower
Convention Plaza
1 Harbour Road
Wanchai, Hong Kong
Tel: (852) 2136 6618
Fax: (852) 2136 6608

WEBSITE

www.chinalotsynergy.com

PRINCIPAL SHARE REGISTRARS

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

BRANCH SHARE REGISTRARS IN HONG KONG

Computershare Hong Kong Investor Services Limited
Hopewell Centre, 46th Floor
183 Queen's Road East
Wan Chai
Hong Kong

LEGAL ADVISERS

Appleby
Baker & McKenzie

PRINCIPAL BANKERS

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

FINANCIAL SUMMARY

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

RESULTS

	Year ended 31 December				
	2010 HK$'000	2009 HK$'000	2008 HK$'000	2007 HK$'000	2006 HK$'000
Continuing operations:					
Turnover	**282,577**	84,578	117,377	310,267	71,345
Gross profit	**220,340**	37,002	55,145	259,350	60,319
Impairment of goodwill	**–**	–	(854,725)	–	–
Share option expenses	**(9,520)**	(10,667)	(12,940)	(20,327)	(23,823)
Gain on redemption of convertible note, net of imputed interest expense	**151,199**	(26,423)	(25,238)	(14,329)	–
Finance costs	**(5,809)**	–	–	–	–
Profit/(Loss) before income tax	**250,221**	(82,722)	(927,032)	246,967	12,035
Income tax	**(33,477)**	(5,030)	580	(1,034)	(186)
Profit/(Loss) for the year from continuing operations	**216,744**	(87,752)	(926,452)	245,933	11,849
Discontinued operations:					
Loss for the year from discontinued operations	**–**	–	–	–	(14,748)
Profit/(Loss) for the year	**216,744**	(87,752)	(926,452)	245,933	(2,899)
Profit/(Loss) attributable to:					
Equity holders of the Company	**152,254**	(81,596)	(930,729)	132,094	(29,188)
Non-controlling interests	**64,490**	(6,156)	4,277	113,839	26,289
	216,744	(87,752)	(926,452)	245,933	(2,899)

ASSETS AND LIABILITIES

	As at 31 December				
	2010 HK$'000	2009 HK$'000	2008 HK$'000	2007 HK$'000	2006 HK$'000
Total current assets	**614,238**	1,175,545	1,110,564	1,338,118	388,292
Total assets	**1,417,451**	1,948,957	1,810,535	2,859,639	1,496,604
Total liabilities	**(331,072)**	(1,023,270)	(823,723)	(759,035)	(60,868)
Net assets	**1,086,379**	925,687	986,812	2,100,604	1,435,736

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is a technology and service provider of lottery systems, terminal equipment, game products and marketing operation to the public welfare lottery industry in China. The principal businesses of the group cover traditional computer ticket game (CTG), high frequency lottery, video lottery and new media lottery. Through professional and effective operation management coupled with well-established and practical technical competencies, the Group has built a solid foundation and a good brand name within the industry with comprehensive capability for sustainable development.

For 2010, the Group recorded operating revenue of HK$282.6 million, generating profit attributable to equity holders of HK$152.3 million as compared with the loss of HK$81.6 million for 2009. While achieving good results in the year, the Group has further improved its business structure. With ongoing efforts to strengthen its existing businesses, the Group has become an integrated technology and service provider for all types of lottery products covering hardware and software, lottery system research and development and client-end functionality design, as well as sales and operation management. In only one year following the promulgation of the first lottery regulation in July 2009, the Ministry of Finance (MOF) announced the provisional regulations on sales of lottery via telephone and the Internet in October 2010, marking the embarkation of lottery on a new era taking advantage of new media development coupled with increased domestic spending. As a dedicated, practical and innovative lottery technology company, China LotSynergy has been well positioned to meet and capture lottery opportunities in the new era with technical and business development capabilities.

BUSINESS REVIEW AND OUTLOOK

Total sales of lottery (Welfare and Sport combined) in China in 2010 exceeded RMB166 billion, representing a 25.5% increase over 2009. Of which, VLT, the video lottery game, maintained the strongest growth.

The Group continues to optimize its business strategy and planning to enhance its comprehensive competitiveness by maintaining the outstanding operating results of its CTG and VLT business, and being practical and yet innovative in the high frequency lottery segment and the new media lottery space covering telephone (mobile phone) and the Internet. The Group obtained the CMMI (Capability Maturity Model Integration) II accreditation early this year after great efforts commenced from mid 2010 to become a high technology company with such internationally recognized qualification.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK *(Cont'd)*

Video Lottery Business

China Welfare Lottery Video Lottery (VLT) Business

VLT, a high technology based lottery game, is playing a vital role in the China lottery industry with total sales of RMB9.3 billion in 2010, representing an increase of 702% over 2009 with sales of 1.16 billion. VLT was re-launched in mid 2009 and recovered strongly after comprehensive enhancement measures by the government that lasted one year and a half between early 2008 and mid 2009. With more terminals connected, daily sales nationwide and per terminal have increased. The game is very popular among players and growing healthily. The Group is the exclusive equipment provider for VLT, which remains a major revenue contributor for the Group. With the continuous enhancement of operation standard and management for VLT, the Group's technical strength as well as operation and management around video lottery generally has been taken to a new height as manifested in its new product research and development and design (hardware and software) and a competent and dedicated management and operation team.

CTG and High Frequency Lottery Business

CTG Business

The Group has set a strong foothold in the traditional CTG space, exclusively supplying betting terminal equipment and operation maintenance to Welfare Lottery in Guangdong province, the leading lottery selling province in China. In 2010, sales of Welfare Lottery in Guangdong province exceeded RMB11.3 billion, representing 36% increase over 2009 as opposed to the 26% nationwide increase. The Group continues to provide quality products and service to Guangdong province, ensuring stable and increasing contribution of cash flow. The Group continues to maintain its leading advantage in China in its products including betting terminal, lottery scanner and reader with constant innovation and improvement. Meanwhile, the Group has secured orders in the traditional CTG space in China and European and South East Asian countries.

High Frequency Lottery Business (KENO)

CLS-GTECH Company Limited, a joint venture company between the Group and GTECH Corporation, is the exclusive provider of the system, terminals and operation maintenance for KENO, the only nationwide high frequency game of Welfare Lottery. Periodic growth has been seen in the sales of Keno from mid 2010 attributing to the roll out of the product and its additional games in eight selected provinces including Liaoning, Hebei, Sichuan, Hunan, Shanxi, Gansu, Shandong and Jilin as a social game. However, the current low average terminal connection rate and daily sales per terminal create a bottleneck mainly owing to the fact that KENO has not been given an adequate payout ratio for a high frequency game, not to say the current payout ratio is far below its international counterparts. The application process for increase of the payout ratio of KENO is underway. Once approved, sales of the product are expected to increase substantially.

The forthcoming task of the Group is to assist the issuance and administration authority proactively in stepping up its marketing initiatives on KENO. The Group will take advantage of successful experience in certain provinces and apply them in under-performed provinces. It is worth mentioning that the daily sales per terminal in certain provinces are comparatively higher, where their experiences have proved KENO to be an incremental product to existing product offerings in their provinces and a unique high frequency game with huge potential. The management believes that after increase of the payout ratio, and measures for social games like co-location introduced for its operation, KENO will overcome the current bottleneck to grow rapidly in China.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK *(Cont'd)*

New media lottery business

The promulgation by MOF on 9 October 2010 of the "Provisional Regulation for the Administration of Telephone Lottery Sales (「電話銷售彩票管理暫行辦法」)" and the "Provisional Regulation for the Administration of Internet Lottery Sales (「互聯網銷售彩票管理暫行辦法」)" to approve sales of lottery via telephone (mobile phone) and the Internet is a huge drive to the Group's development in this area, and proves the Group's far-sighted decision to invest in this area since early 2008. The Group now possesses integrated technical capability to build a comprehensive sales management platform for telephone (mobile phone) and Internet lottery sales. The Group has also built up substantial innovative experience in system building, client-side product development, and actual operation management, possessing comprehensive strength as a technology and service provider for the platform building and market operation and management of various new lottery sales channels.

The Group has already formed technical and operational cooperation with several provincial lottery issuance and management authorities. Meanwhile, the Group has also formed close partnership with telecom operators, financial institutions, Internet portals, mobile phone producers, middleware producers including China Unicom, Bank of Communications, China UnionPay, Lenovo, Tianyu, Coolpad for enhanced technical strength and market operation capability. Preparations have been made for the Group to enter the telephone (mobile phone) and Internet lottery space. Further, with a dedicated team and comprehensive technical preparations, the Group has made breakthrough in the electronic instant scratch card space and received favorable feedback from the customers.

Other lottery business

The Group continues its collaboration with its strategic partners including IGT and GTECH to develop lottery-related products tailored to the China market, which will help enhance the capabilities of the Group in the China lottery industry in areas such as R & D of systems and games, design and manufacture of terminal equipment, and operation & maintenance, improve and enrich the variety and content of games, as well as introduce the technology and management techniques of responsible lottery. This will strengthen the Group's overall competitive advantage to capture business opportunities in the development of the lottery market in China.

CONCLUSION

The China lottery industry has maintained rapid development with 20-25% CAGR in the last ten years. Opportunities abound in the China lottery industry following state approval of the application of new media to lottery sales coupled with increased domestic spending. As the Chinese economy is expected to maintain rapid growth in 2011, China is set to become the largest lottery market in the world.

The Group made an acquisition of a stake in Chongqing Tuokou in February 2011. It will continue to identify other profitable investment opportunities and businesses that will create strategic value, enhance its business portfolio, strengthen its revenue base and profitability, in order to provide long-term and stable returns to its shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group recorded a turnover of approximately HK$282.6 million for the year ended 31 December 2010, representing an increase of 234% over 2009. Due to improving sales from VLT business and early redemption of the convertible note issued to IGT, the Group recorded approximately HK$152.3 million profit attributable to equity holders for the year ended 31 December 2010 as compared with the loss of HK$81.6 million for 2009.

LIQUIDITY, FINANCIAL RESOURCES, GEARING RATIO AND CAPITAL STRUCTURE

The Group believes that it has adequate financial resources to fund our capital and operating requirements. At 31 December 2010, the Group had an outstanding corporate guarantee for unlimited amount for banking facilities of a property installment loan of HK$106.9 million (at 31 December 2009: HK$75 million) granted to the Group. The Group had outstanding bank borrowing at 31 December 2010 of HK$105.1 million (at 31 December 2009: HK$75 million). The Group's leasehold land and building was pledged to secure this bank borrowing. In addition, at 5 March 2010, treasury facilities of HK$30 million (at 31 December 2009: HK$30 million) had been terminated by the bank.

The Group's total equity amounted to approximately HK$1,086 million at 31 December 2010 (at 31 December 2009: HK$925.7 million). At 31 December 2010, net current assets of the Group amounted to approximately HK$355.9 million (at 31 December 2009: HK$758.3 million (restated)), including approximately HK$347.6 million in cash and deposits with banks and financial institution (at 31 December 2009: HK$632.7 million).

The gearing ratio (defined as total liabilities over total assets) of the Group at 31 December 2010 was approximately 23.4% (at 31 December 2009: 52.5%).

EXPOSURE TO EXCHANGE RATES FLUCTUATION

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

PLEDGE OF ASSET

At 31 December 2010, the Group's leasehold land and building at net book value of HK$138.3 million (at 31 December 2009: investment property of HK$140 million) was pledged to bank to secure the bank borrowing granted to the Group.

CONTINGENT LIABILITIES

At 31 December 2010, the Group did not have any material contingent liabilities (at 31 December 2009: Nil).

STAFF

At 31 December 2010, the Group had 314 (at 31 December 2009: 290) full time employees. The management believes that the competence of employees is a major contributing factor to the Group's sustained growth and advancement in profitability. Staff remuneration is based on performance and experience. In addition to basic salary, benefits for employees include a performance-based bonus, contributory provident fund, medical insurance and regulated employees' social security program in China. The Group also adopted a share option scheme under which options may be granted to eligible staff based on individual performance. Training programmes for staff are provided as and when required. The Group will further strengthen its team, and in particular on the build up of its technical team, in order to offer enhanced services for China's welfare lottery market.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTOR

Ms. LAU Ting

Chairperson and Chief Executive Officer

Ms. Lau, aged 54, is the Chairperson, an Executive Director and the Chief Executive Officer of the Company. Ms. Lau is the core founder of the Group and responsible for the planning and implementation of the Group's overall strategies for development. She has over twenty years of solid experience in business planning and management, merger and acquisition, and financial and human resources management. Ms. Lau is also an executive director of Burwill Holdings Limited listed in Hong Kong.

Mr. CHAN Shing

Executive Director

Mr. Chan, aged 55, is the Executive Director of the Company and the core founder of the Group. Mr. Chan has over twenty years of experience in corporate planning and management. Mr. Chan is also the Chairman and the Managing Director of Burwill Holdings Limited listed in Hong Kong.

Mr. WU Jingwei

Executive Director and Co-Chief Executive Officer

Mr. Wu, aged 39, is an Executive Director and the Co-Chief Executive Officer of the Company. The main role of Mr. Wu is to assists the Chief Executive Officer in implementation of the Group's overall strategies for development. He is responsible for the marketing and the operation management of the Group. Mr. Wu has over fifteen years of experience in information technology. Prior to joining the Group in July 2007, Mr. Wu had held senior management positions in PKU Founder Group and Hisense Group. Mr. Wu holds a bachelor's degree in Mechanical Engineering from Beijing Technology and Business University.

Mr. LIAO Yuang-whang

Executive Director, Executive Vice President / Chief Financial Officer and Compliance Officer

Mr. Liao, aged 41, is an Executive Director, Executive Vice President / Chief Financial Officer and the Compliance Officer of the Company. Mr. Liao is responsible for the management of several departments of the Group including finance, investor relations, legal and company secretarial. Mr. Liao has over ten years of experience in banking and finance. Prior to joining the Group in September 2007, Mr. Liao had previously been the Director of Investor Relations of Samson Holding Ltd., a company listed in Hong Kong, and Vice-President and Chief Financial Officer of the subsidiaries of Samson Holding Ltd.. Mr. Liao held the position of Director in the Private Equity of Citibank, Hong Kong. He also held the positions of Investment Director, Risk Analyst and Vice-President of Private Equity at Citibank, Taipei. Mr. Liao holds a Bachelor of Arts Degree in Management Science from National Chiao Tung University and a Master of Philosophy in Management from Cambridge University. Mr. Liao is currently a Non-Executive Director of Samson Holding Limited.

Mr. HOONG Cheong Thard

Non-Executive Director

Mr. Hoong, aged 42, currently is a Non-Executive Director and the Consultant of the Company. Mr. Hoong joined the Group in September 2006 and had been an Executive Director and the Chief Executive Officer of the Company until September 2008. Mr. Hoong has over ten years of experience in investment banking and has extensive experience in international capital markets and mergers and acquisitions. Mr. Hoong was a Director in Equity Capital Markets at Deutsche Bank responsible for Greater China. He was also previously an Executive Director in Equity Capital Markets at UBS and has held senior positions in Corporate Finance at Barclays Group and a major international accounting firm where he was involved in auditing. Mr. Hoong is currently the Managing Director of Far East Consortium International Limited, a company listed in Hong Kong, and the Director and President of Tokai Kanko Co. Limited, a company listed in Tokyo, Japan. Mr. Hoong is also a non-executive director of Kosmopolito Hotels International Limited, a company listed in Hong Kong and a non-executive director of Land General Berhad, a company listed in Malaysia. He is a member of the Institute of Chartered Accountants in England and Wales and holds a bachelor's degree in Mechanical Engineering from Imperial College, University of London.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. HUANG Shenglan

Independent Non-Executive Director

Mr. Huang, aged 59, joined the Group in October 2002 and is an Independent Non-Executive Director. Mr. Huang was an executive director and the deputy governor of China Everbright Bank, Head Office and was an executive director and the general manager of China Everbright Technology Limited. Mr. Huang holds a diploma in Arts from Huazhong Normal University and in International Economics from Huadong Normal University and a certificate in International Economic Law from Xiamen University and in Advanced Management Programme from the Business School of Harvard University, USA. Mr. Huang is also an independent non-executive director of two Hong Kong Listed companies, namely Burwill Holdings Limited and Symphony Holdings Limited and an independent director of a Shanghai listed company, namely Chongqing Road & Bridge Co. Limited.

