Annual Report

2010

MelcoLot Limited

(incorporated in the Cayman Islands with limited liability)

A Hong Kong listed company with stock code : 8198

www.melcolot.com

新濠環彩

MelcoLot

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

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*This report, for which the directors of MelcoLot Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "**GEM Listing Rules**") for the purpose of giving information with regard to MelcoLot Limited. The directors of MelcoLot Limited, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.*

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Ko Chun Fung, Henry
(Chief Executive Officer)
Mr. Moumouris, Christos
Mr. Derempeoglou, Georgios
(resigned on February 1, 2010)

Non-Executive Directors

Mr. Chan Sek Keung, Ringo *(Chairman)*
Mr. Wang, John Peter Ben

Independent Non-Executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPLIANCE OFFICER

Mr. Ko Chun Fung, Henry

COMPANY SECRETARY

Mr. Yip Ho Chi

AUTHORISED REPRESENTATIVES

Mr. Ko Chun Fung, Henry
Mr. Yip Ho Chi

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

PRINCIPAL SHARE AND CONVERTIBLE BOND REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 609
Grand Cayman
Cayman Islands

CORPORATE INFORMATION

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

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

AUDITOR

Deloitte Touche Tohmatsu

LEGAL ADVISORS

Michael Li & Co.
Zhong Lun Law Firm

COMPANY WEBSITE

www.melcolot.com

STOCK CODE

8198

CEO'S STATEMENT

CEO'S STATEMENT

TO OUR SHAREHOLDERS

For and on behalf of the board of directors (the "Board"), I present the annual results of MelcoLot Limited (the "Company") and its subsidiaries (the "Group") for the year ended December 31, 2010.

During the year, the Company trimmed down losses attributable to the owners of the Company to HK$160.9 million from HK$388.0 million in the prior year. These losses which were primarily comprised of non-cash charges for impairment loss on goodwill, imputed interest on convertible bonds, and depreciation and amortisation expenses amounting to approximately HK$136.4 million (2009: HK$308.1 million), were of a non-operational nature and will not adversely affect the cash flow or current assets of the Group.

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

BUSINESS REVIEW

Following the completion of the disposal of the network system integration business on December 30, 2009, the Group focused its efforts on its core lottery business. Losses for the year were significantly reduced despite weak market conditions faced by the manufacturing arm of the business, which at present, comprises the largest contributor to the Group's revenues.

The Group is a prominent supplier of high quality, point-of-sales equipment for the China Sports Lottery Administration Centre (the "CSLA"). Market demand for the Company's point-of-sales terminals lessened considerably due to a delay in the commencement of CSLA's new procurement cycle. As a result, the Group adopted a low margin strategy to maintain market share and positioning, however, its top and bottom lines were inevitably impacted by these market conditions.

The Group's venue management consultancy business was streamlined for greater efficiency. On the technology and services side, the Group began work on a contract for Chongqing Welfare Lottery Issuing Centre to supply, deliver and install the LOTOS Horizon system. The aim was to create, display and manage rich, multimedia content at multiple, geographically dispersed lottery venues under a five-year upgrade agreement for 'Shi Shi Cai', a popular high frequency lottery game.

During the year, the Group also acquired a 35% interest in China Excellent Net Technology Investment Limited ("China Excellent"), a provider of technology solutions and management services for mobile lottery businesses in the People's Republic of China (the "PRC"). In addition, the Group acquired a 40% interest in ChariLot Company Limited ("ChariLot"), which specializes in securing lottery supply and service opportunities in the PRC.

Overseas, the Group's investment in the South Korean welfare lottery operation, Nanum Lotto, Inc., proved rewarding. Nanum Lotto, Inc., the government authorized consortium with an exclusive licence to operate the South Korean national welfare lotto games, showed steady growth in revenues and profitability during the year.

CEO'S STATEMENT

PROSPECTS

It is expected that the lottery industry in China will continue to expand year-on–year with the demand for advanced lottery terminals, systems and technologies accelerating in order to cope with the rapid growth in the industry.

With the expected launch of CSLA's new procurement cycle, the Group anticipates a rise in market demand for point-of-sales terminals. This should have a positive impact on the Group's manufacturing activities since it is safe to assume that orders previously deferred will be placed shortly after the new procurement cycle begins.

Sports lottery sales revenues are projected to receive a boost due to the addition and variety of more popular games offered to players by the lottery authorities under the skill game category (similar to fixed odds betting). Furthermore, new broadcast and marketing initiatives in the market are expected to result in sales growth and have a positive impact on the Group's venue management consultancy business.

Paperless lottery sales channels such as mobile and internet are gaining momentum and are profitable avenues for rapid market expansion. The Ministry of Finance of the PRC ("MOF") has expressed concern about the need to better regulate these channels and, as a result, has recently commenced new initiatives to monitor mobile and internet channels more actively in conjunction with the sports and welfare lottery authorities. Under the strengthened regulations, mobile and internet channels will be provided the impetus for the next phase of orderly growth in the PRC lottery industry. The Group is already well-positioned to service this segment of the industry through its access to cutting-edge, technology solutions and world-class, best practices supported by its strategic shareholder, Intralot S.A.. Intralot S.A. offers custom-made integrated solutions that ensure maximum efficiency and absolute security. It has a reputation for advanced product development standards and extensive experience in operating lottery games worldwide.

The investments in China Excellent and ChariLot as well as the contract in Chongqing are expected to be valuable stepping stones for the Group to deploy its software related capabilities for lottery projects. On the one hand, the joint venture partners and their business associates already have established business networks in the lottery industry in China, enabling the Group to gain additional business relationships with key industry players in China. On the other hand, existing projects and contracts under development will serve as a basis for securing additional projects in various provinces.

As the markets are increasingly regulated by the government, the Group will be focused upon actively pursuing selected projects in China in which it can gain competitive advantage by virtue of its access to industry leading software and security solutions.

Nanum Lotto, Inc. in South Korea is expected to continue its steady growth in profitability. The Group is also evaluating profitable opportunities in other Asian countries.

CEO'S STATEMENT

CONCLUSION

The management team remains inexorably committed and focused on the success of the Group. I am confident that our relentless efforts to identify lucrative opportunities and strengthen our infrastructure will enable us to gain a competitive edge in the industry. The fruitful investments made in prior years, combined with the promising developments within the lottery industry, will no doubt work in our favor as we advance ahead on the path of growth. With the continued faithful support of our shareholders, customers, suppliers, bankers, and business partners, I look forward to building the Company into a successful corporation, with the wise counsel of the Board and the support of all staff members, in the years ahead.

Ko Chun Fung, Henry
Executive Director and Chief Executive Officer

Hong Kong, March 23, 2011

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

During the year under review, the Group's losses were significantly reduced to HK$171.3 million, a decrease of 57% from HK$397.4 million in 2009. This mainly included the following non-cash items which did not adversely affect the Group's cash flow:

(i) One-off impairment loss on goodwill which was reduced to HK$38.8 million (2009: HK$216.9 million) in relation to acquisitions of subsidiaries in previous years;

(ii) Imputed interest on convertible bonds amounting to HK$75.6 million (2009: HK$65.1 million) due to the liability component of the convertible bonds carried at amortised cost by using the effective interest method; and

(iii) Depreciation and amortisation expenses of property, plant and equipment and intangible assets of HK$22.0 million (2009: HK$26.1 million).

Basic loss per share from continuing operations for the year ended December 31, 2010 reduced 54% to HK32.03 cents (2009: HK69.24 cents).

Revenue of the Group slightly decreased by 6%, amounting to HK$80.6 million (2009: HK$86.1 million). The Group continues to be engaged in the lottery business. The subsidiaries of the Company are engaged in various lottery related businesses and ventures in the People's Republic of China (the "PRC") and other Asian countries, as well as in the manufacturing of lottery terminals for sports lottery businesses in the PRC.

Provision of management services for distribution of lottery products

Revenues from the provision of management services for the distribution of lottery products improved by 10%, amounting to HK$12.2 million (2009: HK$11.1 million), which was primarily generated by the management of lottery shops and the distribution of scratch cards. The Group manages one of the largest lottery distribution networks in the PRC. The Group also benefited from various opportunities related to the provision of new technologies and platforms through its technology license from a substantial shareholder of the Company, Intralot S.A., one of the leading providers of integrated gaming systems of lottery organizations worldwide and which is listed on the Athens Exchange.

On July 15, 2010, the Group signed a supply agreement with Intralot S.A. (the "Supply Agreement") in which Intralot S.A. agreed to advise on the supply, delivery and installation of a multimedia content delivery system for the high frequency game, "Shi Shi Cai", in the municipality of Chongqing, the PRC for US$1.0 million (equivalent to approximately HK$7.9 million). The Directors are confident that the Supply Agreement would benefit the Group due to Intralot S.A.'s extensive experience and advanced product development standards in operating lottery games. Details of the Supply Agreement are set out in the Company's announcement dated July 15, 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

Manufacturing and sales of lottery terminals

The Group also generated income from the manufacturing and sales of lottery terminals, amounting to HK$68.4 million for the year ended December 31, 2010 (2009: HK$75.0 million). The decrease was due to the deferred orders from the exclusive sports lottery operator, China Sports Lottery Administration Centre ("CSLA"). The Group adopted a short-term, low-pricing strategy in order to maintain market share as CSLA's new equipment procurement cycle had not yet been finalized. The Group is working with another substantial shareholder of the Company, Firich Enterprises Co., Ltd. ("Firich"), which is listed on the Taiwan Gre Tai Securities Market, to develop a new line of high quality and durable lottery terminals. Firich, a leading worldwide point-of-sales system manufacturer, is able to provide procurement, technical, and research and development support for the Group to create newer models of lottery terminals.

The Group has further streamlined its operations and imposed tight cost control measures in all applicable areas. For the year ended December 31, 2010, employee benefits costs amounted to HK$19.3 million (2009: HK$22.9 million), which represented a decrease of 16% year-on-year. Other administrative expenses for the year dropped to HK$25.5 million (2009: HK$47.8 million), representing a massive decrease of 47% compared to the corresponding period in 2009.

A tax credit of HK$3.9 million for the year (2009: tax credit of HK$3.4 million) was principally due to a deferred tax credit arising from the fair value adjustments of intangible assets on business combination in previous years.

A loss of HK$41.5 million from discontinued operations in 2009 related to the Group's network system integration operations, which were disposed of in December 2009 to enable the Group to focus on its lottery related growth opportunities.

SIGNIFICANT INVESTMENTS HELD

Available-for-sale investment

At December 31, 2010, the available-for-sale investment with a carrying amount of HK$138.8 million (2009: HK$138.1 million) represented a 14% equity interest in Nanum Lotto, Inc., a consortium incorporated in South Korea and formed by renowned international and Korean partners that possess an exclusive license to operate nation-wide lotteries in South Korea. No dividend was received from the available-for-sale investment for the year ended December 31, 2010 (2009: Nil).

Jointly controlled entities

During the year, the share of profits of jointly controlled entities amounted to HK$263,000 (2009: HK$116,000), contributed primarily by Beijing Telenet Information Technology Limited ("BTI") and indirectly owned as 52.5% by the Group. BTI, one of the largest authorised lottery terminal distributors approved by CSLA, is engaged in the distribution of lottery terminals mainly supplied by the Group in the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

ACQUISITIONS

On March 5, 2010, the Group acquired a 35% equity interest in China Excellent Net Technology Investment Limited ("China Excellent"), a company incorporated in Hong Kong and engaged in the provision of lottery related technology solutions and management services for mobile lottery businesses in the PRC, at a consideration of HK$7.0 million. Of this amount, HK$3.0 million has been paid as at December 31, 2010 in accordance with the terms of the acquisition. The Group is currently developing the relevant technology platform and solutions for this venture.

On July 2, 2010, the Group completed the acquisition of a 40% equity interest in ChariLot Limited ("ChariLot"), a company incorporated in Hong Kong pursuant to a joint venture agreement entered into between the Group and an independent third party, Calo Investments Limited. The cash consideration for the acquisition was HK$10.0 million, which was funded by the Group's internal resources. ChariLot is intended primarily as a vehicle for the new investment in the lottery business and will be principally engaged in supplying terminals and providing technical support and consultancy services in connection with the lottery business in the PRC. The Directors believe the joint venture partner and its ultimate shareholders have established business networks relating to the lottery industry in the PRC. The formation of the joint venture will have a synergic effect for the Group to expand its lottery business in the PRC. The acquisition constituted a discloseable transaction for the Company, details of which are set out in the Company's announcement dated June 21, 2010.

Share of losses of associates amounted to HK$4.7 million during the year, arising from two newly acquired associates, China Excellent and ChariLot, mostly for the business development expenditure.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group continues to manage its balance sheet meticulously and maintain conservative policies in cash and financial management. Surplus funds were placed on interest-bearing deposits with banks. As at December 31, 2010, bank balances and cash, denominated principally in Hong Kong dollars and Renminbi, amounted to HK$44.0 million (2009: HK$61.6 million). The decline during the year was mainly due to investments in two newly acquired associates, China Excellent and ChariLot. On a net basis, cash used in operating activities amounted to HK$27.6 million for the year 2010, which was reduced 56% compared to HK$62.3 million in 2009.