Mr. CHAN Ming Fai

Independent Non-Executive Director

Mr. Chan, aged 49, joined the Group in May 2006 and is an Independent Non-Executive Director of the Company. He is currently the Chief Executive Officer of Full Seas Technology Group and is primarily responsible for the formulation and execution of the Group's strategy. Prior to that, he was the President of Dandelion Capital Group, which is a private financial advisory company. He has over twenty years of experience in investment banking and asset management. Mr. Chan had worked for Jardine Fleming Investment Management with a major responsibility to market unit trusts and asset management products in Hong Kong and subsequently in various Asian markets, and was particularly instrumental in the establishment of Jardine Fleming's investment trust operation in Japan, Korea and Indonesia. Mr. Chan also cofounded the KGI Group, which is a pan-Asian investment bank with shareholders including major investors and institutions in Asia, where he was the head of the asset management operation which managed about USD400 million in hedge funds and other portfolios, and was also a member of the management committee of KGI Group. Mr. Chan received a bachelor's degree in Social Sciences with major in Economics from the University of Hong Kong. During the period from May 2009 to September 2010, Mr. Chan was a Non-Executive Director of Advanced Engine Components Limited, a company listed in Australia.

Mr. CUI Shuming

Independent Non-Executive Director

Mr. Cui, aged 73, joined the Group in June 2008 and is an Independent Non-Executive Director of the Company. He graduated from People's University of China. He was the Deputy Head of the Bank of China, Jiangsu branch, the Executive Director of The National Commercial Bank, Ltd. and the General Manager of its Hong Kong branch, a Director and the Executive Vice President of The Ka Wah Bank Limited and an Independent Non-Executive Director of two public listed companies in Hong Kong, Cheung Tai Hong Holdings Limited (currently known as ITC Properties Group Limited) and Wah Sang Gas Holdings Limited. Mr. Cui is currently an Independent Non-Executive Director of Burwill Holdings Limited and Yue Da Mining Holdings Limited, both are listed companies in Hong Kong. He has over forty years' experience in international finance and corporate planning and management.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. LI Zi Kui

Mr. Li, aged 47, joined the Group in 2011. He is currently the Chief Technical Officer of the Group and the General Manager of the Group's CTG Business Unit. Mr. Li has over twenty-five years of solid management experience in the information technology sector. For over 18 years, he had been engaged in the China Welfare lottery space as a chief engineer with technical management responsibility, gaining extensive experience with proven track record in various lottery segments including computer ticket game, video lottery and instant lottery. . Mr. Li holds a bachelor's degree in computer science and engineering from The PLA Information Engineering University and an EMBA from Beijing Institute of Technology and holds a senior engineer qualification.

Mr. CHEN Hengben

Mr. Chen, aged 71, joined the Group in 2008. He is currently the Vice President of the Group and the Chairman of the Group's CTG Business in Guangdong Province. Mr. Chen, who is among the pioneers in China engaged in the development of the lottery system and equipment, has over 40 years of practical experience in computer science and electronic engineering. He was a member of Guangdong Provincial Committee of the Chinese People's Political Consultative Conference, a senior engineer for the Research Institute of China Ordnance Industry and the vice president covering technology for the Computer Center of Guangdong Provincial Science and Technology Commission; In 1992, he took part in establishing Guangzhou Horse Race Ground and assumed the position of vice chief commander for the project construction of the Real Time Racing Lottery Bidding System for Guangzhou Horse Race Ground. In 1999, he was appointed as chief commander for the project construction of Macau Dog Racing Club Real Time Lottery Bidding System. Afterwards he founded Guangzhou San Huan Yong Xin Technology Company Limited and Guangzhou Lottnal Terminal Technology Company Limited. Mr. Chen holds a bachelor's degree in Computer from South China University of Technology.

Mr. LAN Jianzhang

Mr. Lan, aged 39, joined the Group in 2009. He is currently the Vice President of the Group and General Manager of the Group's new Lottery Business Unit. Mr. Lan had held senior position at China Lottery Online Technology Co., Ltd, responsible for the strategies, products and business development. He has extensive and proven experience in the lottery industry including video lottery segment. Mr. Lan has over fifteen years' experience in the information technology and internet sector. He had held management positions at leading companies in the sector including the PKU Founder Group, responsible for the development of high-end information technology and household appliances. Mr. Lan holds a bachelor's degree from Beijing University of Aeronautics & Astronautics, a master's degree in physics from Chinese Academy of Sciences, and an EMBA from Beijing Institute of Technology.

Ms. HE Ying

Ms. He, aged 41, joined the Group in 2007. She is currently the Vice President of the Group and General Manager of the Group's Mobile and Internet Services Business Unit. Ms. He had been the general manager of the marketing department at Founder Technology Group Corporation and vice general manager at Hisense Cyber Product Limited. Ms. He has been engaged in the information technology industry for fifteen years, has extensive experience in marketing and corporate management. Ms. He holds a bachelor's degree in Computer Science from the Beijing University of Technology.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. JI Youjun

Mr. Ji, aged 38, joined the Group in 2007. He is currently the Vice President of the Group and the General Manager of the Technology Department of the Group. Mr. Ji had been the head of household product development at Founder Technology Group Corporation and vice general manager at Hisense Cyber Product Limited. Mr. Ji has extensive experience in the development and management of information technology hardware and software products. He holds a bachelor's degree from Harbin University of Science and Technology.

Mr. CHONG Ming, John

Mr. Chong, aged 39, joined the Group in 2001. He is currently the Assistant President of the Group and Deputy Head of the Legal Department of the Group, with 10 years of solid experience in corporate management and sino-foreign cooperation. Mr. Chong was an officer with the legal aid department of the Department of Justice and the Legislative Council Secretariat of Hong Kong respectively. Mr. Chong holds a degree in Translation and Interpretation from the City University of Hong Kong, and is currently completing a Juris Doctoral degree with the Chinese University of Hong Kong.

Ms. ZHU Xinxin, Sandy

Ms. Zhu, aged 31, joined the Group in 2008. She is currently the Assistant President of the Group and Director of Human Resource and Administrative Department (China). Ms. Zhu had been the operation manager of Protiviti Independent Risk Consulting, China, a global business consulting and internal audit firm. Ms. Zhu had also worked in Accenture, a global leading management consulting, technology services and outsourcing company. At Accenture, she participated in various projects like CNOOC SAP implementation project, Robert Half International PeopleSoft Implementation project and BP Finance & Accounting Outsourcing project. Ms. Zhu holds a bachelor's degree in business and finance from the University of Westminster and a master's degree in development finance from the University of Manchester.

Ms. SONG Xiaojun

Ms. Song, aged 44, joined the Group in 2007. She is currently the Head of the Legal Department of the Group. Ms. Song obtained the lawyer qualification certificate in mainland China and she has over sixteen years of experience in legal areas, specialising in commercials, foreign investments in China, dispute resolutions and intellectual property. Ms. Song had worked at the China University of Politics and Law, law firms in Mainland China and Hong Kong respectively. Ms. Song holds a bachelor's degree in law from the China University of Politics and Law and a master's degree (Magister Juris) in European and Comparative Law from Oxford University.

Mr. TAN Yung Kai, Richard

Mr. Tan, aged 39, joined the Group in 2000. He is currently the Company Secretary and the Deputy Financial Controller of the Group, responsible for the overall compliance and financial accounting of the Company. Mr. Tan has over ten years of experience in the audit and the accounting fields. He had worked for Deloitte Touche Tohmatsu, an international accounting firm involved in the various auditing and due diligence activities. He holds a bachelor's degree in Commerce from McGill University, Canada and a master's degree in Corporate Finance from the Hong Kong Polytechnic University. Mr. Tan is a member of the Hong Kong Institute of Certified Public Accountants and American Institution of Certified Public Accountants.

REPORT OF THE DIRECTORS

The board of Directors of the Company (the "Board") presents to the shareholders their report together with the audited financial statements of the Group for the year ended 31 December 2010.

FINANCIAL RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 31 December 2010 are set out in the consolidated income statement on page 31.

No interim dividend was paid during the year.

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES AND SEGMENT INFORMATION

The principal activity of the Company is investment holding.

The Group is a technology and service provider of lottery systems, terminal equipment, game products and marketing operation to the public welfare lottery industry in China. The principal businesses of the group cover traditional CTG, high-frequency lottery, video lottery and new media lottery.

Analysis of the Group's turnover and segment information for the year ended 31 December 2010 are set out in note 5 to the consolidated financial statements.

MAJOR SUPPLIERS AND CUSTOMERS

The Group's five largest customers accounted for about 99% of its turnover for the year. In addition, the largest customer of the Group accounted for about 76% of the Group's turnover.

The percentage of the Group's purchases attributable to the Group's five largest suppliers was about 57%. In addition, the largest supplier of the Group accounted for about 21% of the Group's purchases.

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

PROPERTY, PLANT AND EQUIPMENT

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

SUBSIDIARIES

The particulars of the Company's principal subsidiaries as at 31 December 2010 are set out in note 17 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in share capital during the year are set out in note 31 to the consolidated financial statements.

REPORT OF THE DIRECTORS

CONVERTIBLE NOTE

The Company entered into a supplemental deed (the "Supplemental Deed") with International Game Technology on 20 September 2010 in relation to, among others, agreeing to amend certain terms and conditions of the convertible note (the "Convertible Note") due in 2015 in an aggregate principal amount of HK$550 million to provide for early redemption of the Convertible Note. The completion of the Supplemental Deed took place on 27 September 2010 and that the Convertible Note has been redeemed by the Company by way of (i) a cash payment of HK$308,750,000 having been paid by the Company to International Game Technology and (ii) a zero coupon convertible note (the "New Convertible Note") with a principal amount of HK$166,250,000 having been issued by the Company to International Game Technology. Details of the New Convertible Note are set out in note 29 to the consolidated financial statements.

RESIGNATION OF DIRECTOR

Mr. Paulus Johannes Cornelis Aloysius Karskens has resigned as a Non-executive Director of the Company with effect from 27 September 2010 pursuant to the terms of the Supplemental Deed.

DISCLOSEABLE TRANSACTION

On 14 February 2011, the post-reporting period, a subsidiary of the Company, as the purchaser, entered into an equity interests transfer agreement with the independent third parties, as the vendors, and conditionally agreed to acquire 70% of the equity interests in 重慶拓扣網絡科技有限公司 ("Chongqing Tuokou"), a limited liability company incorporated in the PRC. Chongqing Tuokou is a lottery sales service provider engaged in the research and development and operation of a sales platform for high frequency lottery games in the PRC. In the last three years, Chongqing Tuokou has achieved outstanding performance in the sales of high frequency lottery games, with hundreds of thousands active users on its "Shishicai.cn website"（時時彩網）. The aggregate consideration of this acquisition is RMB21,000,000 (approximately HK$24,851,400), which shall be satisfied by (i) payment of RMB10,500,000 (approximately HK$12,425,700) in cash in two installments; and (ii) the allotment and issue of up to 27,612,666 shares of the Company, as the consideration shares, at an issue price of HK$0.45 per consideration share credited as fully paid. The vendors have guaranteed that the profit after tax of Chongqing Tuokou for 2011 will reach RMB4,500,000. The number of the consideration shares to be allotted and issued would be adjusted if the profit guarantee is not met.

RESERVES

Details of movements in reserves during the year are set out in note 33 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2010, there was no distributable reserve to the shareholders in accordance with the Company's Bye-laws (As at 31 December 2009: Nil).

REPORT OF THE DIRECTORS

PRE-EMPTIVE RIGHTS

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

CHANGES IN DIRECTORS' BIOGRAPHICAL DETAILS

Pursuant to Rule 17.50A (1) of the GEM Listing Rules, the change of directors' biographical details are set out as follows:

With effect from 14 October 2010, the positions of Mr. Liao Yuang-whang held in the Company have been promoted to an Executive Director, the Executive Vice President/Chief Financial Officer and the Compliance Officer of the Company. The director's fee of Mr. Hoong Cheong Thard and Mr. Hung Shenglan had been changed, with effect from 1 October 2010, to HK$20,000 and HK$30,000 per month respectively and has been changed to HK$21,200 and HK$31,800 per month respectively with effect from 1 February 2011. The director's fee of Mr. Chan Ming Fai and Mr. Cui Shuming has been changed to HK$23,380 and HK$21,200 per month respectively with effect from 1 February 2011.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year ended 31 December 2010.

SHARE OPTION SCHEME

As at 31 December 2010, there were options for 371,800,000 shares granted by the Company pursuant to the option scheme, as adopted by the shareholders of the Company on 30 July 2002 (the "Option Scheme"), which were valid and outstanding.

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

(i) Purpose of the Option Scheme

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

(ii) Participants

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

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME *(Cont'd)*

(iii) Maximum number of shares

The limit on the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Option Scheme and any other share option schemes of the Company and/or its holding company and/or its subsidiary must not exceed 30% of the number of issued shares from time to time. The total number of Shares available for issue under the Option Scheme as at the date of this report is 499,032,800 Shares, representing approximately 6.74% of the issued share capital of the Company as of that date.

(iv) Maximum entitlement of each Participant

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

(v) Option period

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

(vi) Payment on acceptance of option

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

(vii) Subscription price

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

(viii) The life of the Option Scheme

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

REPORT OF THE DIRECTORS

Movements of share options granted under the Option Scheme during the year ended 31 December 2010:

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

REPORT OF THE DIRECTORS

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

REPORT OF THE DIRECTORS

	Date of grant	Exercise price per Share HK$	Exercise period from	Exercise period until	No. of Shares under the options: outstanding at the beginning of the year	granted during the year	exercised during the year	cancelled during the year	lapsed during the year	outstanding at the end of the year	Closing price per Share at the date of grant of the options during the year HK$
(ii) Continuous contract employees	08/06/2006	0.305	08/06/2007	07/06/2011	8,600,000	–	–	–	–	8,600,000	–
	08/06/2006	0.305	08/06/2008	07/06/2011	11,000,000	–	–	–	–	11,000,000	–
	08/06/2006	0.305	08/06/2009	07/06/2011	11,000,000	–	–	–	–	11,000,000	–
	08/06/2006	0.305	08/06/2010	07/06/2011	11,000,000	–	–	–	–	11,000,000	–
	11/05/2007	0.775	02/05/2008	01/05/2014	1,800,000	–	–	–	–	1,800,000	–
	11/05/2007	0.775	02/05/2009	01/05/2014	1,800,000	–	–	–	–	1,800,000	–
	11/05/2007	0.775	02/05/2010	01/05/2014	1,800,000	–	–	–	–	1,800,000	–
	11/05/2007	0.775	02/05/2011	01/05/2014	1,800,000	–	–	–	–	1,800,000	–
	11/05/2007	0.775	02/05/2012	01/05/2014	1,800,000	–	–	–	–	1,800,000	–
	11/05/2007	0.775	02/05/2013	01/05/2014	3,000,000	–	–	–	–	3,000,000	–
	04/07/2007	0.975	04/07/2008	03/07/2012	400,000	–	–	–	–	400,000	–
	04/07/2007	0.975	04/07/2009	03/07/2012	400,000	–	–	–	–	400,000	–
	02/10/2007	0.920	01/01/2008	31/12/2011	1,500,000	–	–	–	–	1,500,000	–
	02/10/2007	0.920	01/01/2009	31/12/2011	1,500,000	–	–	–	–	1,500,000	–
	13/11/2007	0.960	01/01/2008	31/12/2011	1,000,000	–	–	–	–	1,000,000	–
	13/11/2007	0.960	01/01/2009	31/12/2011	1,000,000	–	–	–	–	1,000,000	–
	25/08/2008	0.500	11/03/2009	10/03/2013	600,000	–	–	–	–	600,000	–
	25/08/2008	0.500	11/03/2010	10/03/2013	600,000	–	–	–	–	600,000	–
	25/08/2008	0.500	11/03/2011	10/03/2013	600,000	–	–	–	–	600,000	–
	25/08/2008	0.500	11/03/2012	10/03/2013	600,000	–	–	–	–	600,000	–
	25/08/2008	0.500	25/08/2009	24/08/2013	2,550,000	–	–	–	(150,000)	2,400,000	–
	25/08/2008	0.500	25/08/2010	24/08/2013	2,550,000	–	–	–	(150,000)	2,400,000	–
	25/08/2008	0.500	25/08/2011	24/08/2013	2,550,000	–	–	–	(150,000)	2,400,000	–
	25/08/2008	0.500	25/08/2012	24/08/2013	2,550,000	–	–	–	(150,000)	2,400,000	–
	06/04/2009	0.500	04/01/2010	03/01/2013	400,000	–	–	–	(400,000)	–	–
	06/04/2009	0.500	04/01/2011	03/01/2013	400,000	–	–	–	(400,000)	–	–
	06/04/2009	0.500	04/01/2012	03/01/2013	400,000	–	–	–	(400,000)	–	–
	09/04/2009	0.500	17/08/2009	16/08/2013	400,000	–	–	–	–	400,000	–
	09/04/2009	0.500	17/08/2010	16/08/2013	400,000	–	–	–	–	400,000	–
	09/04/2009	0.500	17/08/2011	16/08/2013	400,000	–	–	–	–	400,000	–
	09/04/2009	0.500	17/08/2012	16/08/2013	400,000	–	–	–	–	400,000	–
	15/06/2009	0.500	15/06/2010	14/06/2015	5,000,000	–	–	–	–	5,000,000	–
	15/06/2009	0.500	15/06/2011	14/06/2015	5,000,000	–	–	–	–	5,000,000	–
	17/08/2009	0.500	17/02/2010	16/08/2014	41,000,000	–	–	–	–	41,000,000	–
	17/08/2009	0.500	17/08/2010	16/08/2013	1,500,000	–	–	–	(1,500,000)	–	–
	17/08/2009	0.500	17/08/2010	16/08/2014	41,000,000	–	–	–	–	41,000,000	–
	02/10/2009	0.500	01/09/2010	31/08/2014	1,750,000	–	–	–	(300,000)	1,450,000	–
	02/10/2009	0.500	01/09/2011	31/08/2014	1,750,000	–	–	–	(300,000)	1,450,000	–
	02/10/2009	0.500	01/09/2012	31/08/2014	1,750,000	–	–	–	(300,000)	1,450,000	–
	02/10/2009	0.500	01/09/2013	31/08/2014	1,750,000	–	–	–	(300,000)	1,450,000	–
	04/12/2009	0.500	04/06/2010	03/12/2012	5,000,000	–	–	–	–	5,000,000	–
	04/12/2009	0.500	04/12/2010	03/12/2012	5,000,000	–	–	–	–	5,000,000	–
	04/12/2009	0.500	04/06/2011	03/12/2012	5,000,000	–	–	–	–	5,000,000	–

REPORT OF THE DIRECTORS

	Date of grant	Exercise price per Share HK$	Exercise period from	until	No. of Shares under the options: outstanding at the beginning of the year	granted during the year	exercised during the year	cancelled during the year	lapsed during the year	outstanding at the end of the year	Closing price per Share at the date of grant of the options during the year HK$
(iii) Other participants	08/06/2006	0.305	08/06/2008	07/06/2011	4,000,000	–	–	–	–	4,000,000	–
	08/06/2006	0.305	08/06/2009	07/06/2011	4,000,000	–	–	–	–	4,000,000	–
	08/06/2006	0.305	08/06/2010	07/06/2011	4,000,000	–	–	–	–	4,000,000	–
	25/08/2008	0.500	25/08/2009	24/08/2013	150,000	–	–	–	–	150,000	–
	25/08/2008	0.500	25/08/2010	24/08/2013	150,000	–	–	–	–	150,000	–
	25/08/2008	0.500	25/08/2011	24/08/2013	150,000	–	–	–	–	150,000	–
	25/08/2008	0.500	25/08/2012	24/08/2013	150,000	–	–	–	–	150,000	–
Total :					376,300,000	–	–	–	(4,500,000)	371,800,000	

Notes:

1. The options are recognised as expenses in the accounts in accordance with Hong Kong Financial Reporting Standard 2. Other details of share options granted by the Company are set out in note 32 to the consolidated financial statements.

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

DIRECTORS

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

Executive Directors:

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

Non-Executive Directors:

Mr. HOONG Cheong Thard
Mr. Paulus Johannes Cornelis Aloysius KARSKENS (resigned on 27 September 2010)

Independent Non-Executive Directors:

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

In accordance with bye-law 99 of the Bye-laws of the Company, Mr. LIAO Yuang-whang, CHAN Ming Fai and CUI Shuming shall retire from office by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Biographical details of the Directors of the Company are set out on pages 8 to 9.

SENIOR MANAGEMENT

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

REPORT OF THE DIRECTORS

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

As at 31 December 2010, the interests and short positions of the Directors and chief executive of the Company (including those interests and short positions which were taken or deemed to have interests and short positions under the provisions of the Securities and Futures Ordinance (the "SFO")) in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standards of dealing by directors of the listed issuer as referred to in Rule 5.46 of the Rules Governing the Listing of Securities on The Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules"), were as follows:

(1) Interests in Shares of the Company

Name of Directors	Number of shares: Beneficial interests	Number of shares: Family interests	Number of shares: Corporate interests	Total	Approximate percentage of the Company's issued share capital
LAU Ting	259,974,373(L)	389,286,426(L) *(Note 1)*	867,762,948(L) 23,093,192(S) *(Notes 2 & 3)*	1,517,023,747(L) 23,093,192(S) *(Note 3)*	20.49%(L) 0.31%(S)
CHAN Shing	389,286,426(L)	259,974,373(L) *(Note 4)*	867,762,948(L) 23,093,192(S) *(Notes 2 & 3)*	1,517,023,747(L) 23,093,192(S) *(Note 3)*	20.49%(L) 0.31%(S)
HUANG Shenglan	4,000,000(L)	–	–	4,000,000(L)	0.05%(L)

Notes:

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

2. 147,162,496 shares, includes abovementioned 23,093,192 shares, were held by Hang Sing Overseas Limited ("Hang Sing") which was owned as to 51% by Orient Strength Limited ("Orient Strength"), a company which was wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 137,735,546 shares were held by Strong Purpose Corporation ("Strong Purpose"), a company which was wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 580,932,594 shares were held by Glory Add Limited ("Glory Add") which was wholly owned by Favor King Limited, a company which was wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 1,932,312 shares were held by Burwill Holdings Limited of which Ms. LAU Ting and Mr. CHAN Shing were the controlling shareholders.

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

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

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

(2) Interests in Underlying Shares

As at 31 December 2010, the interests of the Directors and chief executive of the Company in options for Shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standards of dealing by directors of the listed issuer as referred to in Rule 5.46 of the GEM Listing Rules, were as disclosed in the previous section headed "Share Option Scheme" of this report.

REPORT OF THE DIRECTORS

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

(2) Interests in Underlying Shares *(Cont'd)*

Save as otherwise disclosed above, as at 31 December 2010, none of the Directors or chief executive of the Company had, or were deemed under the SFO to have, any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) which were required to be recorded in the register kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standards of dealing by directors of listed issuer as referred to in Rule 5.46 of the GEM Listing Rules.

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

As at 31 December 2010, according to the register required to be kept by the Company under Section 336 of the SFO, the following persons (other than the Directors and chief executive of the Company) had interests and short positions in the shares and underlying shares of the Company:

(1) Interests in Shares

Name of Shareholder	Number of shares Beneficial interests	Investment Manager	Corporate interests	Total	Approximate percentage interest in the Company's issued share capital
JPMorgan Chase & Co.	–	767,644,652(L) 634,012,306(P)	–	767,644,652(L) 634,012,306(P) *(note 1)*	10.37%(L) 8.57%(P)
Atlantis Investment Management Limited	–	665,000,000(L)	–	665,000,000(L) *(note 2)*	8.98%(L)
Liu Yang	–	665,000,000(L)	–	665,000,000(L) *(note 2)*	8.98%(L)
Favor King Limited	–	–	582,864,906(L)	582,864,906(L) *(note 3)*	7.87%(L)
Ward Ferry Management (BVI) Limited	–	577,110,000(L)	–	577,110,000(L) *(note 4)*	7.80%(L)
Burbank John H.	–	–	513,071,200(L)	513,071,200(L) *(note 5)*	6.93%(L)
Passport Capital, LLC	–	513,071,200(L)	–	513,071,200(L) *(note 5)*	6.93%(L)
Passport Special Opportunities Master Fund, LP	448,910,000(L)	–	–	448,910,000(L) *(note 5)*	6.06%(L)
Legg Mason Inc	–	426,136,000(L)	–	426,136,000(L) *(note 6)*	5.76%(L)

REPORT OF THE DIRECTORS

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

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

Notes:

1. 634,012,306 shares, represented the lending pool shares, were held by JPMorgan Chase Bank, N.A. which in turn was wholly-owned by JPMorgan Chase & Co.. 133,444,346 shares, represented the long position shares, were held by JPMorgan Asset Management (UK) Limited which in turn was wholly-owned by JPMorgan Asset Management Holdings (UK) Limited, a company which was wholly-owned by JPMorgan Asset Management International Limited. And JPMorgan Asset Management International Limited was wholly-owned by JPMorgan Asset Management Holdings Inc., which in turn was wholly-owned by JPMorgan Chase & Co.. 188,000 shares, represented the long position shares, were held by J.P. Morgan Whitefriars Inc. which in turn was owned by J.P. Morgan Overseas Capital Corporation, a company which was wholly-owned by J.P. Morgan International Finance Limited. J.P. Morgan International Finance Limited was wholly-owned by Bank One International Holdings Corporation, which in turn was wholly-owned by J.P. Morgan International Inc.. And J.P. Morgan International Inc. was wholly-owned by JPMorgan Chase Bank, N.A., which in turn was wholly-owned by JPMorgan Chase & Co.

2. Ms. Liu Yang held the interest through Atlantis Investment Management Limited and Atlantis Investment Management (Hong Kong) Limited. These shares represent the same block of interest held by Atlantis Investment Management Limited and Ms. Liu Yang.

3. 1,932,312 shares were held by Burwill Holdings Limited and 580,932,594 shares were held by Glory Add. These shares formed part of the interests of Ms. LAU Ting and Mr. CHAN Shing.

4. 249,652,000 shares were held by WF Asia Fund Limited, 96,728,000 shares were held by WF Asian Reconnaissance Fund Limited and 230,730,000 shares were held by WF Asian Smaller Companies Fund Limited. Ward Ferry Management (BVI) Limited was the investment manager of these funds or companies.

5. Passport Capital, LLC was the investment manager of various funds. One of these funds was Passport Special Opportunities Master Fund, LP. Burbank John H. was the sole managing member to Passport Capital, LLC. The above information was notified by Passport Capital, LLC.

6. These shares were held by Legg Mason Asset Management Singapore Pte Limited which was wholly-owned by LM International Holding LP. LM International Holding LP was wholly-owned by Legg Mason International Holdings II, LLC, a company which was wholly-owned by Legg Mason Inc.

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

(2) Interests in Underlying Shares

As at 31 December 2010, International Game Technology had a derivative interest in 174,083,769 shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

Save as disclosed above, as at 31 December 2010, there was no person (other than the Directors and chief executive of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and/or who were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

REPORT OF THE DIRECTORS

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN CONTRACTS

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

SERVICE CONTRACTS WITH DIRECTORS

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

FINANCIAL SUMMARY

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

EMPLOYEE RETIREMENT BENEFIT

Details of the retirement benefit schemes of the Group and the employee retirement benefit costs charged to the consolidated income statement for the year are set out in note 37.

COMPETING INTERESTS

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

PUBLIC FLOAT

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

AUDITORS

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

On behalf of the Board
LAU Ting
Chairperson

Hong Kong, 15 March 2011

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

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

In the opinion of the Directors, the Company has complied with all the applicable code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 of the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") for the financial year ended 31 December 2010, except for the deviations as disclosed in this report.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the required standard of dealings regarding securities transactions by directors set out in Rules 5.48 to 5.67 of the GEM Listing Rules as its code of conduct for dealings in securities of the Company by the Directors (the "Code of Conduct"). Having made specific enquiry of all Directors, all Directors confirmed that they had complied with the required standard of dealings set out in the Code of Conduct throughout the financial year ended 31 December 2010.

BOARD OF DIRECTORS

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

Executive Directors

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

Non-Executive Directors

Mr. HOONG Cheong Thard
Mr. Paulus Johannes Cornelis Aloysius KARSKENS (resigned on 27 September 2010)

Independent Non-Executive Directors

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

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

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

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(Cont'd)*

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

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

The Board considers that each Independent Non-Executive Director of the Company is independent in character and judgement. The Company has received from each Independent Non-executive Director a written confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules. To the best knowledge of the Directors, there is no financial, business and family relationship among the members of the Board except that Mr. CHAN Shing is the spouse of Ms. LAU Ting.

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

	Directors' Attendance
Executive Directors	
Ms. LAU Ting	4/4
Mr. CHAN Shing	2/4
Mr. WU Jingwei	4/4
Mr. LIAO Yuang-whang	4/4
Non-Executive Directors	
Mr. HOONG Cheong Thard	3/4
Mr. Paulus Johannes Cornelis Aloysius KARSKENS *(resigned on 27 September 2010)*	3/3
Independent Non-Executive Directors	
Mr. HUANG Shenglan	4/4
Mr. CHAN Ming Fai	4/4
Mr. CUI Shuming	4/4

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

CORPORATE GOVERNANCE REPORT

NON-EXECUTIVE DIRECTORS

Although more than half of the Non-executive Directors of the Company are not appointed for a specific term as is stipulated in Code provision A4.1, all of them are subject to retirement by rotation in accordance with the Bye-laws of the Company. The Board will ensure the retirement of each Director, other than the one who holds the office as Chairperson or Managing Director, by rotation at least once every three years. The Chairperson is not subject to retirement by rotation as is stipulated in Code provision A.4.2 as the Board considers that the continuity of office of the Chairperson provides the Group a strong and consistent leadership and is of great importance to the smooth operations of the Group. Mr. LIAO Yuang-whang, Mr. CHAN Ming Fai and Mr. CUI Shuming are subject to retirement by rotation at the forthcoming annual general meeting in accordance with the Company's Bye-laws.

REMUNERATION COMMITTEE

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

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

The Remuneration Committee will meet at least once a year. Two meetings of the Remuneration Committee were held during the year ended 31 December 2010. Details of the attendance of the Remuneration Committee Meeting are as follows:

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

NOMINATION OF DIRECTORS

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

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

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE

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

The Audit Committee's functions include:

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

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

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

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

AUDITORS' REMUNERATION

For the year ended 31 December 2010, the Group had engaged the Group's external auditors, HLB Hodgson Impey Cheng, to provide the following services and their respective fees charged are set out as below:

	Fee Charged for the year ended 31 December	
	2010	2009
	HK$	HK$
Types of Services		
Audit for the Group		
– Provision for the year	**693,000**	630,000
– Underprovision in prior year	**–**	30,000

CORPORATE GOVERNANCE REPORT

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR ACCOUNTS

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

INTERNAL CONTROL

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

INVESTOR RELATIONS

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

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

INDEPENDENT AUDITORS' REPORT

HLB 國衛會計師事務所
Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

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

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

We have audited the consolidated financial statements of China LotSynergy Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 31 to 103, which comprise the consolidated and company balance sheets as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Companies Act of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 auditors' judgement, 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 auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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.