The Group generally financed its operations and serviced its debts with its internal resources, a loan from a related company and convertible bonds. As at December 31, 2010, net current assets of the Group dropped to HK$1.1 million (2009: HK$114.3 million) after reclassification of a loan of HK$80 million from non-current liabilities to current liabilities. The loan is repayable on July 14, 2011, bears interest at 1% per annum and due to a related company beneficially owned by two substantial shareholders of the Company, namely Melco International Holdings Limited ("Melco"), which has shares listed on the Stock Exchange of Hong Kong Limited, and Firich. The loan has been further extended one year to July 14, 2012 with other terms remain unchanged, subsequent to the end of reporting period.

MANAGEMENT DISCUSSION AND ANALYSIS

As at December 31, 2010, the Group carried a capital deficiency attributable to the owners of the Company amounting to HK$375.1 million (2009: HK$222.1 million), due to the liability component of the convertible bonds amounting to HK$640.4 million (2009: HK$ 565.6 million) and the accumulated losses generated by non-cash accounting charges. The convertible bonds, held entirely by three substantial shareholders of the Company, Melco, Intralot S.A. and Firich, are denominated in Hong Kong dollars. They bear interest at 0.1% per annum and entitle the holders to convert them into ordinary shares of the Company within five years from the date of issue, subject to the terms and conditions of the instruments. If the convertible bonds have not been converted, they will become due for redemption on maturity dates of December 12, 2012 and December 8, 2013 for the principal amounts of HK$606.8 million and HK$277.2 million, respectively.

The Directors have carefully reviewed the Group's financial position, future liquidity and the cash flow forecast. The Group is in negotiations with the substantial shareholders on possible new share issues and debt restructuring as necessary. Provided that these measures are successful and can effectively improve the liquidity position of the Group, the Directors are satisfied that the Group will have sufficient financial resources to meet its financial obligations as they arise in the foreseeable future.

At December 31, 2010, the Group had capital commitments of HK$11.9 million (2009: Nil), contracted but not provided for, in the consolidated financial statements.

In the opinion of the Directors, the Company had no reserves available for distribution as at December 31, 2010 and 2009.

CHARGES ON GROUP ASSETS

The convertible bonds of the Company are secured by the shares of certain subsidiaries of the Company as at December 31, 2010.

FOREIGN EXCHANGE EXPOSURE

As at December 31, 2010, all assets and liabilities of the Group were denominated in United States dollars, Hong Kong dollars, Renminbi and Korean Won. During the year, the business activities of the Group were mainly denominated in Hong Kong dollars and Renminbi. Since the impact of foreign exchange exposure has been insignificant, no hedging or other alternatives have been implemented.

OUTLOOK

According to Ministry of Finance of the PRC ("MOF"), national annual lottery sales reached RMB166.2 billion in 2010, up 25.5% from 2009, due mostly to the stream of new products like single match skill games and video lottery terminals. It is anticipated that the lottery market in the PRC will continue to grow as the sales figure are still considerably below those seen in more developed markets worldwide in per capita terms. In this respect, the demand for advanced lottery terminals, systems and technologies is expected to accelerate in order to cope with the rapid development in the industry.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group has made steady progress in the China lottery market during the year. In terms of welfare lottery, the Group commenced work on an upgrade project for the supply of a multimedia content delivery system for the high frequency game “Shi Shi Cai” in Chongqing Municipality with the support of Intralot S.A.. In terms of sports lottery, the range of game types under the single match skill game category is expanding. This expansion is expected to have a positive effect on the growth of lottery sales revenues, benefiting the Group’s skill game distribution networks and related services.

Paperless lottery sales channels are also anticipated to experience growth in the PRC. The new regulations in regards to mobile and internet lottery promulgated by MOF in September 2010 are expected to be supportive of the growth of these platforms. In January 2011, the Group increased the registered capital of a subsidiary in Shandong Province in order to obtain the telephone lottery license, as required by the new regulations. In the long term, the Group aims to capitalize on this market development and leverage its access to the world-class lottery technologies of Intralot S.A. through its licensing agreements for the China market.

The Group continues to proactively expand its lottery business in the PRC and other Asian countries. The acquisition of two associates, China Excellent and ChariLot, will not only boost the Group’s ability to capture a larger share of the expanding lottery market, but also enable it to establish business relationships with key lottery industry players in the PRC. The Directors believe that the connection will be a crucial stepping stone for the Group to deploy and access more beneficial opportunities in the lottery business in the PRC.

Beyond China, the Group’s investment in Nanum Lotto, Inc., the exclusive operator of the national lottery in South Korea, is showing promising progress with steady increases in revenue and profitability.

EMPLOYEE INFORMATION

As at December 31, 2010, the Group had a total of 91 full-time employees (2009: 129) after we reconfigured the operations in China. The Group continues to provide remuneration package to employees according to market practices and past performance. In addition to basic remuneration, the Group also provides employees with other benefits such as a mandatory provident fund, medical insurance scheme, share option schemes and staff training program.

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at December 31, 2010.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Ko Chun Fung, Henry, aged 51, is an executive Director and Chief Executive Officer ("CEO") of the Company and the Group and a member of the Nomination Committee of the Board. He was appointed to the Board in January 2008.

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

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

Mr. Moumouris, Christos, aged 42, is an executive Director of the Company and a member of the Nomination Committee of the Board. Mr. Moumouris was appointed as an executive Director of the Company since January 2009.

Mr. Moumouris is representing Intralot S.A., a substantial shareholder of the Company, and is currently the CEO and a director of Intralot Nederland BV, Director, International Markets of Intralot Interactive S.A.(I^2) and a director of Intralot Korea. He served as Managing Director of Intralot Asia Pacific Ltd. (Hong Kong), where he remains as a director, and served as director in the boards of Intralot South Africa and Gidani (the South Africa National Lottery Operator).

He joined Intralot S.A. in 2003 as Sales Director, where he set up and managed the company's International Sales Department and was involved in securing the Intralot projects in The Netherlands, The Philippines, Taiwan, Malaysia, Korea, China, Hong Kong, New Zealand, Australia (Victoria, Western Australia), Nigeria and South Africa. He has participated as a member in the project implementation steering and executive committees for the Intralot projects in Malaysia, The Netherlands and South Africa and has set up Intralot S.A.'s subsidiary in The Netherlands.

Prior to joining Intralot S.A. he held various positions in Hitachi, the global electronics company, starting as a Product Planner for Consumer Electronics for Hitachi in Greece between 1995 and 1996 and then moving to the Information Technology ("IT") Products and Systems Solutions divisions of Hitachi Europe Ltd (England), initially as Country Marketing & Sales Manager for Greece and Cyprus, then as Regional Marketing & Sales Manager for the South East Mediterranean and the Middle East and eventually as Strategy & Business Development Manager for Europe and the Middle East, a position he held until 2003.

He started his career as a Research Engineer for the Philips Research Laboratories (Eindhoven, The Netherlands) where he worked between 1991 and 1992.

Mr. Moumouris holds a Bachelor of Electronic Engineering with Honours from the University of Westminster in London, England and a Master in Electronic Engineering from the Eindhoven University of Technology in the Netherlands.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTORS

Mr. Chan Sek Keung, Ringo, aged 51, is the founder and re-elected as non-executive Chairman of the Company on March 5, 2010. He is also a member of the Remuneration Committee of the Board. Mr. Chan was first appointed to the Board in November 1998 and was executive Director and Chairman of the Board between September 24, 2001 and December 30, 2009. He was re-designated as non-executive Director on December 30, 2009.

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

Mr. Wang, John Peter Ben, aged 50, is a non-executive Director of the Company. Mr. Wang qualified as a chartered accountant with the Institute of Chartered Accountants of England and Wales in 1985. Before joining the Company in November 2009, Mr. Wang was the group chief financial officer of Melco International Development Limited, a substantial shareholder of the Company. He has over 20 years of experience in the financial and investment banking industry and had worked for Deutsche Bank (HK), CLSA Asia-Pacific Markets (HK), Bear Stearns Asia Limited (HK), Barclays Capital (Singapore), S.G. Warburgs & Co. (London), Salomon Brothers (London), the London Stock Exchange, and Deloitte Haskins & Sells (London).

Mr. Wang is a director of Melco Crown Entertainment Limited, a company listed on the NASDAQ Global Select Market in the United States. Mr. Wang is also a non-executive director of Oriental Ginza Holdings Limited and China Precious Metal Resources Holdings Co., Ltd., both listed on the Main Board of the Stock Exchange.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Tsoi, David, aged 63, is an independent non-executive Director and chairman of both the Audit Committee and Remuneration Committee and a member of the Nomination Committee of the Board. Mr. Tsoi was appointed as an independent non-executive Director of the Company in October 2001.

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

Mr. Tsoi is currently also an independent non-executive director of CSR Corporation Limited and Enviro Energy International Holdings Limited, both listed on the Main Board of the Stock Exchange.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Pang Hing Chung, Alfred, aged 49, is an independent non-executive Director and a member of both the Audit Committee and Nomination Committee of the Board. Mr. Pang was appointed as an independent non-executive Director of the Company in March 1999.

Mr. Pang is Vice Chairman, Asia Coverage & Banking and a board member of Standard Bank Asia Limited; he is also a member of Standard Bank's Asia Executive Committee. Mr. Pang has over 25 years of financial, management and investment banking experience in China, Asia and the United States ("US"). Before joining Standard Bank, Mr. Pang was Managing Director and Vice Chairman, Investment Banking Division, at BOC International where he was also Chairman of BOCI's Commitment Committee. Prior to joining BOCI, he was Managing Director and President, Asia at the US investment banking firm of Donaldson Lufkin & Jenrette.

Mr. Pang holds dual Bachelor of Arts (in Economics) & Bachelor of Science (in Electrical Engineering) degrees from Cornell University, and an MBA degree from Stanford University Graduate School of Business in the US.

Mr. So Lie Mo, Raymond, aged 61, is an independent non-executive Director, chairman of the Nomination Committee and a member of both the Audit Committee and Remuneration Committee of the Board. Mr. So was appointed as an independent non-executive Director of the Company in September 2007.

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

SENIOR MANAGEMENT

Mr. Yip Ho Chi, aged 41, is Chief Financial Officer and the Company Secretary of the Company. Mr. Yip was appointed as Chief Financial Officer of the Company in June 2009.

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

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Ling Wai Man, Edgar, aged 51, joined the Group in November 2008, is the Director, Marketing & Lottery Product Distribution of the Group.

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

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

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

Mr. Hussain, Aziz Zahid, aged 37, joined the Group in March 2007 and is the Director – Strategic Development of the Group.

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

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

Ms. Chan Lai Shan, Camily, aged 40, joined the Group in November 2006. She is currently the Director – Operations Control of the Group.

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

A qualified accountant by profession, she is a member of both the Hong Kong Institute of Certified Accountants and a certified practicing accountant of CPA Australia. She also holds an MBA degree from the Hong Kong University of Science and Technology.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles set out in the Code on Corporate Governance Practices (the "Code") contained 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") to maintain a high standard of corporate governance. The board of directors of the Company (the "Directors" or "Board") assumes responsibility for leadership and control of the Company and be collectively responsible for promoting the success of the Company by directing and supervising the Company's affairs.

The Board always endeavor to take decisions objectively in the interests of the Company. In practising corporate governance in line with, sometimes exceeding, the Code provisions, the Board is conscientious as to the need for transparency of operations of the Company for the benefits of its shareholders and the investing public.

Throughout the year ended December 31, 2010, the Company met all the provisions on the Code contained in Appendix 15 of the GEM Listing Rules and, where appropriate, recommended best practices.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than that required standard of dealing set out in Rules 5.48 to 5.67 of the GEM Listing Rules.

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

BOARD OF DIRECTORS

The Board was made up of the following Directors who served throughout the year:

Executive Directors:

Mr. Ko Chun Fung, Henry *(Chief Executive Officer)*
Mr. Moumouris, Christos
Mr. Derempeoglou, Georgios
(resigned on February 1, 2010)

Non-executive Directors:

Mr. Chan Sek Keung, Ringo *(Chairman)*
Mr. Wang, John Peter Ben

Independent non-executive Directors:

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

CORPORATE GOVERNANCE REPORT

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

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

Director	**Attendance (rate)**
Mr. Chan Sek Keung, Ringo	14 (100%)
Mr. Ko Chun Fung, Henry	14 (100%)
Mr. Moumouris, Christos	13 (93%)
Mr. Wang, John Peter Ben	12 (86%)
Mr. Tsoi, David	14 (100%)
Mr. Pang Hing Chung, Alfred	14 (100%)
Mr. So Lie Mo, Raymond	14 (100%)
Mr. Derempeoglou, Georgios (resigned on February 1, 2010)	0 (0%)*

* *No meeting was held during the period from January 1, 2010 to February 1, 2010.*

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

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

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

Every independent non-executive Director has submitted to the Company a written confirmation, stating his independence upon his appointment with reference to the criteria affecting independence, as set out in the GEM Listing Rules. Each has declared his past or present financial or other interest in the business of the Company or its subsidiaries or his connection with any connected person (as defined in the GEM Listing Rules) of the Company, if any.

All Directors do not have any financial, business, family or other material/relevant relationships with each other, in particular there are none between the Chairman and the Chief Executive Officer.