INDEPENDENT AUDITORS' REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

Hong Kong, 15 March 2011

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Turnover	5	**282,577**	84,578
Costs of sales and services		**(62,237)**	(47,576)
Gross profit		**220,340**	37,002
Other income and gains	6	**16,465**	68,258
General and administrative expenses		**(110,046)**	(139,694)
Share option expenses		**(9,520)**	(10,667)
Operating profit/(loss)	7	**117,239**	(45,101)
Gain on redemption of convertible note		**171,947**	–
Imputed interest expense on redeemed convertible note	8	**(20,748)**	(26,423)
Gain on redemption of convertible note, net of imputed interest expense		**151,199**	(26,423)
Finance costs	8	**(5,809)**	–
Share of losses of jointly-controlled entities	18	**(12,408)**	(11,198)
Profit/(Loss) before income tax		**250,221**	(82,722)
Income tax	9	**(33,477)**	(5,030)
Profit/(Loss) for the year		**216,744**	(87,752)
Profit/(Loss) attributable to:			
Equity holders of the Company		**152,254**	(81,596)
Non-controlling interests		**64,490**	(6,156)
		216,744	(87,752)
Earnings/(Loss) per share attributable to equity holders of the Company during the year			
– basic	11	**2.06 HK cents**	(1.10) HK cents
– diluted	11	**2.05 HK cents**	(1.10) HK cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Profit/(Loss) for the year		**216,744**	(87,752)
Other comprehensive income:			
Fair value gain on available-for-sale financial assets	20	**19,081**	15,889
Currency translation differences		**12,824**	60
Other comprehensive income for the year, net of tax		**31,905**	15,949
Total comprehensive income for the year		**248,649**	(71,803)
Attributable to:			
Equity holders of the Company		**181,584**	(65,647)
Non-controlling interests		**67,065**	(6,156)
Total comprehensive income for the year		**248,649**	(71,803)

CONSOLIDATED BALANCE SHEET

At 31 December 2010

	Notes	At 31 December 2010 HK$'000	At 31 December 2009 HK$'000 (restated)	At 1 January 2009 HK$'000 (restated)
Non-current assets				
Property, plant and equipment	14	**270,338**	130,570	114,263
Investment property	15	**–**	140,000	127,000
Intangible assets	16	**351,544**	330,625	337,153
Investments in jointly-controlled entities	18	**108,154**	116,738	80,184
Available-for-sale financial assets	20	**68,910**	49,829	33,940
Deferred income tax assets	30	**180**	803	1,660
Prepaid rentals		**4,087**	4,847	5,771
Total non-current assets		**803,213**	773,412	699,971
Current assets				
Inventories	21	**19,250**	16,983	13,625
Accounts receivable	22	**103,042**	25,390	14,060
Prepayments, deposits and other receivables		**30,101**	31,178	12,699
Amount due from a jointly-controlled entity	18	**411**	237	7,857
Amounts due from related companies	23	**21,564**	21,613	21,854
Financial assets at fair value through profit or loss	24	**92,258**	447,451	292,185
Income tax refundable		**–**	–	603
Cash and bank balances	25	**347,612**	632,693	747,681
Total current assets		**614,238**	1,175,545	1,110,564
Total assets		**1,417,451**	1,948,957	1,810,535
Current liabilities				
Accounts payable	26	**2,656**	13,864	4,647
Accruals and other payables		**11,824**	13,453	12,722
Amount due to a jointly-controlled entity	18	**24,594**	26,302	34,033
Income tax payable		**27,859**	4,382	1,998
Financial liabilities at fair value through profit or loss	27	**–**	284,282	191,632
Bank borrowings	28	**105,119**	75,000	–
Convertible note	29	**86,272**	–	–
Total current liabilities		**258,324**	417,283	245,032
Net current assets		**355,914**	758,262	865,532
Total assets less current liabilities		**1,159,127**	1,531,674	1,565,503

CONSOLIDATED BALANCE SHEET *(Cont'd)*

At 31 December 2010

	Notes	At 31 December 2010 HK$'000	At 31 December 2009 HK$'000 (restated)	At 1 January 2009 HK$'000 (restated)
Non-current liabilities				
Convertible note	29	**59,480**	588,780	562,357
Deferred income tax liabilities	30	**13,268**	17,207	16,334
Total non-current liabilities		**72,748**	605,987	578,691
Net assets		**1,086,379**	925,687	986,812
Equity attributable to equity holders of the Company				
Share capital	31	**18,505**	18,505	18,505
Reserves	33	**1,714,406**	1,674,420	1,647,920
Accumulated losses		**(808,897)**	(876,657)	(795,177)
		924,014	816,268	871,248
Non-controlling interests		**162,365**	109,419	115,564
Total equity		**1,086,379**	925,687	986,812

LAU TING
Director

LIAO YUANG-WHANG
Director

BALANCE SHEET

At 31 December 2010

	Notes	At 31 December 2010 HK$'000	At 31 December 2009 HK$'000
Non-current assets			
Property, plant and equipment	*14*	**194**	385
Investments in subsidiaries	*17*	**9**	13,918
Total non-current assets		**203**	14,303
Current assets			
Prepayments, deposits and other receivables		**2,439**	2,452
Amounts due from subsidiaries	*17*	**991,391**	1,338,643
Financial assets at fair value through profit or loss	*24*	**–**	368,710
Cash and bank balances	*25*	**264**	56
Total current assets		**994,094**	1,709,861
Total assets		**994,297**	1,724,164
Current liabilities			
Accruals and other payables		**240**	220
Amounts due to subsidiaries	*17*	**8**	8
Financial liabilities at fair value through profit or loss	*27*	**–**	284,282
Convertible note	*29*	**86,272**	–
Total current liabilities		**86,520**	284,510
Net current assets		**907,574**	1,425,351
Total assets less current liabilities		**907,777**	1,439,654
Non-current liabilities			
Convertible note	*29*	**59,480**	588,780
Deferred income tax liabilities	*30*	**3,382**	3,381
Total non-current liabilities		**62,862**	592,161
Net assets		**844,915**	847,493

BALANCE SHEET *(Cont'd)*

At 31 December 2010

	Notes	At 31 December 2010 HK$'000	At 31 December 2009 HK$'000
Equity attributable to equity holders of the Company			
Share capital	*31*	**18,505**	18,505
Reserves	*33*	**1,639,947**	1,629,151
Accumulated losses	*34*	**(813,537)**	(800,163)
		844,915	847,493

LAU TING
Director

LIAO YUANG-WHANG
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Attributable to equity holders of the Company				
	Share capital HK$'000 *(Note 31)*	Reserves HK$'000 *(Note 33)*	Accumulated losses HK$'000	Non-controlling interests HK$'000	Total HK$'000
Balance at 1 January 2009	18,505	1,647,920	(795,177)	115,564	986,812
Comprehensive income					
Loss for the year	–	–	(81,596)	(6,156)	(87,752)
Other comprehensive income:					
Fair value gain on available-for-sale financial assets	–	15,889	–	–	15,889
Currency translation differences	–	60	–	–	60
Total other comprehensive income	–	15,949	–	–	15,949
Total comprehensive income	–	15,949	(81,596)	(6,156)	(71,803)
Share option scheme:					
– value of employee services	–	10,389	–	–	10,389
– value of other participants' services	–	278	–	–	278
– vested share options cancelled	–	(116)	116	–	–
Deregistration of a subsidiary	–	–	–	11	11
	–	10,551	116	11	10,678
Balance at 31 December 2009	18,505	1,674,420	(876,657)	109,419	925,687

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

For the year ended 31 December 2010

	Attributable to equity holders of the Company				
	Share capital HK$'000 *(Note 31)*	Reserves HK$'000 *(Note 33)*	Accumulated losses HK$'000	Non-controlling interests HK$'000	Total HK$'000
Balance at 1 January 2010	18,505	1,674,420	(876,657)	109,419	925,687
Comprehensive income					
Profit for the year	–	–	152,254	64,490	216,744
Other comprehensive income:					
Release of revaluation reserve upon depreciation of leasehold land and building	–	(140)	140	–	–
Fair value gain on available-for-sale financial assets	–	19,081	–	–	19,081
Currency translation differences	–	10,249	–	2,575	12,824
Total other comprehensive income	–	29,190	140	2,575	31,905
Total comprehensive income	–	29,190	152,394	67,065	248,649
Release of convertible note equity reserve upon redemption of convertible note	–	(20,080)	(98,785)	–	(118,865)
Recognition of equity component of convertible note	–	25,614	–	–	25,614
Deferred tax liability on recognition of equity component of convertible note	–	(4,226)	–	–	(4,226)
Share option scheme:					
– value of employee services	–	9,442	–	–	9,442
– value of other participants' services	–	78	–	–	78
– vested share options cancelled	–	(32)	32	–	–
Changes in ownership interests in subsidiaries that do not result in a loss of control	–	–	14,119	(14,119)	–
	–	10,796	(84,634)	(14,119)	(87,957)
Balance at 31 December 2010	18,505	1,714,406	(808,897)	162,365	1,086,379

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Cash flows from operating activities			
Operating cash flows before changes in working capital	35	**159,231**	(60,972)
Changes in working capital	35	**(90,457)**	(45,371)
Cash generated from/(used in) operations		**68,774**	(106,343)
Income tax paid		**(17,446)**	(842)
Income tax refunded		**2,261**	529
Net cash generated from/(used in) operating activities		**53,589**	(106,656)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(37,488)**	(50,139)
Proceed from disposal of property, plant and equipment		**367**	56
Purchase of intangible assets		**(27,447)**	–
Advance to a jointly-controlled entity		**(174)**	7,620
Capital contribution to jointly-controlled entities		**–**	(47,482)
Dividend received from listed securities		**–**	1,161
Interest income from bank deposits		**2,322**	5,651
Proceed from short-term bank deposits with maturity more than three months		**35,737**	53,409
Purchase of short-term bank deposits with maturity more than three months		**(33,136)**	(34,316)
Net cash used in investing activities		**(59,819)**	(64,040)
Cash flows from financing activities			
Redemption of convertible note		**(308,750)**	–
Interest paid		**(693)**	–
Repayment of bank borrowings		**(4,881)**	–
Proceed from bank borrowing		**35,000**	75,000
Net cash (used in)/generated from financing activities		**(279,324)**	75,000
Net decrease in cash and cash equivalents		**(285,554)**	(95,696)
Cash and cash equivalents at beginning of the year		**598,377**	694,272
Effect of foreign exchange rate changes		**1,653**	(199)
Cash and cash equivalents at end of the year *(Note)*	25	**314,476**	598,377

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

1. GENERAL INFORMATION

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

The Company's shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company and its subsidiaries (together the "Group") are technology and service providers of lottery systems, terminal equipment, game products and marketing operation to the public welfare lottery industry in China. The principal businesses of the Group cover traditional computer ticket game ("CTG"), high frequency lottery, video lottery and new media lottery.

These consolidated financial statements are presented in Hong Kong dollars (HK$), unless otherwise stated. These consolidated financial statements were approved and authorised for issue by the board of directors of the Company (the "Board") on 15 March 2011.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

2.1 Basis of preparation *(Cont'd)*

Changes in accounting policy and disclosures

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

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010:

- HKFRS 3 (revised), 'Business combinations', and consequential amendments to HKAS 27, 'Consolidated and separate financial statements', HKAS 28, 'Investments in associates', and HKAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

  The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with HKFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed.

  HKAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting treatment when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss.

  The application of HKAS 27 (revised) has affected the accounting for the Group's disposal of part of its interests in subsidiaries in current year. The change in policy has resulted in the difference of HK$14,119,000 between the consideration received and the non-controlling interests recognised being recognised directly in equity, instead of profit or loss. Therefore, the change in accounting policy has resulted in a decrease in the profit for the year of HK$14,119,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

2.1 Basis of preparation *(Cont'd)*

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

(a) New and amended standards adopted by the Group (Cont'd)

- HKAS 1 (amendment), 'Presentation of financial statements'. The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The amendment has no material impact on the Group's financial statements.

- HKAS 17 (amendment), 'Leases', deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating lease using the general principles of HKAS 17, i.e. whether the lease transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee.

  HKAS 17 (amendment) has been applied retrospectively for annual periods beginning 1 January 2010 in accordance with the effective date and transitional provisions of the amendment. The Group has reassessed the classification of unexpired leasehold land as at 1 January 2010 on the basis of information existing at the inception of those leases, and recognised the leasehold land in Hong Kong as finance lease retrospectively. As a result of the reassessment, the Group has reclassified its leasehold land from operating lease to finance lease. The land interest of the Group that is held to earn rentals and/or capital appreciation is accounted for as investment property and carried at fair value. The land interest of the Group that is held for own use is accounted for as property, plant and equipment and is depreciated from the land interest available for its intended use over the shorter of the useful live of the asset and the lease term. The application of HKAS 17 (amendment) has had no material impact on the Group's financial statements for the current and prior years.

- HKAS 36 (amendment), 'Impairment of assets', effective 1 January 2010. The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of HKFRS 8, 'Operating segments' (that is, before the aggregation of segments with similar economic characteristics). The amendment has no material impact on the Group's financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

2.1 Basis of preparation *(Cont'd)*

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

(a) New and amended standards adopted by the Group (Cont'd)

- Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* ('HK Int 5') clarifies that term loans that include a clause that gives the lender the unconditional right to call the loans at any time ('repayment on demand clause') should be classified by the borrower as current liabilities. The Group has applied HK Int 5 for the first time in the current year. HK Int 5 requires retrospective application.

  In order to comply with the requirements set out in HK Int 5, the Group has changed its accounting policy on classification of term loans with a repayment on demand clause. In the past, the classification of such term loans were determined based on the agreed scheduled repayment dates set out in the loan agreements. Under HK Int 5, term loans with a repayment on demand clause are classified as current liabilities.

  As a result, bank loan that contain a repayment on demand clause with the aggregate carrying amount of HK$75,000,000 and HK$70,292,000 has been reclassified from non-current liabilities to current liabilities as at 31 December 2009. At 31 December 2010, bank loans (that are repayable more than one year after the end of the reporting period but contain a repayment on demand clause) with the aggregate carrying amount of HK$105,119,000 have been classified as current liabilities. The application of HK Int 5 has had no impact on the reported profit or loss for the current and prior years.

  Effect of application of HK Int 5 on the consolidated balance sheet

	At 31 December 2010 HK$'000	At 31 December 2009 HK$'000	At 1 January 2009 HK$'000
Increase/(decrease) in			
Current liabilities			
Bank borrowings	**93,417**	70,292	–
Non-current liabilities			
Bank borrowings	**(93,417)**	(70,292)	–

  Such term loans have been presented in the earliest time band in the maturity analysis for financial liabilities (see Note 3.1 for details).

(b) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the Group (although they may affect the accounting for future transactions and events)

- HK(IFRIC) 17, 'Distribution of non-cash assets to owners' (effective on or after 1 July 2009). The interpretation was published in November 2008. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. HKFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

2.1 Basis of preparation *(Cont'd)*

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

(b) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the Group (although they may affect the accounting for future transactions and events) (Cont'd)

- HK(IFRIC) 18, 'Transfers of assets from customers', effective for transfer of assets received on or after 1 July 2009. This interpretation clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). In some cases, the entity receives cash from a customer that must be used only to acquire or construct the item of property, plant, and equipment in order to connect the customer to a network or provide the customer with ongoing access to a supply of goods or services (or to do both).

- HK(IFRIC) 9, 'Reassessment of embedded derivatives' and HKAS 39, 'Financial instruments: Recognition and measurement', effective 1 July 2009. This amendment to HK(IFRIC) 9 requires an entity to assess whether an embedded derivative should be separated from a host contract when the entity reclassifies a hybrid financial asset out of the 'fair value through profit or loss' category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. If the entity is unable to make this assessment, the hybrid instrument must remain classified as at fair value through profit or loss in its entirety.

- HK(IFRIC) 16, 'Hedges of a net investment in a foreign operation' effective 1 July 2009. This amendment states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the Group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of HKAS 39 that relate to a net investment hedge are satisfied. In particular, the Group should clearly document its hedging strategy because of the possibility of different designations at different levels of the Group.

- HKAS 38 (amendment), 'Intangible assets', effective 1 January 2010. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives.

- HKFRS 2 (amendments), 'Group cash-settled share-based payment transactions', effective from 1 January 2010. In addition to incorporating HK(IFRIC) 8, 'Scope of HKFRS 2', and HK(IFRIC) 11, 'HKFRS 2 – Group and treasury share transactions', the amendments expand on the guidance in HK(IFRIC) 11 to address the classification of group arrangements that were not covered by that interpretation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

2.1 Basis of preparation *(Cont'd)*

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

(b) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the Group (although they may affect the accounting for future transactions and events) (Cont'd)

- HKFRS 5 (amendment), 'Non-current assets held for sale and discontinued operations'. The amendment clarifies that HKFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of HKAS 1 still apply, in particular paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of HKAS 1.

(c) New standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 January 2010 and have not been early adopted

The Group's assessment of the impact of these new standards and interpretations is set out below:

- HKFRS 9, 'Financial instruments', issued in November 2009. This standard is the first step in the process to replace HKAS 39, 'Financial instruments: recognition and measurement'. HKFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the Group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. It is not expected to have any impact on the Group's financial statements.

- Revised HKAS 24 (revised), 'Related party disclosures', issued in November 2009. It supersedes HKAS 24, 'Related party disclosures', issued in 2003. HKAS 24 (revised) is mandatory for periods beginning on or after 1 January 2011. Earlier application, in whole or in part, is permitted.

  The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Group will apply the revised standard from 1 January 2011. When the revised standard is applied, the Group will need to disclose any transactions between its subsidiaries and its jointly-controlled entities. The Group is currently putting systems in place to capture the necessary information. It is, therefore, not possible at this stage to disclose the impact, if any, of the revised standard on the related party disclosures.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

2.1 Basis of preparation *(Cont'd)*

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

(c) New standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 January 2010 and have not been early adopted (Cont'd)

- 'Classification of rights issues' (amendment to HKAS 32), issued in October 2009. The amendment applies to annual periods beginning on or after 1 February 2010. Earlier application is permitted. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment applies retrospectively in accordance with HKAS 8 'Accounting policies, changes in accounting estimates and errors'. The Group will apply the amended standard from 1 January 2011.

- HK (IFRIC) – Int 19, 'Extinguishing financial liabilities with equity instruments', effective 1 July 2010. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. The Group will apply the interpretation from 1 January 2011. It is not expected to have any impact on the Group's financial statements.

- 'Prepayments of a minimum funding requirement' (amendments to HK (IFRIC) – Int 14). The amendments correct an unintended consequence of HK (IFRIC) – Int 14, 'HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when HK (IFRIC) – Int 14 was issued, and the amendments correct this. The amendments are effective for annual periods beginning 1 January 2011. Earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented. The Group will apply these amendments for the financial reporting period commencing on 1 January 2011.

- HKAS 12 (amendment), 'Income taxes'. The amendment provides an exception to the principles in the existing standard for measuring deferred tax assets or liabilities when investment property is measured at fair value. The amendment is effective for annual periods on or after 1 January 2012. This amendment is not expected to have a material impact on the Group's financial statements.

- Since October 2010, the HKICPA has published Amendments to HKFRS 7, 'Financial instruments: Disclosures on derecognition, Additions to HKFRS 9', 'Financial instruments - Classification and measurement' for financial liability accounting and Amendments to HKAS 12, 'Income taxes' on Deferred tax: Recovery of underlying assets. Management is in the process of making an assessment of their impact and is not yet in a position to state what impact, if any, they may have on the Group's financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

2.2 Consolidation

(a) Subsidiaries

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

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

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

(b) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

2.2 Consolidation *(Cont'd)*

(b) Transactions with non-controlling interests (Cont'd)

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

(c) Jointly-controlled entities

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

The Group's share of its jointly-controlled entities' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserve is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in a jointly-controlled entity equals or exceeds its interest in the jointly-controlled entity, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly-controlled entity.

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

Changes in accounting policy

The Group has changed its accounting policy for transactions with non-controlling interests and the accounting for loss of control or significant influence from 1 January 2010 when revised HKAS 27, 'Consolidated and separate financial statements', became effective. The revision to HKAS 27 contained consequential amendments to HKAS 28, 'Investments in associates', and HKAS 31, 'Interests in joint ventures'.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

2.2 Consolidation *(Cont'd)*

Changes in accounting policy *(Cont'd)*

Previously, transactions with non-controlling interests were treated as transactions with parties external to the Group. Disposals therefore resulted in gains or losses in profit or loss and purchases resulted in the recognition of goodwill. On disposal or partial disposal, a proportionate interest in reserves attributable to the subsidiary was reclassified to profit or loss or directly to retained earnings.

Previously, when the Group ceased to have control or significant influence over an entity, the carrying amount of the investment at the date control or significant influence became its cost for the purposes of subsequently accounting for the retained interests as associates, jointly controlled entity or financial assets.

The Group has applied the new policy prospectively to transactions occurring on or after 1 January 2010. As a consequence, no adjustments were necessary to any of the amounts previously recognised in the financial statements.

2.3 Segment reporting

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

2.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

2.4 Foreign currency translation *(Cont'd)*

(c) Group companies

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

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

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

- all resulting exchange differences are recognised in other comprehensive income.

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

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

2.5 Intangible assets

(a) CLO Contract

The acquired CLO Contract (Note 16) has a finite useful life and is carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of the CLO Contract over the period of the contract.

(b) Goodwill

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

2.5 Intangible assets *(Cont'd)*

(c) Development costs

Development costs are carried at cost less accumulated amortisation and any accumulated impairment losses.

Development costs represent all direct costs incurred by the Group in setting up systems and networks, including the cost of equipment, development cost and subcontracting expenditure. Such assets are recognised as intangible assets only if all of the following conditions are met:

- the technical feasibility of completing the asset so that it will be available for use or sale;
- the intention to complete the asset and use or sell it;
- the ability to use or sell the asset;
- how the asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the asset or the asset itself or, if it is to be used internally, the usefulness of the asset;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the asset; and
- the ability to measure reliably the expenditure attributable to the asset during its development.

Development costs that do not fulfill the above conditions are recognised as expenses in the period in which it is incurred. Development costs which are implemented for its intended use and fulfill the above conditions are amortised on a straight-line basis over their estimated useful lives.

2.6 Property, plant and equipment

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

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

Leasehold land classified as finance lease commences amortisation from the time when the land interest becomes available for its intended use. Amortisation on leasehold land classified as finance lease and depreciation on other assets is calculated, using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Leasehold land classified as finance lease	Shorter of remaining lease term or useful life
Buildings	2.5%
Lottery terminals leased to third parties under operating leases	20%
Leasehold improvements	20% – 50% (over the period of leases)
Plant and equipment	10% – 20%
Computer equipment and software	20% – 25%
Office equipment and furniture	10% – 25%
Motor vehicles	10% – 20%

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

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

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

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

2.8 Financial assets

2.8.1 Classification

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

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

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

2.8 Financial assets *(Cont'd)*

2.8.1 Classification *(Cont'd)*

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

(c) Available-for-sale financial assets

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

2.8.2 Recognition and measurement

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

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

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

2.9 Offsetting financial instruments

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

2.10 Impairment of financial assets

(a) Assets carried at amortised cost

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

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

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

The Group first assesses whether objective evidence of impairment exists.

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

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

(b) Assets classified as available-for-sale

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

Impairment testing of trade and other receivables is described in Note 2.13.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

2.11 Investment property

Investment property, principally comprising leasehold land and office buildings, is held for long-term rental yields and is not occupied by the Group. Investment property is initially measured at cost, including related transaction costs. After initial recognition at cost, investment properties are carried at fair value, representing open market value determined at each reporting date by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Changes in fair values are recorded in the income statement as part of a valuation gain or loss in other income.

2.12 Inventories

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

2.13 Trade and other receivables

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

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

2.14 Cash and cash equivalents

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

2.15 Share capital

Ordinary shares are classified as equity.

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

2.16 Trade payables

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

2.17 Borrowings

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

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

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

2.18 Compound financial instruments

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

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

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

2.19 Current and deferred income tax

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

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

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

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

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

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.20 Employee benefits

(a) Employee leave entitlements

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

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

(b) Bonus plans

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

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

(c) Retirement benefits

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

2.20 Employee benefits *(Cont'd)*

(d) Share-based compensation

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted, excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period).

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

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

(e) Termination benefits

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

2.21 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

2.22 Revenue recognition

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

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

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

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

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

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

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

2.23 Operating leases

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

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

3.1 Financial risk factors *(Cont'd)*

(a) Market risk

(i) Foreign exchange risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. Approximately 99% (2009: 97%) of the Group's turnover and approximately 100% (2009: 100%) of costs are denominated in the operating units' functional currency. The Group manages the foreign exchange exposure arising from its normal course of business activities and investments in foreign operations by funding its local operations and investments through cash flow generated from business transactions locally. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure closely and will consider hedging significant foreign currency exposure should the need arise.

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

	Increase/ (decrease) in RMB %	**Increase/ (decrease) in profit after income tax HK$'000**	**Increase/ (decrease) in equity HK$'000**
2010			
If Hong Kong dollar weakens against RMB	**5**	**3,318**	**12,483**
If Hong Kong dollar strengthens against RMB	**(5)**	**(3,315)**	**(11,301)**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

3.1 Financial risk factors *(Cont'd)*

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

(ii) Price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group is exposed to equity price risk arising from individual equity investments classified as available-for-sale (Note 20) and at fair value through profit or loss (Note 24) as at 31 December 2010.

The following tables demonstrate the sensitivity to 5% increase/decrease in the fair values of the equity investments with all other variables held constant and after any impact on tax, based on their carrying amounts at the end of the reporting period.

	Increase/ (decrease) in carrying amount of equity investments HK$'000	**Increase/ (decrease) in profit after income tax HK$'000**	**Increase/ (decrease) in equity HK$'000**
2010			
5% increase in equity price	**8,058**	**4,613**	**8,058**
5% decrease in equity price	**(8,058)**	**(4,613)**	**(8,058)**

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

(iii) Cash flow and fair value interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate borrowings arising from liability component of convertible note (Note 29). The Group has not hedged its exposure to fair value interest rate risk, as the management considers the risk is insignificant to the Group.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate borrowings (Note 28). It is the Group's policy to keep its borrowings at floating rate of interest so as to minimise the fair value interest risk. The Group cash flow interest rate risk is mainly concentrated on the fluctuation of HIBOR arising from the Group's Hong Kong dollar denominated borrowings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

3.1 Financial risk factors *(Cont'd)*

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

(iii) Cash flow and fair value interest rate risk (Cont'd)

The following tables demonstrate the sensitivity to 5% increase/decrease in interest rates, with all other variables held constant, of the Group's profit/(loss) after tax (through the impact on floating rate borrowings) and the Group's equity.

	Increase/ (decrease) in interest rate %	**Increase/ (decrease) in profit after income tax HK$'000**	**Increase/ (decrease) in equity HK$'000**
2010			
Hong Kong dollar	**5**	**(63)**	**(63)**
Hong Kong dollar	**(5)**	**63**	**63**

	Increase/ (decrease) in interest rate %	Decrease/ (increase) in loss after income tax HK$'000	Increase/ (decrease) in equity HK$'000
2009			
Hong Kong dollar	5	(32)	(32)
Hong Kong dollar	(5)	32	32

(b) ***Credit risk***

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

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

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. At the end of the reporting period, the Group has certain concentrations of credit risk as 77% (2009: 74%) and 100% (2009: 100%) of the Group's accounts receivable were due from the Group's largest customer and the five largest customers, respectively.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

3.1 Financial risk factors *(Cont'd)*

(c) Liquidity risk

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

The following tables detail the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other financial liabilities are based on the agreed repayment dates.

	Carrying amount as per consolidated balance sheet HK$'000	**Total contractual undiscounted cash flows HK$'000**	**On demand or within 1 year HK$'000**	**More than 1 year but less than 5 years HK$'000**	**More than 5 years HK$'000**
2010					
Accounts payable	**2,656**	**2,656**	**2,656**	**–**	**–**
Accruals and other payables	**9,719**	**9,719**	**9,719**	**–**	**–**
Amount due to a jointly-controlled entity	**24,594**	**24,594**	**24,594**	**–**	**–**
Convertible note	**145,752**	**166,250**	**95,000**	**71,250**	**–**
Bank borrowings	**105,119**	**111,596**	**111,596**	**–**	**–**
	287,840	**314,815**	**243,565**	**71,250**	**–**

	Carrying amount as per consolidated balance sheet HK$'000 (restated)	Total contractual undiscounted cash flows HK$'000 (restated)	On demand or within 1 year HK$'000 (restated)	More than 1 year but less than 5 years HK$'000 (restated)	More than 5 years HK$'000 (restated)
2009					
Accounts payable	13,864	13,864	13,864	–	–
Accruals and other payables	10,327	10,327	10,327	–	–
Amount due to a jointly-controlled entity	26,302	26,302	26,302	–	–
Convertible note	588,780	755,032	–	–	755,032
Bank borrowings	75,000	79,339	79,339	–	–
	714,273	884,864	129,832	–	755,032

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

3.1 Financial risk factors *(Cont'd)*

(c) Liquidity risk (Cont'd)

Bank loans with a repayment on demand clause are included in the "on demand or within 1 year" time band in the above maturity analysis. At 31 December 2010 and 31 December 2009, the aggregate undiscounted principal amounts of these bank loans amounted to HK$111,596,000 and HK$79,339,000 respectively. Taking into account the Group's financial position, the directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors believe that such bank loans will be repaid 5 years and 14 years after the reporting date in accordance with the scheduled repayment dates set out in the loan agreements.

3.2 Capital risk management

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

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

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

The debt-to-adjusted capital ratios at 31 December 2010 and 2009 are as follows:

	2010	2009
	HK$'000	HK$'000
Total debt	**144,193**	128,619
Convertible note *(Note 29)*	**145,752**	588,780
Total equity	**1,086,379**	925,687
Adjusted capital	**1,232,131**	1,514,467
Debt-to-adjusted capital ratio	**11.7%**	8.5%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

3.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

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

The following table presents the Group's assets that are measured at fair value at 31 December 2010.

	Level 1 HK$'000	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
Assets				
Available-for-sale financial assets				
– Unlisted equity investment	**–**	**68,910**	**–**	**68,910**
Financial assets at fair value through profit or loss				
– Unlisted equity investment	**–**	**92,258**	**–**	**92,258**
Total assets	**–**	**161,168**	**–**	**161,168**

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

3.3 Fair value estimation *(Cont'd)*

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

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

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

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.

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

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

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

There were no significant transfers of financial assets between level 1 and level 2 fair value hierarchy classifications.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

3.3 Fair value estimation *(Cont'd)*

The following table presents the changes in level 3 instruments for the year ended 31 December 2010.