CORPORATE GOVERNANCE REPORT

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

During the year, the roles of the Chairman and Chief Executive Officer were segregated and not exercised by the same individual.

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

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

NON-EXECUTIVE DIRECTORS

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

REMUNERATION OF DIRECTORS

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

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

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

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

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

Director	**Attendance (rate)**
Mr. Tsoi, David	1 (100%)
Mr. Chan Sek Keung, Ringo	1 (100%)
Mr. So Lie Mo, Raymond	1 (100%)

CORPORATE GOVERNANCE REPORT

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

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

NOMINATION OF DIRECTORS

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

The Nomination Committee was made up of the following Directors:

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

During the year, there had been no major appointments to the Company and the Nomination Committee met once with attendance as shown below:

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

AUDITOR'S REMUNERATION

At the annual general meeting of the Company held on May 11, 2010, Messrs. Deloitte Touche Tohmatsu were re-appointed as external auditor of the Company and the Group until the conclusion of the next annual general meeting.

On the recommendation of the Audit Committee, the Board has agreed to the fee of HK$1,170,000 for the audit of the Group's accounts for the year ended December 31, 2010.

The external auditor is refrained from engaging in non-audit services except for agreed-upon procedures for reviewing the Company's final results announcement for a fee of HK$20,000.

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE

The Audit Committee of the Board was established in 2002 with written terms of reference.

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

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

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

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

During the year, the Audit Committee held meetings to discuss and review quarterly, interim and annual results of the Group. It also discussed with the external auditor on significant audit, accounting and internal control issues arising from the external auditor's audit of the annual accounts.

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR ACCOUNTS

The Directors' responsibilities for preparing the financial statements and the reporting responsibilities of the external auditor are set out on page 34 of this annual report.

INTERNAL CONTROLS

The Board acknowledges its overall responsibility for the establishment and maintenance of a sound system of internal controls and risk management to safeguard the shareholders' investment and the Group's assets. Furthermore, an overall review on the effectiveness of the system of internal controls of the Group was conducted by the Audit Committee with special focus, by rotation and engaging external professionals, where applicable.

DIRECTORS' REPORT

The directors present their annual report and the audited consolidated financial statements for the year ended December 31, 2010.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of the Company's principal subsidiaries, associates and jointly controlled entities are set out in notes 43, 18 and 19 respectively to the consolidated financial statements.

In prior years, the Group was also engaged in the business of network system integration solutions. These operations were discontinued in the year of 2009 as set out in note 10.

RESULTS

The results of the Group for the year ended December 31, 2010 are set out in the consolidated statement of comprehensive income on page 36 of this annual report.

The directors do not recommend the payment of a dividend.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of the movements during the year in the share capital of the Company are set out in note 29 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at December 31, 2010, no reserve was available for distribution to the owners of the Company (2009: Nil).

DIRECTORS' REPORT

DIRECTORS

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

Executive directors:

Mr. Ko Chun Fung, Henry *(Chief Executive Officer)*
Mr. Moumouris, Christos
Mr. Derempeoglou, Georgios (resigned on February 1, 2010)

Non-executive directors:

Mr. Chan Sek Keung, Ringo *(Chairman)*
Mr. Wang, John Peter Ben

Independent non-executive directors:

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

In accordance with Article 87 of the Company's Articles of Association, Mr. Moumouris, Christos, Mr. Tsoi, David and Mr. Pang Hing Chung, Alfred retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

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

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

As at December 31, 2010, the interests of the directors, the chief executive and their respective associates in the shares, underlying shares and debentures or short positions and share options of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of the Company as referred to in Rule 5.46 of the GEM Listing Rules, were as follows:

DIRECTORS' REPORT

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

	Number of shares			
Name of director	**Beneficial owner**	**Held by controlled corporation(s)**	**Total number of shares**	**Approximate percentage of issued share capital of the Company** *(Note 1)*
Mr. Chan Sek Keung, Ringo ("Mr. Chan")	18,876,000	34,400,000 *(Note 2)*	53,276,000	10.60%
Mr. Tsoi, David	788,500	–	788,500	0.16%
Mr. Pang Hing Chung, Alfred	1,500,000	–	1,500,000	0.30%

Notes:

(1) As at December 31, 2010, the total number of issued shares of the Company was 502,621,933.

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

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

Name of director	**Capacity**	**Number of share options held**	**Number of underlying shares**
Mr. Ko Chun Fung, Henry	Beneficial owner	13,354,000	13,354,000
Mr. Moumouris, Christos	Beneficial owner	5,620,000	5,620,000
Mr. Chan Sek Keung, Ringo	Beneficial owner	9,200,000	9,200,000
Mr. Wang, John Peter Ben	Beneficial owner	11,846,000	11,846,000
Mr. Tsoi, David	Beneficial owner	587,500	587,500
Mr. Pang Hing Chung, Alfred	Beneficial owner	400,000	400,000
Mr. So Lie Mo, Raymond	Beneficial owner	400,000	400,000
		41,407,500	41,407,500

Save as disclosed above, none of the directors, chief executive and their respective associates, had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at December 31, 2010.

DIRECTORS' REPORT

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 30 to the consolidated financial statements.

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

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

(a) Pre-IPO share option scheme

Type of participant	Date of grant	Exercisable period	Exercise price per share	Number of share options outstanding as at 1.1.2010 and 12.31.2010
			HK$	
Director:				
Mr. Chan Sek Keung, Ringo	4.30.2002	11.17.2002 to 4.29.2012	0.55	3,000,000

No option under the pre-IPO share option scheme has been granted, exercised, cancelled or lapsed during the year ended December 31, 2010.

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

DIRECTORS' REPORT

(b) Post-IPO share option scheme

Type of participants	Date of grant	Exercisable period	Exercise price per share	Number of share options: Outstanding at 1.1.2010	Granted during the year	Reclassified during the year	Exercised during the year	Lapsed during the year	Outstanding at 12.31.2010
			HK$				*(Note 6)*		
Directors:									
Mr. Ko Chun Fung, Henry	3.31.2008 *(Note 3)*	10.1.2008 to 3.31.2018	0.890	4,354,000	–	–	–	–	4,354,000
	7.10.2009 *(Note 4)*	7.10.2010 to 7.9.2019	0.367	4,000,000	–	–	–	–	4,000,000
	11.18.2010 *(Note 3)*	5.18.2011 to 11.17.2020	0.152 *(Note 5)*	–	5,000,000	–	–	–	5,000,000
Mr. Moumouris, Christos	2.16.2009 *(Note 4)*	2.16.2010 to 2.15.2019	0.300	2,120,000	–	–	–	–	2,120,000
	7.10.2009 *(Note 4)*	7.10.2010 to 7.9.2019	0.367	2,500,000	–	–	–	–	2,500,000
	11.18.2010 *(Note 3)*	5.18.2011 to 11.17.2020	0.152 *(Note 5)*	–	1,000,000	–	–	–	1,000,000
Mr. Chan Sek Keung, Ringo	2.20.2003 *(Note 2)*	2.20.2004 to 2.19.2013	0.138	1,200,000	–	–	–	–	1,200,000
	7.10.2009 *(Note 4)*	7.10.2010 to 7.9.2019	0.367	3,000,000	–	–	–	–	3,000,000
	11.18.2010 *(Note 3)*	5.18.2011 to 11.17.2020	0.152 *(Note 5)*	–	2,000,000	–	–	–	2,000,000
Mr. Wang, John Peter Ben	3.31.2008 *(Note 3)*	10.1.2008 to 3.31.2018	0.890	3,846,000	–	–	–	–	3,846,000
	7.10.2009 *(Note 4)*	7.10.2010 to 7.9.2019	0.367	3,000,000	–	–	–	–	3,000,000
	11.18.2010 *(Note 3)*	5.18.2011 to 11.17.2020	0.152 *(Note 5)*	–	5,000,000	–	–	–	5,000,000
Mr. Tsoi, David	1.12.2007 *(Note 2)*	1.12.2008 to 1.11.2017	0.088	375,000	–	–	(187,500)	–	187,500
	7.10.2009 *(Note 4)*	7.10.2010 to 7.9.2019	0.367	200,000	–	–	–	–	200,000
	11.18.2010 *(Note 3)*	5.18.2011 to 11.17.2020	0.152 *(Note 5)*	–	200,000	–	–	–	200,000
Mr. Pang Hing Chung, Alfred	7.10.2009 *(Note 4)*	7.10.2010 to 7.9.2019	0.367	200,000	–	–	–	–	200,000
	11.18.2010 *(Note 3)*	5.18.2011 to 11.17.2020	0.152 *(Note 5)*	–	200,000	–	–	–	200,000
Mr. So Lie Mo, Raymond	7.10.2009 *(Note 4)*	7.10.2010 to 7.9.2019	0.367	200,000	–	–	–	–	200,000
	11.18.2010 *(Note 3)*	5.18.2011 to 11.17.2020	0.152 *(Note 5)*	–	200,000	–	–	–	200,000
Mr. Derempeoglou, Georgios (resigned on February 1, 2010)	2.16.2009 *(Note 4)*	2.16.2010 to 2.15.2019	0.300	1,500,000	–	–	–	(1,500,000)	–
	7.10.2009 *(Note 4)*	7.10.2010 to 7.9.2019	0.367	1,500,000	–	–	–	(1,500,000)	–
				27,995,000	13,600,000	–	(187,500)	(3,000,000)	38,407,500

DIRECTORS' REPORT

Type of participants	Date of grant	Exercisable period	Exercise price per share	Number of share options: Outstanding at 1.1.2010	Granted during the year	Reclassified during the year	Exercised during the year	Lapsed during the year	Outstanding at 12.31.2010
			HK$				*(Note 6)*		
Substantial shareholder: *(Note 1)*	3.31.2008 *(Note 3)*	10.1.2008 to 3.31.2018	0.890	4,354,000	–	–	–	–	4,354,000
	7.10.2009 *(Note 4)*	7.10.2010 to 7.9.2019	0.367	4,000,000	–	–	–	–	4,000,000
	11.18.2010 *(Note 3)*	5.18.2011 to 11.17.2020	0.152 *(Note 5)*	–	5,000,000	–	–	–	5,000,000
				8,354,000	5,000,000	–	–	–	13,354,000
Employees:	2.23.2004 *(Note 2)*	2.23.2005 to 2.22.2014	0.165	42,500	–	–	(30,000)	(12,500)	–
	10.11.2004 *(Note 2)*	10.11.2005 to 10.10.2014	0.124	57,500	–	–	(57,500)	–	–
	1.12.2007 *(Note 2)*	1.12.2008 to 1.11.2017	0.088	215,000	–	(125,000)	(45,000)	–	45,000
	3.31.2008 *(Note 3)*	10.1.2008 to 3.31.2018	0.890	9,373,000	–	(700,000)	–	(1,459,000)	7,214,000
	2.16.2009 *(Note 4)*	2.16.2010 to 2.15.2019	0.300	3,200,000	–	–	–	–	3,200,000
	7.10.2009 *(Note 4)*	7.10.2010 to 7.9.2019	0.367	9,478,000	–	250,000	–	(600,000)	9,128,000
	11.18.2010 *(Note 3)*	5.18.2011 to 11.17.2020	0.152 *(Note 5)*	–	13,390,000	–	–	–	13,390,000
				22,366,000	13,390,000	(575,000)	(132,500)	(2,071,500)	32,977,000
Advisors: *(Note 1)*	2.23.2004 *(Note 2)*	2.23.2005 to 2.22.2014	0.165	24,000	–	–	(24,000)	–	–
	10.11.2004 *(Note 2)*	10.11.2005 to 10.10.2014	0.124	7,000	–	–	(7,000)	–	–
	1.12.2007 *(Note 2)*	1.12.2008 to 1.11.2017	0.088	2,720,000	–	125,000	(1,457,500)	–	1,387,500
	3.31.2008 *(Note 3)*	10.1.2008 to 3.31.2018	0.890	5,906,000	–	700,000	–	–	6,606,000
	2.16.2009 *(Note 4)*	2.16.2010 to 2.15.2019	0.300	6,180,000	–	–	–	–	6,180,000
	7.10.2009 *(Note 4)*	7.10.2010 to 7.9.2019	0.367	6,880,000	–	(250,000)	–	–	6,630,000
	11.18.2010 *(Note 3)*	5.18.2011 to 11.17.2020	0.152 *(Note 5)*	–	7,200,000	–	–	–	7,200,000
				21,717,000	7,200,000	575,000	(1,488,500)	–	28,003,500
				80,432,000	39,190,000	–	(1,808,500)	(5,071,500)	112,742,000

DIRECTORS' REPORT

Notes:

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

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

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

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

(5) The closing price of the Company's shares immediately before November 18, 2010, the date of grant of the options, was HK$0.154.