	Early redemption option embedded in convertible note at fair value HK$'000	**Redemption option held by a noteholder embedded in convertible note at fair value HK$'000**	**Total HK$'000**
Opening balance	**368,710**	**(284,282)**	**84,428**
Eliminated upon redemption of convertible note	**(368,710)**	**284,282**	**(84,428)**
Closing balance	**–**	**–**	**–**
Total gains or losses for the year including in profit or loss for assets and liabilities held at the end of the year	**–**	**–**	**–**

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

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

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

5. TURNOVER AND SEGMENT INFORMATION

The Group is a technology and service provider of lottery systems, terminal equipment, game products and marketing operation to the public welfare lottery industry in China. The principal businesses of the Group cover traditional CTG, high frequency lottery, video lottery and new media lottery. An analysis of the Group's turnover for the year is as follows:

	2010	2009
	HK$'000	HK$'000
Turnover		
Income from provision of lottery terminals	**268,372**	66,093
Income from sales of equipment	**12,198**	17,466
Income from provision of consultancy services	**2,007**	1,019
	282,577	84,578

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

Segment information

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

Geographical information

(a) *Revenue from external customers*

	2010	2009
	HK$'000	HK$'000
People's Republic of China ("PRC")	**282,008**	84,578
Russia	**569**	–
	282,577	84,578

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

(b) *Non-current assets*

	2010	2009
	HK$'000	HK$'000
PRC	**593,214**	578,960
Hong Kong	**140,909**	143,820
	734,123	722,780

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

Information about major customers

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

	2010	2009
	HK$'000	HK$'000
Customer A	**51,407**	39,546
Customer B	**216,129**	26,409
Customer C	**6,191**	9,932

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

6. OTHER INCOME AND GAINS

	2010 HK$'000	2009 HK$'000
Fair value gains/(losses), net:		
– Financial assets at fair value through profit or loss (held for trading)	**13,517**	17,418
– Early redemption option embedded in convertible note at fair value	**–**	121,919
– Redemption option held by a noteholder embedded in convertible note at fair value	**–**	(92,650)
	13,517	46,687
Interest income from bank deposits	**2,325**	5,994
Dividend income on financial assets at fair value through profit or loss	**–**	1,161
Fair value gain on investment property *(Note 15)*	**–**	13,000
Gain on disposal of property, plant and equipment	**367**	–
Rental income	**256**	672
Reversal of impairment on other receivables	**–**	744
	16,465	68,258

7. OPERATING PROFIT/(LOSS)

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

	2010 HK$'000	2009 HK$'000
Costs of sales and services		
– Depreciation of lottery terminals	**35,239**	26,459
– Business tax	**13,789**	3,412
– Cost of inventories recognised as expense	**5,819**	7,636
– Repairs and maintenance	**3,374**	5,244
– Other costs of sales and services	**4,016**	4,825
	62,237	47,576
Loss on disposal of property, plant and equipment	**–**	3,194
Operating lease rentals in respect of land and buildings	**6,206**	6,903
Auditors' remuneration		
– Provision for the year	**693**	630
– Underprovision in prior year	**–**	30
Amortisation of intangible assets		
– CLO Contract *(included in general and administrative expenses) (Note 16)*	**6,528**	6,528
Depreciation of other items of property, plant and equipment	**6,914**	4,123
Foreign exchange differences, net	**(5,498)**	261

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

8. FINANCE COSTS

	2010 HK$'000	2009 HK$'000
Interest expense on bank borrowings wholly repayable within five years	**693**	–
Imputed interest expense on convertible note *(Note 29)*	**25,864**	26,423
	26,557	26,423
Less: Imputed interest expense on redeemed convertible note	**(20,748)**	(26,423)
	5,809	–

9. INCOME TAX

Hong Kong Profits Tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profit for the year. No provision for Hong Kong Profits Tax has been made for the years ended 31 December 2009 and 2010 as the Group had no assessable profits arising in or derived from Hong Kong for both years. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

	2010 HK$'000	2009 HK$'000
Current tax		
– PRC Enterprise Income Tax	**37,677**	4,180
– Adjustments in respect of prior years	**341**	(880)
Total current tax	**38,018**	3,300
Deferred tax *(Note 30)*		
– Origination and reversal of temporary differences	**(4,541)**	1,730
	33,477	5,030

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

	2010 HK$'000	2009 HK$'000
Profit/(Loss) before income tax	**250,221**	(82,722)
Tax calculated at the applicable tax rate of 16.5% (2009: 16.5%)	**41,286**	(13,649)
Income not subject to tax	**(27,883)**	(9,186)
Expenses not deductible for tax purposes	**18,906**	31,330
Utilisation of previously unrecognised tax losses	**(424)**	(2,735)
Tax losses which no deferred income tax asset was recognised	**546**	323
Adjustments in respect of prior years	**341**	(880)
Others	**705**	(173)
Tax charge	**33,477**	5,030

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

10. PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of approximately HK$85,379,000 (2009: loss of approximately HK$123,204,000).

11. EARNINGS/(LOSS) PER SHARE

(a) Basic

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

	2010	2009
Profit/(Loss) attributable to equity holders of the Company *(HK$'000)*	**152,254**	(81,596)
Weighted average number of ordinary shares in issue	**7,402,164,000**	7,402,164,000
Basic earnings/(loss) per share	**2.06 HK cents**	(1.10) HK cents

(b) Diluted

Diluted earnings/(loss) per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

	2010	2009
Profit/(Loss) attributable to equity holders of the Company *(HK$'000)*	**152,254**	(81,596)
Weighted average number of ordinary shares in issue	**7,402,164,000**	7,402,164,000
Effect of dilutive potential ordinary shares: – Share options	**7,726,425**	–
Weighted average number of ordinary shares for diluted earnings/(loss) per share	**7,409,890,425**	7,402,164,000
Diluted earnings/(loss) per share	**2.05 HK cents**	(1.10) HK cents

The computation of diluted earnings/(loss) per share has not assumed the conversion of convertible note since its conversion would result in an increase/a decrease in earnings/(loss) per share.

The computation of diluted loss per share for the year ended 31 December 2009 has not assumed the exercise of share options because their exercise would reduce the loss per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

12. STAFF COSTS

Staff costs (including directors' emoluments) comprise:

	2010 HK$'000	2009 HK$'000
Wages and salaries	**54,827**	59,915
Employee share option benefits	**9,442**	10,389
Social security costs	**2,214**	2,489
Pension costs – defined contribution plans	**957**	839
Other staff welfare	**1,390**	1,206
	68,830	74,838

13. COMPENSATION TO KEY MANAGEMENT PERSONNEL

	2010 HK$'000	2009 HK$'000
Short-term employee benefits	**30,382**	26,737
Post-employment benefits	**336**	275
Employee share option benefits	**3,870**	2,207
	34,588	29,219

(a) Directors' emoluments

The remuneration of every director of the Company for the year ended 31 December 2010 is set out below:

Name of director	Fees HK$'000	Salaries and allowance HK$'000	Benefits in kind HK$'000	Discretionary bonuses HK$'000	Employee share option benefits HK$'000	Employer's contributions to pension scheme HK$'000	Total HK$'000
Executive directors							
Ms. Lau Ting	–	6,500	2,016	2,600	9	300	11,425
Mr. Chan Shing	–	4,784	–	74	9	12	4,879
Mr. Wu Jingwei	–	3,949	–	2,561	1,521	12	8,043
Mr. Liao Yuang-whang	–	3,855	–	2,560	1,884	12	8,311
Non-executive directors							
Mr. Paulus Johannes Cornelis Aloysius Karskens *(Note (i))*	–	–	–	–	–	–	–
Mr. Hoong Cheong Thard	420	–	–	4	429	–	853
Independent non-executive directors							
Mr. Huang Shenglan	540	–	–	6	9	–	555
Mr. Chan Ming Fai	265	–	–	4	9	–	278
Mr. Cui Shuming	240	–	–	4	–	–	244
	1,465	19,088	2,016	7,813	3,870	336	34,588

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

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

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

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

Notes:

(i) Resigned on 27 September 2010.

(ii) During the year ended 31 December 2009, Mr. Paulus Johannes Cornelis Aloysius Karskens waived emoluments of approximately HK$360,000.

(iii) None of the directors of the Company waived or agreed to waive any emoluments during the year ended 31 December 2010.

During the year ended 31 December 2010, the Company did not grant any share options to the directors of the Company. During the year ended 31 December 2009, 45,600,000 share options were granted to certain directors of the Company under the Company's share option scheme.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group during the year ended 31 December 2010 included four (2009: four) directors of the Company, whose emoluments are set out above. The emoluments payable to the remaining one non-director, highest paid individual for the year ended 31 December 2010 are as follows:

	2010 **HK$'000**	2009 HK$'000
Basic salaries, other allowances and benefits in kind	**1,300**	939
Discretionary bonuses	**20**	32
Employee share option benefits	**–**	586
Employer's contributions to pension schemes	**60**	12
	1,380	1,569

(c) During the year ended 31 December 2010, no emoluments were paid by the Group to the directors of the Company and the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office (2009: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

14. PROPERTY, PLANT AND EQUIPMENT

	Group									
	Leasehold land held for own use under finance lease	Buildings	Lottery terminals leased to third parties under operating leases	Lottery terminals under construction	Leasehold improvements	Plant and equipment	Computer equipment and software	Office equipment and furniture	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2009										
Cost	–	–	176,231	11,369	9,438	5,706	7,660	3,379	3,848	217,631
Accumulated depreciation	–	–	(92,266)	–	(1,274)	(1,116)	(5,882)	(1,787)	(1,043)	(103,368)
Net book amount	–	–	83,965	11,369	8,164	4,590	1,778	1,592	2,805	114,263
Year ended 31 December 2009										
Opening net book amount	–	–	83,965	11,369	8,164	4,590	1,778	1,592	2,805	114,263
Additions	–	909	–	42,947	212	1,739	4,328	374	1,151	51,660
Transfers	–	–	250	(250)	–	–	–	–	–	–
Disposals	–	–	–	–	(1,216)	(3,234)	–	(11)	(5)	(4,466)
Depreciation	–	(25)	(26,459)	–	(1,978)	(343)	(692)	(582)	(808)	(30,887)
Closing net book amount	–	884	57,756	54,066	5,182	2,752	5,414	1,373	3,143	130,570
At 31 December 2009										
Cost	–	909	176,481	54,066	8,434	4,188	11,988	3,728	4,897	264,691
Accumulated depreciation	–	(25)	(118,725)	–	(3,252)	(1,436)	(6,574)	(2,355)	(1,754)	(134,121)
Net book amount	–	884	57,756	54,066	5,182	2,752	5,414	1,373	3,143	130,570
Year ended 31 December 2010										
Opening net book amount	**–**	**884**	**57,756**	**54,066**	**5,182**	**2,752**	**5,414**	**1,373**	**3,143**	**130,570**
Exchange differences	**–**	**35**	**1,662**	**2,240**	**78**	**102**	**195**	**29**	**92**	**4,433**
Additions	**–**	**–**	**–**	**36,445**	**280**	**4**	**108**	**149**	**805**	**37,791**
Transfers	**–**	**–**	**69,583**	**(69,583)**	**–**	**–**	**–**	**–**	**–**	**–**
Transfer from investment property	**131,900**	**8,100**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**140,000**
Depreciation	**(1,549)**	**(162)**	**(35,239)**	**–**	**(2,035)**	**(621)**	**(1,365)**	**(506)**	**(979)**	**(42,456)**
Closing net book amount	**130,351**	**8,857**	**93,762**	**23,168**	**3,505**	**2,237**	**4,352**	**1,045**	**3,061**	**270,338**
At 31 December 2010										
Cost	**131,900**	**9,046**	**208,234**	**23,168**	**8,881**	**4,365**	**12,373**	**3,832**	**5,879**	**407,678**
Accumulated depreciation	**(1,549)**	**(189)**	**(114,472)**	**–**	**(5,376)**	**(2,128)**	**(8,021)**	**(2,787)**	**(2,818)**	**(137,340)**
Net book amount	**130,351**	**8,857**	**93,762**	**23,168**	**3,505**	**2,237**	**4,352**	**1,045**	**3,061**	**270,338**

Notes:

(i) Depreciation of lottery terminals leased to third parties under operating leases of approximately HK$35,239,000 (2009: HK$26,459,000) has been charged in costs of sales and services. Depreciation of approximately HK$303,000 (2009: HK$305,000) has been capitalised in lottery terminals under construction. Depreciation of other items of property, plant and equipment of approximately HK$6,914,000 (2009: HK$4,123,000) has been charged in general and administrative expenses.

(ii) The Group's leasehold land held for own use with a carrying amount of approximately HK$130,351,000 (31 December 2009: Nil) is held on long-term lease in Hong Kong.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

	Company			
	Leasehold improvements	Computer equipment and software	Office equipment and furniture	Total
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2009				
Cost	160	120	576	856
Accumulated depreciation	(13)	(63)	(300)	(376)
Net book amount	147	57	276	480
Year ended 31 December 2009				
Opening net book amount	147	57	276	480
Additions	100	–	–	100
Depreciation	(56)	(24)	(115)	(195)
Closing net book amount	191	33	161	385
At 31 December 2009				
Cost	260	120	576	956
Accumulated depreciation	(69)	(87)	(415)	(571)
Net book amount	191	33	161	385
Year ended 31 December 2010				
Opening net book amount	**191**	**33**	**161**	**385**
Depreciation	**(52)**	**(24)**	**(115)**	**(191)**
Closing net book amount	**139**	**9**	**46**	**194**
At 31 December 2010				
Cost	**260**	**120**	**576**	**956**
Accumulated depreciation	**(121)**	**(111)**	**(530)**	**(762)**
Net book amount	**139**	**9**	**46**	**194**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

15. INVESTMENT PROPERTY

	Group	
	2010	2009
	HK$'000	HK$'000
At 1 January	**140,000**	127,000
Fair value gain *(Note 6)*	**–**	13,000
Transfer to owner-occupied property	**(140,000)**	–
At 31 December	**–**	140,000

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

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

	2010	2009
	HK$'000	HK$'000
Rental income	**256**	672
Direct operating expenses arising from investment property that generate rental income	**215**	393

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

	Group	
	At 31 December 2010	At 31 December 2009
	HK$'000	HK$'000
In Hong Kong held on:		
Leases of over 50 years	**–**	140,000

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

	Group	
	At 31 December 2010	At 31 December 2009
	HK$'000	HK$'000
Not later than 1 year	**–**	576
Later than 1 year and no later than 5 years	**–**	144
	–	720

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For the year ended 31 December 2010

16. INTANGIBLE ASSETS

	Group			
	Goodwill	**CLO Contract**	**Development costs**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2009				
Cost	1,149,447	60,382	–	1,209,829
Accumulated amortisation and impairment	(854,725)	(17,951)	–	(872,676)
Net book amount	294,722	42,431	–	337,153
Year ended 31 December 2009				
Opening net book amount	294,722	42,431	–	337,153
Amortisation charge *(Note (i))*	–	(6,528)	–	(6,528)
Closing net book amount	294,722	35,903	–	330,625
At 31 December 2009				
Cost	1,149,447	60,382	–	1,209,829
Accumulated amortisation and impairment	(854,725)	(24,479)	–	(879,204)
Net book amount	294,722	35,903	–	330,625
Year ended 31 December 2010				
Opening net book amount	**294,722**	**35,903**	**–**	**330,625**
Additions	**–**	**–**	**27,447**	**27,447**
Amortisation charge *(Note (i))*	**–**	**(6,528)**	**–**	**(6,528)**
Closing net book amount	**294,722**	**29,375**	**27,447**	**351,544**
At 31 December 2010				
Cost	**1,149,447**	**60,382**	**27,447**	**1,237,276**
Accumulated amortisation and impairment	**(854,725)**	**(31,007)**	**–**	**(885,732)**
Net book amount	**294,722**	**29,375**	**27,447**	**351,544**

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16. INTANGIBLE ASSETS *(Cont'd)*

Notes:

(i) Amortisation of the CLO Contract of approximately HK$6,528,000 for the year ended 31 December 2010 is included in general and administrative expenses (2009: HK$6,528,000).