(6) In respect of the share options exercised during the year, the weighted average closing price of the Company's shares immediately before the dates on which the share options were exercised was HK$0.29.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance to which the Company or any of its subsidiaries was a party and in which a director 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.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS

As at December 31, 2010, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of certain directors and the chief executive, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

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

	Number of shares			
Name of shareholder	**Beneficial owner**	**Held by controlled corporation(s)**	**Total number of shares**	**Approximate percentage of issued share capital of the Company** *(Note 1)*
Melco International Development Limited ("**Melco**")	–	58,674,619 *(Note 2)*	58,674,619	11.67%
Mr. Ho, Lawrence Yau Lung ("**Mr. Ho**")	–	58,674,619 *(Note 3)*	58,674,619	11.67%
Intralot S.A. Integrated Lottery Systems and Services ("**Intralot S.A.**")	–	52,973,779 *(Note 4)*	52,973,779	10.54%
Firich Enterprises Co., Ltd. ("**Firich**")	2,097,498	31,667,042 *(Note 5)*	33,764,540	6.72%

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

	Number of underlying shares			
Name of shareholder	**Beneficial owner**	**Held by controlled corporation(s)**	**Total number of underlying shares**	**Approximate percentage of issued share capital of the Company** *(Note 1)*
Melco	–	470,006,742 *(Note 2)*	470,006,742	93.51%
Mr. Ho	13,354,000 *(Note 6)*	470,006,742 *(Note 3)*	483,360,742	96.17%
Intralot S.A.	–	366,376,270 *(Note 4)*	366,376,270	72.89%
Firich	20,796,765	206,104,195 *(Note 5)*	226,900,960	45.14%

DIRECTORS' REPORT

Notes:

(1) As at December 31, 2010, the total number of issued shares of the Company was 502,621,933.

(2) Melco is deemed by the SFO to be interested in 58,674,619 shares of the Company and 470,006,742 underlying shares from convertible bonds in the Company as described in (7) below by virtue of its indirect holding of its wholly-owned subsidiaries, Melco Leisure and Entertainment Group Limited and Melco LottVentures Holdings Limited.

(3) Mr. Ho is deemed by the SFO to be interested in 58,674,619 shares of the Company and 470,006,742 underlying shares from convertible bonds in the Company as described in (7) below by virtue of his controlling interests in Melco, which is held by his controlled corporations, and his indirect holding of Melco Leisure and Entertainment Group Limited and Melco LottVentures Holdings Limited.

(4) Intralot S.A. is deemed by the SFO to be interested in 52,973,779 shares of the Company and 366,376,270 underlying shares from convertible bonds in the Company as described in (7) and (8) below by virtue of its indirect holding of its wholly-owned subsidiaries, Intralot Holdings International Limited and Intralot International Limited.

(5) Firich is deemed by the SFO to be interested in 31,667,042 shares of the Company and 206,104,195 underlying shares from convertible bonds in the Company as described in (7) below by virtue of its indirect holding of its wholly-owned subsidiaries, Firich International Co., Ltd., Global Crossing Holdings Ltd. and Toprich Company Limited.

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

(7) On December 13, 2007, the Company issued convertible bonds (the "Convertible Bonds I") with principal amount of HK$606,800,000 to Power Way Group Limited as part of the consideration for the acquisition of subsidiaries, which entitle the holder to convert them into 713,882,352 ordinary shares of the Company within 5 years from the date of issue at a conversion price of HK$0.85 per share subject to anti-dilutive adjustments. If the Convertible Bonds I have not been converted, they will be redeemed on maturity date of December 12, 2012. Power Way Group Limited had subsequently distributed all Convertible Bonds I to its shareholders, and as at December 31, 2010, as to principal amount of HK$399,585,732 by Melco LottVentures Holdings Limited, HK$192,865,817 by Firich and its associates and the balance of HK$14,428,451 by Intralot International Limited.

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

Save as disclosed above, the Company had not been notified of any other relevant interests or short positions in the shares or underlying shares in the Company as at December 31, 2010.

DIRECTORS' REPORT

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

CONTINUING CONNECTED TRANSACTIONS

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

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

The aggregate amounts for the year ended December 31, 2010 attributable to the Purchase Agreement and the Supply Agreement were HK$82.1 million and HK$1.0 million respectively.

On November 26, 2010, 伍盛 renewed the Purchase Agreement and the Supply Agreement with Firich for a term of three years ending December 31, 2013. The renewed annual cap amounts of the Purchase Agreement are HK$155 million, HK$202 million and HK$263 million and the renewed annual cap amounts of the Supply Agreement are HK$33 million, HK$43 million and HK$56 million for each of the three years ending December 31, 2011, 2012 and 2013, respectively. Details of the renewal were set out in the circular of the Company dated December 17, 2010.

(b) As announced by the Company on July 15, 2010, the Company and Intralot S.A. entered into a supply agreement, pursuant to which Intralot S.A. has agreed to advise on the supply, delivery and installation of the central system hardware, deliver and provide LOTOS Horizon Multimedia Controllers with customized system, together with implementation and maintenance services at the consideration not exceeding approximately HK$7,928,000 in the municipality of Chongqing, PRC. The supply agreement shall be effective from July 15, 2010 until June 30, 2012. Details of the transaction were set out in the announcement of the Company dated July 15, 2010.

DIRECTORS' REPORT

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

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

As at December 31, 2010, none of the directors or their respective associates had any interests in any business which competes or may compete with the business of the Group.

EMOLUMENT POLICY

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

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

The Company has adopted the share option schemes as an incentive to directors, eligible employees and advisors, details of the schemes are set out in note 30 to the consolidated financial statements.

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

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

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended December 31, 2010.

CHARITABLE DONATIONS

During the year, the Group made charitable donations amounting to approximately HK$2,280,000. (2009: Nil).

DIRECTORS' REPORT

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the purchases attributable to the Group's largest supplier, a substantial shareholder, Firich, of the Company amounted to approximately 96% of the Group's total purchases. The five largest suppliers of the Group comprised approximately 100% of the Group's total purchases.

During the year, the turnover attributable to the Group's largest customer, a jointly controlled entity of the Company, amounted to approximately 83% of the Group's total revenue. The five largest customers of the Group comprised approximately 94% of the Group's total revenue and Firich is a one of the five largest customers.

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

EVENTS AFTER THE REPORTING PERIOD

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

AUDITOR

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

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

On behalf of the Board

Ko Chun Fung, Henry
Executive Director and Chief Executive Officer

Hong Kong, March 23, 2011

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

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

We have audited the consolidated financial statements of MelcoLot Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 36 to 101 which comprise the consolidated statement of financial position as at December 31, 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the 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 AUDITOR'S REPORT

Opinion

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
March 23, 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2010

	NOTES	2010 HK$'000	2009 HK$'000
Continuing operations			
Revenue	6	**80,608**	86,110
Changes in inventories of finished goods and work-in-progress		**16,924**	(22,276)
Purchase of inventories and raw materials consumed		**(85,591)**	(42,176)
Other income and gains		**1,000**	1,867
Employee benefits costs		**(19,273)**	(22,939)
Depreciation and amortisation		**(22,009)**	(26,115)
Impairment loss on goodwill	16	**(38,791)**	(216,938)
Share of losses of associates	18	**(4,743)**	–
Share of profits of jointly controlled entities		**263**	116
Other expenses		**(25,457)**	(47,773)
Finance costs	8	**(78,155)**	(69,147)
Loss before taxation		**(175,224)**	(359,271)
Taxation	9	**3,939**	3,368
Loss for the year from continuing operations		**(171,285)**	(355,903)
Discontinued operations			
Loss for the year from discontinued operations	10	**–**	(41,457)
Loss for the year	11	**(171,285)**	(397,360)
Other comprehensive income (expense)			
Exchange differences arising on translation of foreign operations		**3,382**	6,681
Realised on disposal of subsidiaries		**–**	(6,457)
Total comprehensive expense for the year		**(167,903)**	(397,136)
Loss for the year attributable to:			
Owners of the Company		**(160,908)**	(388,019)
Non-controlling interests		**(10,377)**	(9,341)
		(171,285)	(397,360)
Total comprehensive expense attributable to:			
Owners of the Company		**(157,526)**	(387,795)
Non-controlling interests		**(10,377)**	(9,341)
		(167,903)	(397,136)
Loss per share	14		
From continuing and discontinued operations			
Basic and diluted		**(HK32.03 cents)**	(HK77.53 cents)
From continuing operations			
Basic and diluted		**(HK32.03 cents)**	(HK69.24 cents)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2010

	NOTES	2010 HK$'000	2009 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**9,831**	12,088
Goodwill	16	**27,903**	66,694
Intangible assets	17	**77,277**	95,524
Interests in associates	18	**8,257**	–
Interests in jointly controlled entities	19	**11,898**	11,635
Available-for-sale investment	20	**138,802**	138,102
Amount due from a related company			
– due after one year	21	**–**	10,000
		273,968	334,043
CURRENT ASSETS			
Inventories	22	**41,219**	18,779
Trade and other receivables	23	**38,251**	39,762
Amounts due from jointly controlled entities	24	**33,362**	34,477
Amounts due from related companies			
– due within one year	21	**10,503**	20,153
Amount due from an associate	27	**1,000**	–
Bank balances and cash	25	**43,978**	61,555
		168,313	174,726
CURRENT LIABILITIES			
Trade and other payables	26	**68,208**	42,004
Amounts due to related companies	21	**10,540**	8,029
Amount due to an associate	27	**6,139**	–
Tax payable		**2,321**	10,385
Loan from a related company	28	**80,000**	–
		167,208	60,418
NET CURRENT ASSETS		**1,105**	114,308
		275,073	448,351

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2010

	NOTES	2010 HK$'000	2009 HK$'000
CAPITAL AND RESERVES			
Share capital	29	**5,026**	5,008
Reserves		**(380,160)**	(227,073)
Equity attributable to owners of the Company		**(375,134)**	(222,065)
Non-controlling interests		**9,853**	20,883
TOTAL CAPITAL DEFICIENCY		**(365,281)**	(201,182)
NON-CURRENT LIABILITIES			
Loan from a related company	28	**–**	80,000
Convertible bonds	31	**640,354**	565,594
Deferred taxation	32	**–**	3,939
		640,354	649,533
		275,073	448,351

The consolidated financial statements on pages 36 to 101 were approved and authorised for issue by the Board of Directors on March 23, 2011 and are signed on its behalf by:

Chan Sek Keung, Ringo
DIRECTOR

Ko Chun Fung, Henry
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2010

	Attributable to owners of the Company									
	Share capital	Share premium	Share-based payment reserve	PRC statutory reserves	Convertible bonds equity reserve	Exchange reserve	Accumulated losses	Sub-total	Non-controlling interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(Note)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At January 1, 2009	4,994	368,540	16,244	5,589	645,492	37,184	(918,528)	159,515	30,224	189,739
Exchange differences arising on translation of foreign operations	–	–	–	–	–	6,681	–	6,681	–	6,681
Realised on disposal of subsidiaries	–	–	–	–	–	(6,457)	–	(6,457)	–	(6,457)
Loss for the year	–	–	–	–	–	–	(388,019)	(388,019)	(9,341)	(397,360)
Total comprehensive income (expense) for the year	–	–	–	–	–	224	(388,019)	(387,795)	(9,341)	(397,136)
Recognition of equity-settled share-based payments	–	–	6,103	–	–	–	–	6,103	–	6,103
Issue of ordinary shares upon exercise of share options	14	155	(57)	–	–	–	–	112	–	112
Transfer upon disposal of subsidiaries	–	–	–	(2,046)	–	–	2,046	–	–	–
At December 31, 2009	5,008	368,695	22,290	3,543	645,492	37,408	(1,304,501)	(222,065)	20,883	(201,182)
Exchange differences arising on translation of foreign operations	–	–	–	–	–	3,382	–	3,382	–	3,382
Loss for the year	–	–	–	–	–	–	(160,908)	(160,908)	(10,377)	(171,285)
Total comprehensive income (expense) for the year	–	–	–	–	–	3,382	(160,908)	(157,526)	(10,377)	(167,903)
Recognition of equity-settled share-based payments	–	–	4,300	–	–	–	–	4,300	–	4,300
Issue of ordinary shares upon exercise of share options	18	228	(89)	–	–	–	–	157	–	157
Dividend recognised as distribution to non-controlling shareholders of a subsidiary	–	–	–	–	–	–	–	–	(653)	(653)
At December 31, 2010	5,026	368,923	26,501	3,543	645,492	40,790	(1,465,409)	(375,134)	9,853	(365,281)

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2010

	2010 HK$'000	2009 HK$'000
OPERATING ACTIVITIES		
Loss for the year	**(171,285)**	(397,360)
Adjustments for:		
Allowance for inventories	**2,106**	1,036
Depreciation and amortisation	**22,009**	28,761
Equity-settled share-based payments	**4,300**	6,103
Impairment loss on intangible assets	**–**	8,412
Impairment loss on goodwill	**38,791**	216,938
Impairment loss on loan receivable	**–**	3,890
Income tax credit recognised in profit or loss	**(3,939)**	(1,368)
Interest expenses	**78,155**	72,066
Interest income	**(701)**	(440)
Loss on disposal of subsidiaries	**–**	14,637
Loss on disposal of/write-off of property, plant and equipment	**596**	8,498
Reversal of impairment loss on other receivables	**–**	(2,342)
Write-off of other receivables	**545**	522
Share of losses of associates	**4,743**	–
Share of profits of jointly controlled entities	**(263)**	(116)
Operating cash flows before movements in working capital	**(24,943)**	(40,763)
(Increase) decrease in inventories	**(23,149)**	42,920
Decrease in trade and other receivables	**2,220**	42,976
Decrease in amounts due from jointly controlled entities	**2,243**	9,981
Decrease (increase) in amounts due from related companies	**148**	(5)
Increase (decrease) in trade and other payables	**23,960**	(111,991)
Cash used in operations	**(19,521)**	(56,882)
Income taxes paid	**(8,123)**	(5,400)
NET CASH USED IN OPERATING ACTIVITIES	**(27,644)**	(62,282)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2010

	Note	**2010** **HK$'000**	2009 HK$'000
INVESTING ACTIVITIES			
Disposal of subsidiaries (net of cash and cash equivalents disposed of)	36	**20,000**	(34,970)
Interest received		**203**	440
Proceeds from disposal of property, plant and equipment		**63**	16
Investment in associates		**(6,861)**	–
Purchase of property, plant and equipment		**(1,766)**	(4,621)
Advance to an associate		**(1,000)**	–
Capital expenditure on intangible assets		**–**	(3,161)
Decrease in pledged bank deposits		**–**	13,876
NET CASH FROM (USED IN) INVESTING ACTIVITIES		**10,639**	(28,420)
FINANCING ACTIVITIES			
Interest paid		**(884)**	(3,803)
Payment of dividend to non-controlling shareholders of a subsidiary		**(653)**	–
Proceeds from exercise of share options		**157**	112
Repayment of bank and other borrowings		**–**	(65,439)
Bank and other borrowings raised		**–**	62,103
Advances from related companies		**–**	1,236
NET CASH USED IN FINANCING ACTIVITIES		**(1,380)**	(5,791)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(18,385)**	(96,493)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**61,555**	156,967
EFFECTS OF FOREIGN EXCHANGE RATE CHANGES		**808**	1,081
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash		**43,978**	61,555

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

1. GENERAL

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

The directors are of the opinion that the functional currency of the Company is Renminbi ("RMB"), after taking into consideration that the primary economic environment in which the Company operates is the People's Republic of China (the "PRC"). The consolidated financial statements are presented in Hong Kong dollars ("HK$") for the convenience of the shareholders, as the Company is listed in Hong Kong.

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

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The Company and its subsidiaries (the "Group") incurred a loss of approximately HK$171,285,000 for the year ended December 31, 2010 and as at that date, the Group had net liabilities of approximately HK$365,281,000. In preparing the consolidated financial statements, the directors of the Company have carefully reviewed the Group's financial position, future liquidity and cash flow forecast. In reviewing the Group's current and future financial position, the directors of the Company have considered the following factors:

- The ability to successfully restructure or replace the convertible bonds with equity instruments;
- The ability to successfully restructure or capitalise the loan from a related company to equity;
- New business opportunities; and
- Cost control measures.

The directors of the Company believe that, taking into account of the above factors, the Group's financial performance and liquidity will be improved and its financial position and the capital base will be strengthened and accordingly, have prepared the consolidated financial statements on a going concern basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following new and revised Standards and Interpretations ("new and revised Standards and Interpretations") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised 2008)	Business Combinations
HKAS 27 (Revised 2008)	Consolidated and Separate Financial Statements
HKAS 39 (Amendments)	Eligible Hedged Items
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners
HK – Int 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

HKAS 27 (Revised 2008) Consolidated and Separate Financial Statements and HKFRS 3 (Revised 2008) "Business Combination"

The requirements in HKAS 27 (Revised 2008) "Consolidated and Separate Financial Statements" in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are applied prospectively by the Group on or after January 1, 2010.

The impact of the adoption of HKAS 27 (Revised 2008) was that total comprehensive expense of a subsidiary was allocated to the non-controlling interests even when this resulted in the non-controlling interests having a deficit balance. The adoption of the accounting policy has resulted in a decrease in loss for the year attributable to owners of the Company by HK$4,891,000 and an increase in loss for the year attributable to non-controlling interests by the same amount. In addition, the basic and diluted loss per share was decreased by HK0.97 cents.

The Group also applies HKFRS 3 (Revised 2008) "Business Combination" prospectively to business combinations for which the acquisition date is on or after January 1, 2010. As there was no transaction during the current year in which HKFRS 3 (Revised 2008) is applicable, the application of HKFRS 3 (Revised 2008) and the consequential amendments to other HKFRSs had no effect on the consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised 2008) and the consequential amendments to the other HKFRSs are applicable.

Except as described above, the application of the new and revised Standards and Interpretations in the current year had had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

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

The Group has not early applied the following new and revised Standards and Interpretations that have been issued but are not yet effective:

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010[1]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[2]
HKFRS 9	Financial Instruments[3]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[4]
HKAS 24 (Revised 2009)	Related Party Disclosures[5]
HKAS 32 (Amendments)	Classification of Rights Issues[6]
HK(IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[5]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[7]

1 Effective for annual periods beginning on or after July 1, 2010 or January 1, 2011, as appropriate.
2 Effective for annual periods beginning on or after July 1, 2011.
3 Effective for annual periods beginning on or after January 1, 2013.
4 Effective for annual periods beginning on or after January 1, 2012.
5 Effective for annual periods beginning on or after January 1, 2011.
6 Effective for annual periods beginning on or after February 1, 2010.
7 Effective for annual periods beginning on or after July 1, 2010.

HKFRS 9 "Financial Instruments" (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 "Financial Instruments" (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

HKFRS 9 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. There will be no impact to the Group as there are no such financial liabilities.

The directors anticipate that HKFRS 9 will be adopted in the Group's consolidated financial statements for financial year ending December 31, 2013 and that the application of the new standard might have a significant impact on amounts reported in respect of the Group's available-for-sale investment, which is measured at cost less impairment at the end of each reporting period before the application of the new standard.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

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

The directors of the Company anticipate that the application of the other new and revised Standards and Interpretations will have no material impact on the consolidated financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to January 1, 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to accumulated losses). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Goodwill

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

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss recognised for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Interests in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's interests in associates. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Jointly controlled entities

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

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the jointly controlled entities. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of a jointly controlled entity recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's interests in jointly controlled entities. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with a jointly controlled entity, profits or losses resulting from the transactions with the jointly controlled entity are recognised in the Group's consolidated financial statements only to the extent of interest in the jointly controlled entity that are not related to the Group.

Revenue recognition

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

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

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

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

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset’s net carrying amount on initial recognition.

Property, plant and equipment

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

Depreciation is recognised so as to write off the cost of items of property, plant and equipment less their residual values over their estimated useful lives using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of the reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Leasing

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

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

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

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

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

Borrowing costs

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

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

Retirement benefit costs

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

Taxation

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Intangible assets

Intangible assets acquired separately

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets *(Continued)*

Research and development expenditure

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

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

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

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

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

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value using the weighted average cost method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Effective interest method

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

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

Loans and receivables

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

Available-for-sale financial assets

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

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

Impairment of financial assets

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment of financial assets *(Continued)*

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into other financial liabilities.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities including trade and other payables, amounts due to related companies and other loan from a related company are subsequently measured at amortised cost, using the effective interest method.

Convertible bonds

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Convertible bonds *(Continued)*

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

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

Equity instruments

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

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assts are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payment transactions

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

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

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

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

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

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

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

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

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit ("CGU") to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. During the year, the management performed an impairment assessment on goodwill and an impairment loss of HK$38,791,000 (2009: HK$216,938,000) was recognised in the consolidated financial statements.

As at December 31, 2010, the carrying amount of goodwill is HK$27,903,000 (2009: HK$66,694,000), net of accumulated impairment loss of HK$1,022,812,000 (2009: HK$984,021,000). Details of the recoverable amount calculation are disclosed in note 16.

Estimated impairment of intangible assets

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

As at December 31, 2010, the carrying amount of intangible assets related to lottery business is HK$77,277,000 (2009: HK$95,524,000), net of accumulated impairment loss of HK$95,958,000 (2009: HK$95,958,000).

Allowance for inventories

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

Where the Group identifies items of inventories which have a market price that is lower than its carrying amount, the Group accounts for the inventory loss in the consolidated statement of comprehensive income as allowance for inventories. Included in loss for the year is an amount of HK$2,106,000 (2009: Nil) in respect of write-down of finished goods to estimated net realisable values. As at December 31, 2010, the carrying amount of inventories is HK$41,219,000 (2009: HK$18,779,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

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

Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at December 31, 2010, the carrying amount of trade receivables is HK$13,260,000 (2009: HK$13,580,000).

6. REVENUE

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

	2010	2009
	HK$'000	*HK$'000*
Lottery business:		
Provision of management services for distribution of lottery products	**12,169**	11,101
Manufacturing and sales of lottery terminals and point of sales ("POS") machines	**68,439**	75,009
	80,608	86,110

7. SEGMENT INFORMATION

The Group disposed of its network system integration business in 2009. After the disposal, the Group's revenue and contribution to loss were solely derived from lottery business which comprises provision of management services for distribution of lottery products and manufacturing and sales of lottery terminals and POS machines. The chief operating decision makers review the internally reported information for the lottery business as a whole and review the consolidated financial information of the Group for purposes of resource allocation and performance assessment. Accordingly, the Group has only one operating segment, which is lottery business. No segment analysis is presented other than entity-wide disclosures.

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

Geographical information

The Group's operations are carried out in the PRC and revenue from external customers based on the location of goods delivered and are derived in the PRC. All the non-current assets (excluding financial instruments) are located in the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

7. SEGMENT INFORMATION *(Continued)*

Information about major customers

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

The largest customer (2009: each of the two of the largest customers) of the Group contributed more than 10% of the Group's revenue for the current year. For the year ended December 31, 2010, revenue of HK$67,009,000 is attributed to this customer. For the year ended December 31, 2009, revenue of HK$45,462,000 and HK$22,200,000 were attributed to those two customers.

8. FINANCE COSTS

	2010	2009
	HK$'000	*HK$'000*
Continuing operations:		
Interest on:		
Loan from a related company wholly repayable within five years	**2,511**	4,000
Effective interest expense on convertible bonds	**75,644**	65,147
	78,155	69,147

9. TAXATION

	2010	2009
	HK$'000	*HK$'000*
Continuing operations:		
PRC Enterprise Income Tax		
– Current year	**–**	1,228
Deferred taxation *(note 32)*		
– Current year	**(3,939)**	(4,596)
	(3,939)	(3,368)

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. No tax is payable on the profit for the year arising in Hong Kong since the Hong Kong subsidiaries have incurred losses from operations for both years.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

9. TAXATION *(Continued)*

A PRC subsidiary of the Group was approved as enterprise that satisfied the condition as advanced-technology development enterprise and obtained the Certificate of High New Technology Enterprise (the "Certificate") in 2007. Pursuant to an approval by the relevant PRC tax authority, that subsidiary was granted advanced-technology relief from PRC Enterprise Income Tax for three years which commenced from the year of grant, followed by 50% relief for the next three years, under the condition that the subsidiary able to renew the Certificate by each year. The first year of tax exemption granted to that subsidiary was year 2007 and the subsidiary continued to enjoy the preferential treatment until 2009. During the year, the subsidiary was unable to renew the Certificate and therefore subjected to the domestic income tax rate of 25%.

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

	2010	2009
	HK$'000	*HK$'000*
Loss before taxation from continuing operations	**(175,224)**	(359,271)
Tax at the domestic income tax at the rate of 25% *(Note)*	**(43,806)**	(89,818)
Tax effect of income not taxable for tax purposes	**(230)**	(140)
Tax effect of expenses not deductible for tax purposes	**32,703**	78,245
Tax effect of tax losses not recognised	**5,744**	7,536
Effect of different tax rates of subsidiaries operating in other jurisdictions	**530**	838
Tax effect of share of results of jointly controlled entities	**(66)**	(29)
Tax effect of share of results of associates	**1,186**	–
Taxation for the year relating to continuing operations	**(3,939)**	(3,368)

Note: The domestic income tax rate in the jurisdiction where the operation of the Group is substantially based is used.

At December 31, 2010, the Group has unused tax losses of approximately HK$95,093,000 (2009: HK$72,118,000) available to offset against future profits. No deferred tax asset has been recognised in respect of unused tax losses due to the unpredictability of future profit streams.

Included in unrecognised tax losses are losses of HK$84,444,000 (2009: HK$61,649,000) that will expire within 5 years from 2008. Other losses may be carried forward indefinitely.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

10. DISCONTINUED OPERATIONS

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

The loss from the discontinued operations is analysed as follows:

	2009 *HK$'000*
Loss of network system integration operations	(26,820)
Loss on disposal of network system integration operations (see note 36)	(14,637)
	(41,457)

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

	1.1.2009 to 12.30.2009 *HK$'000*
Revenue	240,319
Changes in inventories of finished goods and work-in-progress	(23,497)
Purchase of inventories and raw materials consumed	(174,534)
Other income and gains	1,142
Employee benefits costs	(29,276)
Depreciation and amortisation	(2,646)
Impairment loss on intangible assets	(8,412)
Other expenses	(24,997)
Finance costs	(2,919)
Loss before taxation	(24,820)
Taxation	(2,000)
Loss for the period	(26,820)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

10. DISCONTINUED OPERATIONS *(Continued)*

Loss for the period from discontinued operations included the following:

	1.1.2009 to 12.30.2009 *HK$'000*
Amortisation of intangible assets	1,223
Depreciation of property, plant and equipment	1,423
Total depreciation and amortisation	2,646
Directors' emoluments, including retirement benefit scheme contributions	1,542
Other staff costs:	
salaries and other benefits	23,782
retirement benefit scheme contributions	3,952
Total employee benefit expenses	29,276
Auditor's remuneration	460
Allowance for inventories	1,036
Impairment loss on intangible assets	8,412
Research and development costs recognised as an expense	452
Operating lease rentals in respect of office properties	3,867
Net foreign exchange loss	77
and after crediting:	
Bank interest income	310
Reversal of impairment loss on trade receivables	2,342

During the year ended December 31, 2009, Wafer Group contributed to the Group's cashflows a cash outflow of HK$46,115,000 to the Group's net operating cash flows, cash inflow of HK$9,261,000 in respect of investing activities and cash outflow of HK$6,255,000 in respect of financing activities.