(ii) Development costs include all direct costs incurred in the setting up and development of systems and networks. The development costs for systems and networks are not yet implemented for intended use.

(iii) Impairment tests of goodwill

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

	At 31 December 2010 HK$'000	At 31 December 2009 HK$'000
Provision of video lottery terminals ("VLT")	**95,319**	95,319
Provision of traditional computer lottery system and equipment	**199,403**	199,403
Provision of internet information services	**–**	–
	294,722	294,722

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

(a) Provision of VLT

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

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

After the enhancement measures which lasted about one year and a half, approval was obtained from government regulatory authorities for the launch of four new games from July 2009. The Group's VLT business was recovered strongly after the launch of new games.

The recoverable amount of goodwill allocated to the CGU of provision of VLT at 31 December 2010 has been reassessed and no impairment has been recognised in respect of goodwill for the year ended 31 December 2010 (2009: Nil).

The value-in-use calculation uses pre-tax cash flow projections based on financial budgets approved by management covering a 5-year period. The key assumptions used for the cash flow projections include the average number of VLT connected and the daily turnover of each VLT during each of the forecasting periods, which are determined by management based on past performance and its expectation of market development. All cash flows are discounted at a discount rate of 14.65%, which reflects the specific risks relating to this CGU.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

16. INTANGIBLE ASSETS *(Cont'd)*

Notes: (Cont'd)

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

(b) Provision of traditional computer lottery system and equipment

The value-in-use calculation uses pre-tax cash flow projections based on financial budgets approved by management covering a 5-year period. The key assumptions used for the cash flow projections include the budgeted turnover and expenses during each of the forecasting periods, which are determined by management based on past performance and its expectation of market development. All cash flows are discounted at a discount rate of 14.65%, which reflects the specific risks relating to this CGU. No impairment loss has been recognised in respect of goodwill for the year ended 31 December 2010 as the recoverable amount exceeded the carrying amount (2009: Nil).

(c) Provision of internet information services

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

17. INVESTMENTS IN AND AMOUNTS DUE FROM/TO SUBSIDIARIES

	Company	
	2010	2009
	HK$'000	HK$'000
Unlisted shares, at cost	**9**	23,918
Provision for impairment	**–**	(10,000)
	9	13,918

The amounts due from/to subsidiaries as shown on the Company's balance sheet are unsecured, interest-free and repayable on demand. A provision for impairment against the amounts due from subsidiaries of approximately HK$823,000,000 (31 December 2009: HK$763,000,000) was recognised as at 31 December 2010 as the recoverable amounts of the amounts due from subsidiaries with reference to the net asset value of respective subsidiaries were estimated to be less than their carrying amounts. Accordingly, the carrying amounts of the amounts due from subsidiaries were reduced to their recoverable amounts.

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For the year ended 31 December 2010

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

The following is a list of the principal subsidiaries at 31 December 2010:

Name	Place of incorporation/ establishment, kind of legal entity *(Note (x))*	Particulars of issued share capital/ registered capital	Interest held	Principal activities
Held directly:				
China LotSynergy Limited	British Virgin Islands, Limited liability company	United States dollars ("US$") 100	100%	Investment holding
Flynn Technology Limited	British Virgin Islands, Limited liability company	US$1,000	100%	Investment holding
Onwealth Holdings Limited	British Virgin Islands, Limited liability company	US$1	100%	Investment holding
Held indirectly:				
Century Worldwide Limited	Hong Kong, Limited liability company	HK$1	75%	Investment holding
Champ Mark Investments Limited ("CMIL")	British Virgin Islands, Limited liability company	3,600 issued shares of no par value	100%	Investment holding
Champ Technology Limited ("CTL")	Hong Kong, Limited liability company	HK$1	100%	Investment holding
China LotSynergy Limited	Hong Kong, Limited liability company	US$500,000	100%	Investment holding and provision of management service

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For the year ended 31 December 2010

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

Name	Place of incorporation/ establishment, kind of legal entity *(Note (x))*	Particulars of issued share capital/ registered capital	Interest held	Principal activities
Held indirectly: (Cont'd)				
China LotSynergy Asset Management Limited	Hong Kong, Limited liability company	US$2	100%	Treasury management
China LotSynergy Development Limited	Hong Kong, Limited liability company	HK$1	100%	Investment holding
China LotSynergy Group Limited ("CLG")	Hong Kong, Limited liability company	HK$1	100%	Investment holding
Corich International Limited ("Corich")	British Virgin Islands, Limited liability company	US$2,000,000	50% *(Note (xi))*	Investment holding
East Grand Enterprises Limited	Hong Kong, Limited liability company	HK$1	50% *(Note (xi))*	Investment holding
Globe Team Limited	Hong Kong, Limited liability company	HK$1	75%	Investment holding
Goldwide Limited	Hong Kong, Limited liability company	HK$1	100%	Investment holding
Lottnal Holdings Limited ("LHL")	Hong Kong, Limited liability company	US$350,000	80%	Investment holding
Plan Wise Limited	British Virgin Islands, Limited liability company	US$100	75%	Investment holding
Sheen Light Limited	British Virgin Islands, Limited liability company	US$100	75%	Investment holding
Upmax Investments Limited	British Virgin Islands, Limited liability company	US$1	100%	Investment holding

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

Name	Place of incorporation/ establishment, kind of legal entity *(Note (x))*	Particulars of issued share capital/ registered capital	Interest held	Principal activities
Held indirectly: (Cont'd)				
Willstrong Investments Limited	British Virgin Islands, Limited liability company	US$1	80%	Provision of lottery system and equipment
東莞天意 *(Note (i))*	PRC, Wholly foreign owned enterprise	HK$8,000,000	50% *(Note (xi))*	Provision of VLT
北京靈彩科技有限公司 ("北京靈彩") *(Note (ii))*	PRC, Wholly foreign owned enterprise	HK$1,200,000	50% *(Note (xi))*	Research and development of lottery system and equipment in the PRC
廣州洛圖終端技術有限公司 (Guangzhou Lottnal Terminal Company Limited) ("GZL") *(Note (iii))*	PRC, Wholly foreign owned enterprise	US$350,000	80%	Research and development and manufacturing of lottery ticket scanners and terminal equipment in the PRC and overseas
廣州市三環永新科技有限公司 (Guangzhou San Huan Yong Xin Technology Company Limited) ("GZSH") *(Note (iv))*	PRC, Sino-foreign equity joint venture enterprise	RMB10,000,000	80%	Provision of lottery system and equipment in the PRC
華彩之家科技發展(北京)有限公司 ("華彩之家") *(Note (v))*	PRC, Wholly foreign owned enterprise	HK$10,000,000	75%	Research and development of lottery system and equipment in the PRC
華彩世紀科技發展(北京)有限公司 ("華彩世紀") *(Note (vi))*	PRC, Wholly foreign owned enterprise	HK$10,000,000	75%	Research and development of lottery system and equipment in the PRC
網人互聯 *(Note (vii))*	PRC, Limited liability company	RMB50,000,000	75%	Provision of internet information services
北京華彩贏通科技有限公司 ("華彩贏通") *(Note (viii))*	PRC, Limited liability company	RMB50,000,000	75%	Research and development of lottery system and equipment in the PRC
北京贏彩通科技有限公司 ("贏彩通") *(Note (ix))*	PRC, Limited liability company	RMB5,000,000	75%	Research and development of lottery system and equipment in the PRC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

Notes:

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

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

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

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

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

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

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

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

(ix) 贏彩通 is a limited liability company established in the PRC to be operated for a period of 20 years up to 2030. The equity interest is held by individual nominees on behalf of the Group.

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

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

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

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

	Group	
	2010	2009
	HK$'000	HK$'000
At 1 January	**116,738**	80,184
Capital contribution	**–**	47,482
Share of losses	**(12,408)**	(11,198)
Exchange difference	**3,824**	270
At 31 December	**108,154**	116,738

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For the year ended 31 December 2010

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

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

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

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

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

	At 31 December 2010 HK$'000	At 31 December 2009 HK$'000	At 1 January 2009 HK$'000
Share of the jointly-controlled entities' assets and liabilities:			
Non-current assets	**20,835**	24,319	26,228
Current assets	**79,205**	82,851	55,136
Current liabilities	**(5,253)**	(3,799)	(14,547)
Net assets	**94,787**	103,371	66,817

	Year ended 31 December 2010 HK$'000	Year ended 31 December 2009 HK$'000
Share of the jointly-controlled entities' results:		
Revenue	**1,793**	833
Total expenses	**(14,201)**	(12,031)
Results	**(12,408)**	(11,198)

Notes:

(i) At 31 December 2010, the Group was committed to contribute to the capital of IGT Synergy Holding Limited in the amount of approximately US$7,070,000 (equivalent to approximately HK$55,146,000) (31 December 2009: US$7,070,000, equivalent to approximately HK$55,146,000).

(ii) At 31 December 2010, the Group was committed to contribute to the capital of Asiatic Group Limited in the amount of approximately US$1,343,000 (equivalent to approximately HK$10,472,000) (31 December 2009: US$1,343,000, equivalent to approximately HK$10,472,000).

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19. FINANCIAL INSTRUMENTS BY CATEGORY

	Loans and receivables HK$'000	**Financial assets at fair value through profit or loss (held for trading) HK$'000**	**Available-for-sale financial assets HK$'000**	**Total HK$'000**
2010				
Financial assets as per consolidated balance sheet				
Available-for-sale financial assets	**–**	**–**	**68,910**	**68,910**
Accounts receivable	**103,042**	**–**	**–**	**103,042**
Deposits and other receivables	**18,569**	**–**	**–**	**18,569**
Amount due from a jointly-controlled entity	**411**	**–**	**–**	**411**
Amounts due from related companies	**21,564**	**–**	**–**	**21,564**
Financial assets at fair value through profit or loss	**–**	**92,258**	**–**	**92,258**
Cash and bank balances	**347,612**	**–**	**–**	**347,612**
	491,198	**92,258**	**68,910**	**652,366**

	Financial liabilities at amortised cost HK$'000
2010	
Financial liabilities as per consolidated balance sheet	
Accounts payable	**2,656**
Accruals and other payables	**9,719**
Amount due to a jointly-controlled entity	**24,594**
Convertible note	**145,752**
Bank borrowings	**105,119**
	287,840

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

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

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

20. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group	
	2010	2009
	HK$'000	HK$'000
At 1 January	**49,829**	33,940
Net gain transfer to equity *(Note 33)*	**19,081**	15,889
At 31 December	**68,910**	49,829

Available-for-sale financial assets including the following:

		Group	
	At 31 December 2010	At 31 December 2009	At 1 January 2009
	HK$'000	HK$'000	HK$'000
Unlisted equity investment, at fair value	**68,910**	49,829	33,940

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

Available-for-sale financial asset is denominated in United States dollars.

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21. INVENTORIES

	Group		
	At 31 December 2010 HK$'000	At 31 December 2009 HK$'000	At 1 January 2009 HK$'000
Raw materials	**7,431**	4,823	11,153
Work in progress	**444**	8,321	196
Finished goods	**12,789**	5,197	3,634
	20,664	18,341	14,983
Provision	**(1,414)**	(1,358)	(1,358)
	19,250	16,983	13,625

22. ACCOUNTS RECEIVABLE

Income from provision of lottery terminals is billed on a monthly basis and is due 15 to 30 days after month-end. Income from sales of equipment is billed upon the delivery of products and with credit periods ranging from 30 to 180 days. Income from provision of maintenance services is billed on a monthly or yearly basis and is due 30 days after the invoice date. At 31 December 2010, the ageing analysis of the accounts receivable is as follows:

	Group		
	At 31 December 2010 HK$'000	At 31 December 2009 HK$'000	At 1 January 2009 HK$'000
Less than 3 months	**84,839**	23,558	12,634
Over 3 months but less than 1 year	**16,312**	1,832	1,426
Over 1 year	**1,891**	–	–
	103,042	25,390	14,060

Of the total accounts receivable outstanding at 31 December 2010, total amount of approximately HK$68,325,000 have been subsequently collected up to the date of approval of these financial statements. None of the Group's accounts receivable at the end of the reporting period were impaired. As of 31 December 2010, accounts receivables of approximately HK$67,600,000 (31 December 2009: HK$14,094,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these accounts receivables is as follows:

	Group	
	At 31 December 2010 HK$'000	At 31 December 2009 HK$'000
Less than 3 months	**50,240**	14,094
Over 3 months but less than 1 year	**17,073**	–
Over 1 year	**287**	–
	67,600	14,094

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For the year ended 31 December 2010

22. ACCOUNTS RECEIVABLE *(Cont'd)*

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

	Group		
	At 31 December 2010 HK$'000	At 31 December 2009 HK$'000	At 1 January 2009 HK$'000
HK$	**21**	–	–
RMB	**103,021**	25,390	8,604
US$	**–**	–	5,456
	103,042	25,390	14,060

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

23. AMOUNTS DUE FROM RELATED COMPANIES

The balance represents amounts due from subsidiaries of Burwill Holdings Limited, a company in which Ms. Lau Ting and Mr. Chan Shing, the directors of the Company have beneficial interests. The amounts due are unsecured, interest-free and repayable on demand. The maximum amount outstanding during the year was approximately HK$23,315,000 (2009: HK$23,363,000).

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group			Company	
	At 31 December 2010 HK$'000	At 31 December 2009 HK$'000	At 1 January 2009 HK$'000	**At 31 December 2010 HK$'000**	At 31 December 2009 HK$'000
Listed securities:					
– Equity securities – Hong Kong	**–**	–	37,975	**–**	–
– Equity securities – Elsewhere	**–**	–	7,419	**–**	–
Unlisted equity investment	**92,258**	78,741	–	**–**	–
Early redemption option embedded in convertible note at fair value	**–**	368,710	246,791	**–**	368,710
	92,258	447,451	292,185	**–**	368,710
Market value of listed securities	**–**	–	45,394	**–**	–

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

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

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For the year ended 31 December 2010

25. CASH AND BANK BALANCES

	Group			Company	
	At 31 December 2010 HK$'000	At 31 December 2009 HK$'000	At 1 January 2009 HK$'000	**At 31 December 2010 HK$'000**	At 31 December 2009 HK$'000
Cash at bank and in hand	**209,681**	224,566	82,519	**264**	56
Short-term bank deposits	**137,931**	408,127	665,162	**–**	–
Maximum exposure to credit risk	**347,612**	632,693	747,681	**264**	56
Less: Short-term bank deposits with maturity more than three months	**(33,136)**	(34,316)	(53,409)	**–**	–
Cash and cash equivalents	**314,476**	598,377	694,272	**264**	56

At 31 December 2010, the Group had cash and bank balances of approximately HK$221,144,000 (31 December 2009: HK$109,561,000) which are denominated in RMB. The remittance of these funds out of the PRC is subject to the exchange control restrictions imposed by the PRC government.

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

26. ACCOUNTS PAYABLE

At 31 December 2010, the ageing analysis of the accounts payable is as follows:

	Group		
	At 31 December 2010 HK$'000	At 31 December 2009 HK$'000	At 1 January 2009 HK$'000
Less than 3 months	**2,267**	13,641	2,308
Over 3 months but less than 1 year	**360**	223	741
Over 1 year	**29**	–	1,598
	2,656	13,864	4,647

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

27. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group and Company		
	At 31 December 2010 HK$'000	At 31 December 2009 HK$'000	At 1 January 2009 HK$'000
Redemption option held by a noteholder embedded in convertible note at fair value	**–**	284,282	191,632

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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28. BANK BORROWINGS

	Group		
	At 31 December 2010 HK$'000	At 31 December 2009 HK$'000 (restated)	At 1 January 2009 HK$'000 (restated)
Current			
Portion of term loans from bank due for repayment within one year	**11,702**	4,708	–
Portion of term loans from bank due for repayment after one year which contain a repayment on demand clause	**93,417**	70,292	–
	105,119	75,000	–

At 31 December 2010, the Group's bank borrowings were due for repayment as follows:

	Group	
	At 31 December 2010 HK$'000	At 31 December 2009 HK$'000
Portion of term loans due for repayment within one year	**11,702**	4,708
Term loans due for repayment after one year *(Note)*		
After 1 year but within 2 years	**11,748**	4,746
After 2 years but within 5 years	**34,948**	14,484
After 5 years	**46,721**	51,062
	93,417	70,292
	105,119	75,000

Note: The amounts due are based on the scheduled repayment dates set out in the loan agreements and ignore the effect of any repayment on demand clause.

The bank borrowings carried interest at 0.75% per annum over 1 month HIBOR and 1.48% per annum over 1 to 3 month(s) HIBOR.

The carrying amounts of bank borrowings are denominated in Hong Kong dollars.

At 31 December 2010, the bank borrowings of HK$105,119,000 (31 December 2009: HK$75,000,000) were secured by the leasehold land and building of the Group amounted to HK$138,333,000 (31 December 2009: secured by the investment property of the Group amounted to HK$140,000,000).

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For the year ended 31 December 2010

29. CONVERTIBLE NOTE

	Group and Company		
	At 31 December 2010 HK$'000	At 31 December 2009 HK$'000	At 1 January 2009 HK$'000
Principal amount of convertible note issued (net of issue costs)	**166,250**	541,276	541,276
Early redemption option held by the Company	**–**	82,286	82,286
Redemption option held by a noteholder	**–**	(75,930)	(75,930)
Equity component (net of issue costs)	**(25,614)**	(24,842)	(24,842)
Liability component on initial recognition (net of issue costs)	**140,636**	522,790	522,790
Imputed interest	**5,116**	65,990	39,567
Liability component	**145,752**	588,780	562,357
Analysis for reporting purpose as:			
Current liabilities	**86,272**	–	–
Non-current liabilities	**59,480**	588,780	562,357
	145,752	588,780	562,357

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

	Group and Company	
	2010 HK$'000	2009 HK$'000
At 1 January	**588,780**	562,357
Issued during the year	**140,636**	–
Interest charge	**25,864**	26,423
Redeemed during the year	**(609,528)**	–
At 31 December	**145,752**	588,780

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For the year ended 31 December 2010

29. CONVERTIBLE NOTE *(Cont'd)*

Notes:

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

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

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

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

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

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

(b) On 20 September 2010, the Company and the noteholder entered into a supplemental deed ("Supplemental Deed") to amend certain terms and conditions of the convertible note. Pursuant to the Supplemental Deed, the Company has the right to redeem all and not some of the convertible note including all accrued interest at any time prior to the maturity date of the convertible note at the redemption price of HK$475,000,000. On 27 September 2010, the Company redeemed the convertible note by way of making a cash payment of HK$308,750,000 and issue of a new zero coupon convertible note ("New Convertible note") with a principal amount of HK$166,250,000 to the noteholder.

The New Convertible Note is convertible into ordinary shares of HK$0.0025 each of the Company at an initial conversion price of HK$0.955 per ordinary share (subject to adjustment) on any business day during the period commencing on the date of issue of the New Convertible Note until the close of business on the 15th day prior to 12 May 2012 ("Maturity Date"). If the New Convertible Note has not been converted, the Company shall redeem the New Convertible Note on the first business day falling on or after the first anniversary of the date of issue of the New Convertible Note at HK$95,000,000 and on Maturity Date at HK$71,250,000.

The New Convertible Note contains two components, liability and equity elements. The equity element is presented in equity heading "convertible note equity reserve". The effective interest rate of the liability component is 14% per annum.

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30. DEFERRED INCOME TAX

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

Deferred tax liabilities:

	Group					Company
	Intangible assets	Convertible note	Fair value gain on property	Accelerated tax depreciation	Total	Convertible note
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2009	8,976	3,837	3,521	–	16,334	3,837
Charged/(Credited) to the income statement	(816)	(456)	2,145	–	873	(456)
At 31 December 2009	**8,160**	**3,381**	**5,666**	**–**	**17,207**	**3,381**
Charged directly to equity	**–**	**1,245**	**–**	**–**	**1,245**	**1,245**
Credited to the income statement	**(612)**	**(1,244)**	**(3,300)**	**(28)**	**(5,184)**	**(1,244)**
Transfer	**–**	**–**	**(2,366)**	**2,366**	**–**	**–**
At 31 December 2010	**7,548**	**3,382**	**–**	**2,338**	**13,268**	**3,382**

Deferred tax assets:

	Group Decelerated tax depreciation
	HK$'000
At 1 January 2009	1,660
Charged to the income statement	(857)
At 31 December 2009	**803**
Charged to the income statement	**(643)**
Exchange differences	**20**
At 31 December 2010	**180**

At 31 December 2010, the Group had unused tax losses of approximately HK$11,879,000 (31 December 2009: HK$11,124,000) that can be carried forward to offset against future taxable profit. The Group did not recognise a deferred income tax asset in respect of such tax losses as it was not probable that future taxable profit will be available to utilise the unused tax losses.

At 31 December 2010, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in the PRC. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in the PRC for which deferred tax liabilities have not been recognised totalled approximately HK$194,885,000 at 31 December 2010 (31 December 2009: HK$42,253,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

31. SHARE CAPITAL

	Authorised ordinary shares	
	Number of shares	HK$'000
At 1 January 2009, 31 December 2009 and 31 December 2010	**16,000,000,000**	**40,000**

	Issued and fully paid ordinary shares	
	Number of shares	HK$'000
At 1 January 2009, 31 December 2009 and 31 December 2010	**7,402,164,000**	**18,505**

32. SHARE OPTION SCHEME

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

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

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

	2010		2009	
	Average exercise price (HK$ per share)	**Options (thousands)**	Average exercise price (HK$ per share)	Options (thousands)
At 1 January	**0.53**	**376,300**	0.61	245,800
Granted	**–**	**–**	0.50	163,900
Forfeited	**0.50**	**(4,500)**	0.95	(33,400)
At 31 December	**0.53**	**371,800**	0.53	376,300

Out of the 371,800,000 (31 December 2009: 376,300,000) outstanding options, 305,050,000 options (31 December 2009: 147,900,000) were exercisable. No share option was exercised or expired during the years ended 31 December 2009 and 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

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

Expiry date	Exercise price (HK$ per share)	Options (thousands) 2010	2009
7 June 2011	0.305	**62,600**	62,600
17 September 2011	0.904	**6,000**	6,000
31 December 2011	0.445	**8,000**	8,000
31 December 2011	0.920	**3,000**	3,000
31 December 2011	0.960	**26,000**	26,000
3 July 2012	0.975	**800**	800
11 September 2012	0.500	**18,000**	18,000
17 September 2012	0.960	**24,000**	24,000
3 December 2012	0.500	**15,000**	15,000
3 January 2013	0.500	**–**	1,200
10 March 2013	0.500	**2,400**	2,400
16 August 2013	0.500	**1,600**	3,100
24 August 2013	0.500	**26,200**	26,800
31 December 2013	0.975	**5,600**	5,600
1 May 2014	0.775	**12,000**	12,000
16 August 2014	0.500	**82,000**	82,000
31 August 2014	0.500	**33,400**	34,600
14 June 2015	0.500	**10,000**	10,000
29 June 2016	0.285	**35,200**	35,200
		371,800	376,300

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

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

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

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

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

(iv) Expected dividend yield – nil; and

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

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

At 31 December 2010, the Company had 371,800,000 (31 December 2009: 376,300,000) options outstanding under the Option Scheme. The exercise in full of the remaining options would, under the present capital structure of the Company, result in the issuance of 371,800,000 (31 December 2009: 376,300,000) additional ordinary shares of the Company and additional share capital of approximately HK$930,000 (31 December 2009: HK$940,000) and share premium of approximately HK$197,780,000 (31 December 2009: HK$200,018,000) (before issue expenses).

33. RESERVES

	Group							
	Share premium HK$'000	Convertible note HK$'000	Capital reserve HK$'000 *(Note (b))*	Currency translation reserve HK$'000	Share-based compensation reserve HK$'000	Revaluation reserve HK$'000	Available-for-sale investments HK$'000	Total HK$'000
Balance at 1 January 2009	1,546,166	20,080	15,158	31,257	36,145	11,974	(12,860)	1,647,920
Share option scheme:								
– value of employee services	–	–	–	–	10,389	–	–	10,389
– value of other participants' services	–	–	–	–	278	–	–	278
– vested share options cancelled	–	–	–	–	(116)	–	–	(116)
Fair value gain on available-for-sale financial assets *(Note 20)*	–	–	–	–	–	–	15,889	15,889
Currency translation differences								
– overseas subsidiaries	–	–	–	(210)	–	–	–	(210)
– overseas jointly-controlled entities	–	–	–	270	–	–	–	270
Balance at 31 December 2009	**1,546,166**	**20,080**	**15,158**	**31,317**	**46,696**	**11,974**	**3,029**	**1,674,420**
Share option scheme:								
– value of employee services	**–**	**–**	**–**	**–**	**9,442**	**–**	**–**	**9,442**
– value of other participants' services	**–**	**–**	**–**	**–**	**78**	**–**	**–**	**78**
– vested share options cancelled	**–**	**–**	**–**	**–**	**(32)**	**–**	**–**	**(32)**
Release of convertible note equity reserve upon redemption of convertible note	**–**	**(20,080)**	**–**	**–**	**–**	**–**	**–**	**(20,080)**
Recognition of equity component of convertible note	**–**	**25,614**	**–**	**–**	**–**	**–**	**–**	**25,614**
Deferred tax liability on recognition of equity component of convertible note	**–**	**(4,226)**	**–**	**–**	**–**	**–**	**–**	**(4,226)**
Release of revaluation reserve upon depreciation of leasehold land and building	**–**	**–**	**–**	**–**	**–**	**(140)**	**–**	**(140)**
Fair value gain on available-for-sale financial assets *(Note 20)*	**–**	**–**	**–**	**–**	**–**	**–**	**19,081**	**19,081**
Currency translation differences								
– overseas subsidiaries	**–**	**–**	**–**	**6,425**	**–**	**–**	**–**	**6,425**
– overseas jointly-controlled entities	**–**	**–**	**–**	**3,824**	**–**	**–**	**–**	**3,824**
Balance at 31 December 2010	**1,546,166**	**21,388**	**15,158**	**41,566**	**56,184**	**11,834**	**22,110**	**1,714,406**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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33. RESERVES *(Cont'd)*

	Company				
	Share premium HK$'000	Convertible note HK$'000	Contributed surplus HK$'000 *(Note (c))*	Share-based compensation reserve HK$'000	Total HK$'000
Balance at 1 January 2009	1,546,166	20,080	16,209	36,145	1,618,600
Share option scheme:					
– value of employee services	–	–	–	10,389	10,389
– value of other participants' services	–	–	–	278	278
– vested share options cancelled	–	–	–	(116)	(116)
Balance at 31 December 2009	**1,546,166**	**20,080**	**16,209**	**46,696**	**1,629,151**
Share option scheme:					
– value of employee services	**–**	**–**	**–**	**9,442**	**9,442**
– value of other participants' services	**–**	**–**	**–**	**78**	**78**
– vested share options cancelled	**–**	**–**	**–**	**(32)**	**(32)**
Release of convertible note equity reserve upon redemption of convertible note	**–**	**(20,080)**	**–**	**–**	**(20,080)**
Recognition of equity component of convertible note	**–**	**25,614**	**–**	**–**	**25,614**
Deferred tax liability on recognition of equity component of convertible note	**–**	**(4,226)**	**–**	**–**	**(4,226)**
Balance at 31 December 2010	**1,546,166**	**21,388**	**16,209**	**56,184**	**1,639,947**

Notes:

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

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

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

34. ACCUMULATED LOSSES

	Company	
	2010 HK$'000	2009 HK$'000
At 1 January	**(800,163)**	(677,075)
Release of convertible note equity reserve upon redemption of convertible note	**(98,785)**	–
Vested share options cancelled	**32**	116
Profit/(loss) for the year	**85,379**	(123,204)
At 31 December	**(813,537)**	(800,163)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2010 HK$'000	2009 HK$'000
Cash flows from operating activities		
Profit/(loss) before income tax	**250,221**	(82,722)
Adjustments for:		
Depreciation	**42,153**	30,582
Gain on redemption of convertible note	**(171,947)**	–
Amortisation of intangible assets	**6,528**	6,528
(Gain)/loss on disposal of property, plant and equipment	**(367)**	3,194
Share option expenses	**9,520**	10,667
Fair value gain on investment property	**–**	(13,000)
Net fair value gain on financial assets and financial liabilities at fair value through profit or loss	**(13,517)**	(46,687)
Dividend received from listed securities	**–**	(1,161)
Interest income from bank deposits	**(2,325)**	(5,994)
Finance costs	**26,557**	26,423
Share of losses of jointly-controlled entities	**12,408**	11,198
Operating cash flows before changes in working capital	**159,231**	(60,972)
Changes in working capital:		
– Prepaid rentals	**961**	924
– Inventories	**(1,494)**	(3,358)
– Accounts receivable	**(76,601)**	(11,330)
– Prepayments, deposits and other receivables	**1,855**	(18,136)
– Amounts due from related companies	**49**	241
– Financial assets at fair value through profit or loss	**–**	(15,929)
– Accounts payable	**(11,782)**	9,217
– Accruals and other payables	**(1,864)**	731
– Amount due to a jointly-controlled entity	**(1,581)**	(7,731)
	(90,457)	(45,371)
Cash generated from/(used in) operations	**68,774**	(106,343)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

36. OPERATING LEASE COMMITMENTS

At 31 December 2010, the Group had aggregate future minimum lease payments under non-cancellable operating leases in respect of rented premises as follows:

	Group	
	At 31 December 2010 HK$'000	At 31 December 2009 HK$'000
No later than one year	**4,620**	6,768
Later than one year and no later than five years	**407**	3,832
	5,027	10,600

The Company did not have significant operating lease commitments at 31 December 2010 (31 December 2009: Nil).

37. EMPLOYEE RETIREMENT BENEFITS

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

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

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

During the year, the aggregate amount of the Group's contributions to the aforementioned schemes was approximately HK$957,000 (2009: HK$839,000), with no (2009: Nil) deduction of forfeited contributions. At 31 December 2010, there was no material forfeited contribution available to reduce the Group's employer contribution payable in future periods.

The Group's contribution payable at 31 December 2010 amounted to approximately HK$80,000 (31 December 2009: HK$70,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

38. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in these financial statements, the Group had the following material related party transactions for the year ended 31 December 2010:

Nature of transactions

	2010 **HK$'000**	2009 HK$'000
Rental income from a related company *(Note)*	**256**	–
Rental income from a subsidiary of a substantial shareholder of the Company	**–**	672
Purchase of motor vehicles from subsidiaries of a substantial shareholder of the Company	**–**	600
Sales of equipment to a jointly-controlled entity	**1,611**	7,657

Note: The related company is a subsidiary of Burwill Holdings Limited, a company in which Ms. Lau Ting and Mr. Chan Shing, the directors of the Company have beneficial interests.

At 31 December 2010 and 2009, the Company has provided an unlimited guarantee to secure bank loans granted to a subsidiary. In the opinion of the directors, no material liabilities will arise from the above guarantee which arose in the ordinary course of business and the fair value of the guarantee granted by the Company is immaterial.

39. EVENT AFTER THE REPORTING PERIOD

As announced by the Company on 14 February 2011, the Group entered into a Transfer Agreement with Mr. Zheng Min and Ms. Liu Juan and conditionally agreed to acquire 70% of equity interest in 重慶拓扣網絡科技有限公司 ("Chongqing Tuokou") for aggregate consideration of RMB21,000,000 (approximately HK$24,851,000). Chongqing Tuokou is a lottery sales service provider engaged in the research and development and operation of a sales platform for high frequency lottery games in China.