The carrying amounts of the assets and liabilities of Wafer Group at the date of disposal are disclosed in note 36.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

11. LOSS FOR THE YEAR

Continuing operations

Loss for the year from continuing operations has been arrived at after charging:

	2010 HK$'000	2009 HK$'000
Amortisation of intangible assets	18,323	19,123
Depreciation of property, plant and equipment	3,686	6,992
Total depreciation and amortisation	22,009	26,115
Directors' emoluments	4,028	4,490
Other staff costs:		
Salaries and other benefits	11,215	12,951
Retirement benefit scheme contributions	1,190	1,430
Share-based payments	2,840	4,068
Total employee benefit expenses	19,273	22,939
Auditor's remuneration	1,170	1,040
Allowance for inventories	2,106	–
Write-off of other receivables	545	522
Impairment loss on loan receivable	–	3,890
Loss on disposal of/write-off of property, plant and equipment	596	8,498
Operating lease rentals in respect of land and buildings	4,134	5,013
Donation	2,280	–
Net foreign exchange loss	166	–
and after crediting:		
Bank interest income	78	119
Loan and other interest income	623	5
Net foreign exchange gain	–	449

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

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

	Chan Sek Keung, Ringo HK$'000	Ko Chun Fung, Henry HK$'000	Moumouris, Christos HK$'000 (note i)	Derempeoglous, Georgios HK$'000 (note ii)	Wang, John Peter Ben HK$'000 (note iii)	Tsoi, David HK$'000	Pang Hing Chung, Alfred HK$'000	So Lie Mo, Raymond HK$'000	Total HK$'000
2010									
Fees	–	–	–	–	120	144	120	132	516
Other emoluments									
Salaries and other benefits	–	2,040	–	–	–	–	–	–	2,040
Contributions to retirement benefit schemes	–	12	–	–	–	–	–	–	12
Share-based payments	290	424	358	–	330	19	19	20	1,460
Total emoluments	290	2,476	358	–	450	163	139	152	4,028

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

Notes:

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

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

Of the five individuals with the highest emoluments in the Group, one (2009: two) was/were director(s) of the Company whose emolument is included in the disclosures as above. The emoluments of the remaining four (2009: three) individuals were as follows:

	2010	2009
	HK$'000	*HK$'000*
Salaries and other benefits	**3,314**	2,563
Contributions to retirement benefit schemes	**48**	36
Share-based payments	**399**	243
	3,761	2,842

Their emoluments were within the following bands:

	2010	2009
	No. of employees	No. of employees
Nil to HK$1,000,000	**2**	2
HK1,000,001 to HK$1,500,000	**2**	1

During the years ended December 31, 2010 and 2009, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the two years.

13. DIVIDENDS

No dividend was declared or proposed during 2010, nor has any dividend been proposed since the end of the reporting period (2009: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

14. LOSS PER SHARE

The calculation of the basic and diluted loss per share for the year is based on the loss attributable to the owners of the Company of HK$160,908,000 (2009: HK$388,019,000) and on the weighted average number of 502,394,034 (2009: 500,495,926) ordinary shares in issue during the year.

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

From continuing operations in 2009

The calculation of the basic and diluted loss per share in 2009 from continuing operations attributable to the owners of the Company is based on the following data:

Loss per share are calculated as follows:

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

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

From discontinued operations in 2009

The basic and diluted loss per share for the discontinued operations in 2009 was HK8.28 cents per share based on the loss for the year from discontinued operations of HK$41,457,000 and the denominators detailed above for basic and diluted loss per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

15. PROPERTY, PLANT AND EQUIPMENT

	Lottery terminals	Machinery and equipment	Furniture, fixtures and equipment	Motor vehicles	Tools	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST						
At January 1, 2009	14,806	14,701	18,242	1,261	8,072	57,082
Additions	–	2,245	887	61	1,428	4,621
Write-off	(10,314)	(896)	(9,031)	–	–	(20,241)
Disposals	–	–	–	–	(22)	(22)
Disposal of subsidiaries	–	(9,987)	(3,168)	(1,092)	(9,478)	(23,725)
At December 31, 2009	4,492	6,063	6,930	230	–	17,715
Additions	–	1,029	455	282	–	1,766
Disposals	(519)	(441)	(281)	(113)	–	(1,354)
Exchange realignment	179	366	191	14	–	750
At December 31, 2010	4,152	7,017	7,295	413	–	18,877
DEPRECIATION						
At January 1, 2009	2,490	10,952	4,749	1,061	7,021	26,273
Provided for the year	2,307	2,116	3,200	101	691	8,415
Eliminated on write-off	(3,250)	(381)	(4,122)	–	–	(7,753)
Eliminated on disposals	–	–	–	–	(6)	(6)
Disposal of subsidiaries	–	(9,651)	(2,853)	(1,092)	(7,706)	(21,302)
At December 31, 2009	1,547	3,036	974	70	–	5,627
Provided for the year	1,039	1,434	1,171	42	–	3,686
Eliminated on disposals	(297)	(239)	(115)	(44)	–	(695)
Exchange realignment	120	200	106	2	–	428
At December 31, 2010	2,409	4,431	2,136	70	–	9,046
CARRYING AMOUNTS						
At December 31, 2010	1,743	2,586	5,159	343	–	9,831
At December 31, 2009	2,945	3,027	5,956	160	–	12,088

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

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

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

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

16. GOODWILL

	2010	2009
	HK$'000	*HK$'000*
COST		
Balance at beginning and end of year	**1,050,715**	1,050,715
IMPAIRMENT		
Balance at beginning of year	**984,021**	767,083
Impairment loss recognised in the year	**38,791**	216,938
Balance at end of year	**1,022,812**	984,021
CARRYING AMOUNTS AT DECEMBER 31	**27,903**	66,694

For the purpose of impairment testing, goodwill with indefinite useful lives has been allocated to a group of CGUs comprising the lottery business only.

During the year, the directors of the Company performed an impairment review for goodwill with reference to the valuation carried out by Vigers Appraisal & Consulting Limited ("Vigers"), independent qualified professional valuers not connected with the Group. The impairment review takes into account the decrease in operating results of a subsidiary of the Group, which is wholly attributable to the operation of manufacturing and sales of lottery terminals. The valuation is based on value-in-use calculations. These calculations use cash flow projections based on most recent financial budgets approved by management of the Group, for the coming year and extrapolates the cash flows projection for the following 9 years with 5% growth rate (2009: 5%) and discount rate of 12% (2009: 13%). The cash flow projection for the coming year of 2011 is prepared on the key assumption made by the management of the Company that there will be an increase in demand on the new model of lottery terminals to be launched by the Group during 2011, and hence there will be an increase in operating cash flows to be generated by the lottery business in the coming years. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

The management of the Group determined the budgeted gross margin based on past performance. The weighted average growth rate used is consistent with the forecasts in the relevant industry. The discount rate used reflects specific risks relating to the relevant segment. The recoverable amount of the CGU based on value-in-use calculation is less than its carrying amount, accordingly, an impairment loss of HK$38,791,000 (2009: HK$216,938,000) was recognised during the year. The reduction in the recoverable amount of the lottery business was driven by decrease in profit margin than was expected for 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

17. INTANGIBLE ASSETS

	Software product development costs HK$'000 (note a)	Lottery software licences HK$'000 (note b)	License rights HK$'000 (note c)	Technology know-how HK$'000 (note d)	Total HK$'000
COST					
At January 1, 2009	27,098	75,035	161,586	25,252	288,971
Additions	3,161	–	–	–	3,161
Disposal of subsidiaries	(30,259)	–	–	–	(30,259)
At December 31, 2009	–	75,035	161,586	25,252	261,873
Exchange realignment	–	–	961	–	961
At December 31, 2010	–	75,035	162,547	25,252	262,834
AMORTISATION AND IMPAIRMENT					
At January 1, 2009	20,624	–	121,974	25,252	167,850
Provided for the year	1,223	–	19,123	–	20,346
Impairment loss recognised	8,412	–	–	–	8,412
Disposals of subsidiaries	(30,259)	–	–	–	(30,259)
At December 31, 2009	–	–	141,097	25,252	166,349
Provided for the year	–	–	18,323	–	18,323
Exchange realignment	–	–	885	–	885
At December 31, 2010	–	–	160,305	25,252	185,557
CARRYING AMOUNTS					
At December 31, 2010	–	75,035	2,242	–	77,277
At December 31, 2009	–	75,035	20,489	–	95,524

Notes:

(a) The Group's software product development costs are internally generated and amortised on a straight-line basis over the estimated useful life of 3 years. In 2009, the software product development costs were disposed of upon disposal of subsidiaries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

17. INTANGIBLE ASSETS *(Continued)*

Notes: (Continued)

(b) In September 2008, the Group acquired, inter alia, a perpetual, exclusive license right to use and sublicense the software in connection with projects initiated by China Sports Lottery Administration Centre and a perpetual, non-exclusive license right to use and sublicense the software in connection with projects initiated by China Welfare Lottery Issuing Centre. The lottery software licences (the "Software") is a system platform to support the sales of lottery and gaming operations.

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

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the coming year and extrapolates cash flows for the following 5 years using the linear progression method (2009: a constant of 8% growth rate), using a discount rate of 14% (2009: 14%). The directors are of the opinion that, with reference to the valuation carried out by Vigers, no impairment is recognised.

(c) The Group's license rights included certain rights of operating lottery games, sales of gaming products and the right to manufacture lottery machines in the PRC. The license rights are amortised on a straight-line basis over their estimated useful life of 5 years. As at December 31, 2010, the directors have performed impairment review for the license rights of operating lottery games and are in the opinion that no impairment is recognised. Other license rights have been fully amortised during the year.

(d) The Group's technology know-how represents online betting technology to be used for lottery business. A full impairment loss for the carrying amount of the technology know-how was recognised in previous years.

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

18. INTERESTS IN ASSOCIATES

	2010	2009
	HK$'000	*HK$'000*
Costs of unlisted investment in associates	**13,000**	–
Share of post-acquisition losses	**(4,743)**	–
	8,257	–

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For the year ended December 31, 2010

18. INTERESTS IN ASSOCIATES *(Continued)*

As at December 31, 2010, the Group had interests in the following associates:

Name of associate	Place of incorporation	Principal place of operations	Proportion of nominal value of issued share capital held indirectly by the Group	Principal activity
ChariLot Company Limited ("ChariLot")	Hong Kong	Hong Kong	40% *(note a)*	Provision of management services
China Excellent Net Technology Investment Limited ("China Excellent")	Hong Kong	Hong Kong	35% *(note b)*	Provision of management services for distribution of mobile lottery products

Notes:

(a) On June 21, 2010, Rising Move International Limited ("Rising Move"), a wholly-owned subsidiary of the Company, entered into an agreement with an independent third party, Calo Investments Limited ("Calo"), for the formation of ChariLot. ChariLot is set up primarily to be a vehicle for the investment in and operation of the lottery business in the PRC. ChariLot is beneficially owned as to 60% by Calo and 40% by Rising Move. The consideration payable by Calo for the 60% shareholding in ChariLot is HK$1.00 plus the services to be provided by Calo to ChariLot. The service provided by Calo is in relation to (1) obtain a supply agreement to be entered into by ChariLot in relation to the supply of the lottery terminal, provision of technical support, operation consultation and charity lottery fund raising solution to the potential lottery operator in the PRC on an exclusive basis; (2) consultancy service in relation to the lottery business operation and the business development network. The consideration payable by Rising Move for the 40% shareholding in ChariLot is HK$10,000,000. During the year, an amount of HK$3,861,000 has been paid.

Pursuant to the agreement, (i) if ChariLot fails to enter into a supply agreement with the potential lottery operator ("Supply Agreement") before June 30, 2011, Calo is obliged to transfer its entire shareholding, i.e. the 60% equity interests in ChariLot, to Rising Move at a cash consideration of HK$1.00; or (ii) if ChariLot enters into the Supply Agreement on or before 30 June 2011, Rising Move shall have the right to give a notice to Calo for share swap (the "Share Swap") in exchange of not more than existing 20% equity interests in ChariLot by issuing existing ordinary shares of the Company or by cash. Upon receipt of such notice in respect of the Share Swap from Rising Move, Calo and the Company shall negotiate in good faith for the Share Swap arrangement.

(b) On February 24, 2010, Rising Move entered into an agreement with an independent third party ("Partner") in relation to an acquisition of 35% equity interests in China Excellent at a consideration of HK$7,000,000. The principal activity of China Excellent is proposed to be a vehicle for investment in and operation of the mobile lottery business in the PRC.

During the year, the Group has paid HK$3,000,000 and the remaining HK$4,000,000 will be paid subject to conditions, including to obtain a license extension by the Partner for the welfare mobile lottery business in the PRC from Shanghai Welfare Lottery Issuing Centre.

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18. INTERESTS IN ASSOCIATES *(Continued)*

The summarised financial information in respect of the Group's associates is set out below:

	HK$'000
Total assets	10,671
Total liabilities	(1,103)
Net assets	9,568
Revenue	–
Loss for the year	6,434

19. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2010 **HK$'000**	2009 HK$'000
Cost of unlisted investment in jointly controlled entities	**26,529**	26,529
Share of post-acquisition loss	**(14,631)**	(14,894)
	11,898	11,635

As at December 31, 2010 and 2009, the Group had interests in the following jointly controlled entities:

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

Notes:

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

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

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

	2010	2009
	HK$'000	*HK$'000*
Current assets	**36,427**	43,279
Non-current assets	**432**	538
Current liabilities	**22,636**	30,375
Group's share of net assets of jointly controlled entities	**11,898**	11,635
Revenue recognised in profit or loss	**44,069**	53,638
Expenses recognised in profit or loss	**43,806**	53,522
Group's share of results of jointly controlled entities for the year	**263**	116

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

	2010	2009
	HK$'000	*HK$'000*
Unrecognised share of losses of a jointly controlled entity for the year	**3**	43
Accumulated unrecognised share of losses of a jointly controlled entity	**193**	190

20. AVAILABLE-FOR-SALE INVESTMENT

The available-for-sale investment represents a 14% equity interest in Nanum Lotto, Inc., a limited liability company incorporated in South Korea and possessing an exclusive lottery license to operate national online lotto games in South Korea. It is measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair value cannot be measured reliably.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

21. AMOUNTS DUE FROM (TO) RELATED COMPANIES

Details of amounts due from related companies are as follows:

	Notes	**2010**	2009	**Maximum balance outstanding during the year ended December 31, 2010**	Maximum balance outstanding during the year ended December 31, 2009
		HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Non-current					
Amount due from a company in which a director of the Company has beneficial interest	*(i)*	–	10,000	**10,000**	10,000
Current					
Amount due from a company controlled by a substantial shareholder of the Company	*(ii)*	–	148	**148**	148
Amount due from a company in which a director of the Company has beneficial interest	*(i)*	**10,503**	20,005	**20,623**	20,005
		10,503	20,153		

Notes:

(i) The amount relates to the deferred consideration receivable on disposal of subsidiaries in December 2009. The deferred consideration of HK$20,000,000 with accrued interest has been settled by the purchaser during the year. As at December 31, 2010, the remaining deferred consideration receivable of HK$10,000,000 in the form of a promissory note will be settled by the purchaser by March 31, 2011. The promissory note is guaranteed by a director of the Company and bears interest rate of 5% per annum. The amount is denominated in currency other than the functional currency of the relevant Group entity.

(ii) The amount was unsecured, interest-free and fully settled during the year.

The amounts due to related companies represent amount due to companies controlled by certain shareholders of the Company, which are unsecured, interest-free and repayable on demand. The amounts are denominated in currency other than the functional currency of the relevant Group entity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

22. INVENTORIES

	2010	2009
	HK$'000	*HK$'000*
Raw materials	**9,414**	3,898
Work-in-progress	**15,818**	6,133
Finished goods	**15,987**	8,748
	41,219	18,779

The Group has made an allowance for inventories of HK$2,106,000 (2009: Nil) in respect of write-down of finished goods to estimated net realisable value. At the end of the reporting period, included in the finished goods are amount of HK$6,261,000 (2009: Nil) which are held at net realisable value.

23. TRADE AND OTHER RECEIVABLES

	2010	2009
	HK$'000	*HK$'000*
Trade receivables	**13,260**	13,580
Other receivables	**23,631**	24,748
Prepayments and deposits	**1,360**	1,434
	38,251	39,762

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

	2010	2009
	HK$'000	*HK$'000*
Within 30 days	**5,831**	8,847
31 – 90 days	**371**	3
91 – 180 days	**612**	5
181 – 365 days	**407**	51
Over 365 days	**6,039**	4,674
	13,260	13,580

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

23. TRADE AND OTHER RECEIVABLES *(Continued)*

Included in the Group's trade receivable balance were debtors with aggregate carrying amount of HK$7,058,000 (2009: HK$4,730,000) which were past due at the end of the reporting period but not considered as impaired. Majority of the trade receivables that were neither past due nor impaired had no default repayment history. Included in trade receivables are amounts of HK$5,960,000 (2009: HK$9,257,000) due from non-controlling shareholders of a subsidiary. The amounts are unsecured, interest-free and repayable according to credit terms granted to the non-controlling shareholders.

Aging of trade receivables which are past due but not impaired

	2010 *HK$'000*	2009 *HK$'000*
91 – 180 days	**612**	5
181 – 365 days	**407**	51
Over 365 days	**6,039**	4,674
	7,058	4,730

Included in trade receivables due over 365 days but not impaired are amounts of HK$4,602,000 (2009: HK$ 4,674,000) due from non-controlling shareholders of a subsidiary which were allowed to overdue over 365 days. Trade receivables which over 365 days as at December 31, 2009 have been fully settled during 2010.

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

Movement in the allowance for trade and other receivables

	2010 *HK$'000*	2009 *HK$'000*
Balance at beginning of the year	**–**	18,895
Amounts written off during the year	**–**	(156)
Disposal of subsidiaries	**–**	(18,739)
Balance at end of the year	**–**	–

24. AMOUNTS DUE FROM JOINTLY CONTROLLED ENTITIES

	2010 *HK$'000*	2009 *HK$'000*
Amounts due from jointly controlled entities	**35,150**	36,265
Allowances made	**(1,788)**	(1,788)
	33,362	34,477

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

24. AMOUNTS DUE FROM JOINTLY CONTROLLED ENTITIES *(Continued)*

The aging analysis of amounts due from jointly controlled entities of trade nature based on the invoice date at the end of the reporting period is as follows:

	2010	2009
	HK$'000	*HK$'000*
Within 30 days	**22,151**	16,638
31 – 90 days	**11,211**	7,103
Over 90 days	**–**	10,736
	33,362	34,477

Included in the amounts due from jointly controlled entities were debtors with aggregate carrying amount of Nil (2009: HK$10,736,000) which were past due at the end of the reporting period but not considered as impaired. The Group reviews the credit quality and defines credit limits to these jointly controlled entities for whom had no default repayment history. Limits attributed to these jointly controlled entities are reviewed once a year. The remaining debtors that were neither past due nor impaired has good crediting rating. The Group maintains a defined credit policy to assess the credit quality of these jointly controlled entities. The collection is closely monitored to minimise any credit risk associated with these jointly controlled entities.

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

25. BANK BALANCES AND CASH

Bank balances and cash comprised of bank deposits with maturity of less than three months at prevailing market interest rate of 0.02% (2009: 0.02%) per annum and cash on hand.

At the end of the reporting period, an amount of HK$30,128,000 (2009: HK$36,936,000) is denominated in currency other than the functional currency.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

26. TRADE AND OTHER PAYABLES

	2010	2009
	HK$'000	*HK$'000*
Trade payables *(note)*	**62,220**	31,311
Other payables	**4,963**	4,702
Accruals	**1,025**	5,991
	68,208	42,004

The trade payables presented based on the invoice date at the end of the reporting period are aged within 30 days for both years.

Note: Included in trade payables are amounts of HK$62,128,000 (2009: HK$31,265,000) due to non-controlling shareholders of a subsidiary. The amounts are unsecured, interest-free and repayable according to credit terms granted by the non-controlling shareholders.

27. AMOUNT DUE FROM (TO) AN ASSOCIATE

The amounts are unsecured, interest-free and repayable on demand. It is denominated in the currency other than the functional currency of the relevant group entity.

28. LOAN FROM A RELATED COMPANY

As at December 31, 2010, the loan from a related company beneficially owned by shareholders of the Company is unsecured, carries interest at 5% from drawdown date on July 14, 2008 up to July 14, 2010 and changed to 1% when extended the repayment date from July 14, 2010 up to July 14, 2011 and is repayable on July 14, 2011 together with all interests accrued. The entire amount of loan is therefore presented as current liabilities at the end of the reporting period.

Subsequent to the end of reporting period, the loan has been further extended one year to July 14, 2012 with other terms remain unchanged.

This loan is denominated in the currency other than the functional currency of the relevant group entity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

29. SHARE CAPITAL

	Number of ordinary shares	Amount *HK$'000*
Ordinary shares of HK$0.01 each:		
Authorised:		
At January 1, 2009, December 31, 2009 and December 31, 2010	2,000,000,000	20,000
Issued and fully paid:		
At January 1, 2009	499,430,433	4,994
Exercise of share options	1,383,000	14
At December 31, 2009	500,813,433	5,008
Exercise of share options	1,808,500	18
At December 31, 2010	502,621,933	5,026

30. SHARE-BASED PAYMENT TRANSACTIONS

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

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

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

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

Type of participant	Date of grant	Exercisable period	Exercise price per share	Number of share options outstanding at 1/1/2009 12/31/2009 and 12/31/2010
			HK$	
Directors	4/30/2002 (note)	11/17/2002 to 4/29/2012	0.55	3,000,000
Exercisable at the end of the year				3,000,000

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

(b) Post-IPO Share Option Scheme

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

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

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

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

				Number of share options					
Type of participant	Date of grant	Exercisable period	Exercise price per share *HK$*	Outstanding at 1/1/2010	Granted during the year	Reclassified during the year	Exercised during the year	Forfeited during the year	Outstanding at 12/31/2010
Directors	2/20/2003 *(note 3)*	2/20/2004 to 2/19/2013	0.138	1,200,000	-	-	-	-	1,200,000
	1/12/2007 *(note 3)*	1/12/2008 to 1/11/2017	0.088	375,000	-	-	(187,500)	-	187,500
	3/31/2008 *(note 5)*	10/1/2008 to 3/31/2018	0.890	8,200,000	-	-	-	-	8,200,000
	2/16/2009 *(note 6)*	2/16/2010 to 2/15/2019	0.300	3,620,000	-	-	-	(1,500,000)	2,120,000
	7/10/2009 *(note 6)*	7/10/2010 to 7/9/2019	0.367	14,600,000	-	-	-	(1,500,000)	13,100,000
	11/18/2010 *(note 5)*	5/18/2011 to 11/17/2020	0.152	-	13,600,000	-	-	-	13,600,000
Substantial Shareholder	3/31/2008 *(note 5)*	10/1/2008 to 3/31/2018	0.890	4,354,000	-	-	-	-	4,354,000
	7/10/2009 *(note 6)*	7/10/2010 to 7/9/2019	0.367	4,000,000	-	-	-	-	4,000,000
	11/18/2010 *(note 5)*	5/18/2011 to 11/17/2020	0.152	-	5,000,000	-	-	-	5,000,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

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

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

Type of participant	Date of grant	Exercisable period	Exercise price per share	Number of share options: Outstanding at 1/1/2010	Granted during the year	Reclassified during the year	Exercised during the year	Forfeited during the year	Outstanding at 12/31/2010
			HK$						
Employees	2/23/2004 *(note 3)*	2/23/2005 to 2/22/2014	0.165	42,500	-	-	(30,000)	(12,500)	-
	10/11/2004 *(note 3)*	10/11/2005 to 10/10/2014	0.124	57,500	-	-	(57,500)	-	-
	1/12/2007 *(note 3)*	1/12/2008 to 1/11/2017	0.088	215,000	-	(125,000)	(45,000)	-	45,000
	3/31/2008 *(note 5)*	10/1/2008 to 3/31/2018	0.890	9,373,000	-	(700,000)	-	(1,459,000)	7,214,000
	2/16/2009 *(note 6)*	2/16/2010 to 2/15/2019	0.300	3,200,000	-	-	-	-	3,200,000
	7/10/2009 *(note 6)*	7/10/2010 to 7/9/2019	0.367	9,478,000	-	250,000	-	(600,000)	9,128,000
	11/18/2010 *(note 5)*	5/18/2011 to 11/17/2020	0.152	-	13,390,000	-	-	-	13,390,000
Advisors *(note 2)*	2/23/2004 *(note 3)*	2/23/2005 to 2/22/2014	0.165	24,000	-	-	(24,000)	-	-
	10/11/2004 *(note 3)*	10/11/2005 to 10/10/2014	0.124	7,000	-	-	(7,000)	-	-
	1/12/2007 *(note 3)*	1/12/2008 to 1/11/2017	0.088	2,720,000	-	125,000	(1,457,500)	-	1,387,500
	3/31/2008 *(note 5)*	10/1/2008 to 3/31/2018	0.890	5,906,000	-	700,000	-	-	6,606,000
	2/16/2009 *(note 6)*	2/16/2010 to 2/15/2019	0.300	6,180,000	-	-	-	-	6,180,000
	7/10/2009 *(note 6)*	7/10/2010 to 7/9/2019	0.367	6,880,000	-	(250,000)	-	-	6,630,000
	11/18/2010 *(note 5)*	5/18/2011 to 11/17/2020	0.152	-	7,200,000	-	-	-	7,200,000
				80,432,000	39,190,000	-	(1,808,500)	(5,071,500)	112,742,000
Exercisable at the end of the year				29,359,000					42,274,640

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

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

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

				Number of share options				
Type of participant	Date of grant	Exercisable period	Exercise price per share HK$	Outstanding at 1/1/2009	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 12/31/2009
Directors	2/20/2003 *(note 3)*	2/20/2004 to 2/19/2013	0.138	1,200,000	–	–	–	1,200,000
	1/12/2007 *(note 3)*	1/12/2008 to 1/11/2017	0.088	562,500	–	(187,500)	–	375,000
	12/7/2007 *(note 4)*	6/7/2008 to 12/6/2009	2.720	1,150,000	–	–	(1,150,000)	–
	3/31/2008 *(note 5)*	10/1/2008 to 3/31/2018	0.890	8,200,000	–	–	–	8,200,000
	2/16/2009 *(note 6)*	2/16/2010 to 2/15/2019	0.300	–	3,620,000	–	–	3,620,000
	7/10/2009 *(note 6)*	7/10/2010 to 7/9/2019	0.367	–	14,600,000	–	–	14,600,000
Substantial Shareholder	3/31/2008 *(note 5)*	10/1/2008 to 3/31/2018	0.890	4,354,000	–	–	–	4,354,000
	7/10/2009 *(note 6)*	7/10/2010 to 7/9/2019	0.367	–	4,000,000	–	–	4,000,000
Employees	2/23/2004 *(note 3)*	2/23/2005 to 2/22/2014	0.165	57,500	–	(10,000)	(5,000)	42,500
	10/11/2004 *(note 3)*	10/11/2005 to 10/10/2014	0.124	65,000	–	–	(7,500)	57,500
	1/12/2007 *(note 3)*	1/12/2008 to 1/11/2017	0.088	322,500	–	(107,500)	–	215,000
	12/7/2007 *(note 4)*	6/7/2008 to 12/6/2009	2.720	1,616,000	–	–	(1,616,000)	–
	3/31/2008 *(note 5)*	10/1/2008 to 3/31/2018	0.890	10,840,000	–	–	(1,467,000)	9,373,000
	2/16/2009 *(note 6)*	2/16/2010 to 2/15/2019	0.300	–	3,200,000	–	–	3,200,000
	7/10/2009 *(note 6)*	7/10/2010 to 7/9/2019	0.367	–	9,488,000	–	(10,000)	9,478,000

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For the year ended December 31, 2010

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

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

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

Notes:

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

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

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

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For the year ended December 31, 2010

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

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

Notes: (Continued)

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

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

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

In respect of the share options exercised during the year, the weighted average share price at the dates of exercise is HK$0.29 (2009: HK$0.26) and the weighted average closing price at the dates immediately before exercise dates is HK$0.29 (2009: HK$0.27).

The fair value of share options granted during the year ended December 31, 2009 and 2010 were calculated using the binomial pricing model. The inputs into the model were as follows:

	Grant dates of share options		
	2/16/2009	7/10/2009	**11/18/2010**
Number of options granted	13,000,000	34,968,000	**39,190,000**
Closing share price immediately before date of grant	HK$0.300	HK$0.360	**HK$0.154**
Exercise price	HK$0.300	HK$0.367	**HK$0.152**
Exercise multiplier	2.2 – 2.8	2.2 – 2.75	**2.2 – 2.8**
Expected volatility	79%	83%	**80.51%**
Option life	10 years	10 years	**10 years**
Risk-free interest rate	1.65%	2.4%	**2.45%**
Expected dividend yield	N/A	N/A	**N/A**
Fair value of an option	HK$0.1786	HK$0.1905	**HK$0.0802**

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

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

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

The Group recognised total expense of HK$4,300,000 for the year ended December 31, 2010 (2009: HK$6,103,000) in relation to share options granted by the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

31. CONVERTIBLE BONDS

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

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

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

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

	2010	2009
	HK$'000	*HK$'000*
Carrying amount at the beginning of the year	**565,594**	501,331
Interest charged *(note 8)*	**75,644**	65,147
Interest paid	**(884)**	(884)
Carrying amount at the end of the year	**640,354**	565,594

The amount is denominated in currency other than the functional currency of the relevant Group entity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

32. DEFERRED TAXATION

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

	Fair value adjustments of intangible assets on business combinations *HK$'000*
At January 1, 2009	8,535
Credit to profit or loss	(4,596)
At December 31, 2009	3,939
Credit to profit or loss	(3,939)
At December 31, 2010	–

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from January 1, 2008 onward. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to HK$52,282,000 (December 31, 2009: HK$52,847,000)as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

33. COMPANY'S FINANCIAL POSITION

Financial information of the Company at the end of the reporting period includes:

	2010 ***HK$'000***	2009 *HK$'000*
Total assets	**356,564**	401,868
Total liabilities	**730,267**	652,062
Share capital	**5,026**	5,008
Reserves *(note)*	**(378,729)**	(255,202)
Total equity	**(373,703)**	(250,194)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

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

Note:

	Share premium *HK$'000*	Share-based payment reserve *HK$'000*	Convertible bonds equity reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At January 1, 2009	368,540	16,244	645,492	(866,909)	163,367
Loss for the year and total comprehensive expense	–	–	–	(424,770)	(424,770)
Recognition of equity-settled share-based payments	–	6,103	–	–	6,103
Issue of ordinary shares upon exercise of share options	155	(57)	–	–	98
At December 31, 2009	368,695	22,290	645,492	(1,291,679)	(255,202)
Loss for the year and total comprehensive expense	–	–	–	(127,966)	(127,966)
Recognition of equity-settled share-based payments	–	4,300	–	–	4,300
Issue of ordinary shares upon exercise of share options	228	(89)	–	–	139
At December 31, 2010	368,923	26,501	645,492	(1,419,645)	(378,729)

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

In the opinion of the directors, the Company had no reserves available for distribution as at December 31, 2010 and 2009.

34. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of loan from a related company disclosed in note 28, convertible bonds disclosed in note 31, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital and reserves.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

35. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2010	2009
	HK$'000	*HK$'000*
Financial assets		
Loans and receivables		
(including cash and cash equivalents)	**125,734**	164,513
Available-for-sale financial asset	**138,802**	138,102
Financial liabilities		
Amortised cost	**802,216**	689,636

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, amounts due from jointly controlled entities, amount due from (to) related companies, amount due from (to) an associate, available-for-sale investment, bank balances and cash, trade and other payables, loan from a related company and convertible bonds. Details of these financial instruments are disclosed in respective notes. The risk associated with these financial instruments include: market risk (including interest rate risk, foreign currency risk and other price risk), credit risk and liquidity risk.

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

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

Market risk

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate consideration receivable from a related company (see note 21 for details), amount due from (to) associates (see note 27 for details), loan from a related company (see note 28 for details) and convertible bonds issued by the Company (see note 31 for details). The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances (see note 25 for details). The directors of the Company consider the Group's bank balances to cash flow interest rate risk is not significant as interest bearing bank balances are within short periods.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

35. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk (Continued)

Foreign currency risk

The Group's exposure to foreign currency risk related primarily to cash and cash equivalents, amount due from (to) related companies, amount due from (to) associates, convertible bonds and loan from a related company that are denominated in currencies other than the functional currency of the relevant group entities.

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

	Assets		**Liabilities**	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
HK$	**40,940**	64,767	**738,030**	651,289
USD	**691**	2,322	**–**	9,629

Sensitivity analysis

If RMB had strengthened by 5% against HK$, loss for the year ended December 31, 2010 would have been decreased by HK$34,855,000 (2009: HK$29,326,000). If RMB had strengthened by 5% against USD, loss for the year ended December 31, 2010 would have been increased by HK$35,000 (2009: decreased by HK$365,000). For a 5% weakening of RMB against the relevant currency, there would be an equal and opposite impact on the loss for both years.

Other price risk

The Group's available-for-sale investment carried at cost is exposed to other price risk. The management manages this exposure by focusing on that investment in its portfolio.

Credit risk

At December 31, 2010, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to perform an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced. The Group has concentration of credit risk as 94% (2009: 97%) of the Group's trade receivables are due from the Group's five largest customers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

35. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk (Continued)

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

Other than concentration of credit risk on liquid funds which are deposited with several banks with good reputation, amount due from a jointly controlled entity of HK$33,362,000 (2009: HK$34,477,000) which are mainly due from one party only, and the amount due from a related party in relation to the deferred consideration of acquisition of subsidiaries in prior years of HK$10,503,000 (2009: HK$30,005,000), the Group does not have any other significant concentration of credit risk.

Liquidity risk

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

35. FINANCIAL INSTRUMENTS *(Continued)*

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

Liquidity risk (Continued)

	Weighted average interest rate %	Less than 3 months or on demand *HK$'000*	3 months to 1 year *HK$'000*	1 – 5 years *HK$'000*	Total undiscounted cash flow *HK$'000*	Carrying amount at 12.31.2010 *HK$'000*
2010						
Non-derivative financial liabilities						
Trade and other payables	–	67,183	–	–	67,183	67,183
Amounts due to related companies	–	10,540	–	–	10,540	10,540
Amount due to an associate	–	6,139	–	–	6,139	6,139
Convertible bonds	0.10	–	884	884,834	885,718	640,354
Loan from a related company	2.37	–	80,400	–	80,400	80,000
Total		83,862	81,284	884,834	1,049,980	804,216

As disclosed in note 28, loan from a related party has been further extended the repayment date to July 14, 2012 subsequent to the end of the reporting period.

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

(c) Fair value

The fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

36. DISPOSAL OF SUBSIDIARIES

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

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

Note: As detailed in note 21, the deferred consideration of HK$20,000,000 has been settled by cash during the year and the remaining HK$10,000,000 in the form of a promissory note will be settled by the purchaser on or before March 31, 2011. The promissory note is guaranteed by a director of the Company and bears interest rate of 5% per annum.

The impact of the Wafer Group on the Group's results and cash flows in 2009 was disclosed in note 10.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

37. RETIREMENT BENEFITS PLAN

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

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

The total cost charged to the profit or loss of HK$1,202,000 (2009: HK$5,406,000) represents contributions paid and payable to the above schemes by the Group in respect of the current accounting period. As at December 31, 2010, all contributions in respect of the reporting period had been paid to the above schemes.

Included in amount charged to 2009 represents an amount of HK$3,952,000 contributions paid and payable to the above schemes under the discontinued operations.

38. PLEDGE OF ASSETS

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

39. OPERATING LEASES

The Group as lessee

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

	2010	2009
	HK$'000	*HK$'000*
Within one year	**3,202**	4,219
In the second to fifth year inclusive	**6,689**	7,159
More than five years	**–**	66
	9,891	11,444

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

40. OTHER COMMITMENTS

The Group has the following commitments at the end of the reporting period:

(1) As detailed in note 18, Rising Move entered into an agreement in relation to an acquisition of 35% equity interest in China Excellent for a consideration of HK$7,000,000. The Group has paid $3,000,000 for the acquisition of interest during the year. The Group is committed to pay for remaining HK$4,000,000 subject to conditions, including to obtain a license extension by the Partner for the welfare mobile lottery business in the PRC is satisfied.

(2) The Company and Intralot S.A., a public listed company on the Athens Exchange S.A., and a substantial shareholder of the Company, entered into a supply agreement, pursuant to which Intralot S.A. has agreed to advise on the supply, delivery and installation of the computerized lottery systems for the creation, delivery, display and management of rich multimedia content at multiple, geographically dispersed lottery venues at the total consideration not exceeding USD1,023,020 (approximate to HK$7,928,000). This installation will be made under the five-year upgrade agreement for the Shi Shi Cai game in the municipality of Chongqing in China, which was entered into between the Group and Chongqing Welfare Lottery Issuing Centre, and can be renewed for a further five years. The agreement will be valid until June 30, 2012. No payment has been made during the year and therefore, the amount is shown as other commitment at the end of the reporting period.

41. MAJOR NON-CASH TRANSACTIONS

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

42. RELATED PARTY DISCLOSURES

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

Class of related parties	Nature of transactions	2010 HK$'000	2009 HK$'000
Jointly controlled entity	Sales of lottery terminals and POS machines	**67,009**	45,462
Non-controlling shareholders of subsidiaries	Sales of lottery terminals and POS machines	**992**	26,117
	Purchases of materials	**82,142**	41,589
	Service income	**–**	1,268
A substantial shareholder which has significant influence over the Company and its subsidiaries	Service fee expense	**345**	886
A company beneficially owned by shareholders of the Company	Interest expense	**2,511**	4,000
A company in which a director of the Company has beneficial interest	Interest income	**623**	5

In 2009, the Group entered into a sale and purchase agreement with a related company, in which a director of the Company has beneficial interest, to dispose Wafer Group, which carried out all of the Group's network system integration operations, details of which are set out in note 10.

(b) Compensation of key management personnel

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

	2010 HK$'000	2009 HK$'000
Short-term benefits	**6,420**	7,628
Post-employment benefits	**63**	79
Share-based payments	**1,957**	2,724
	8,440	10,431

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

(c) Details of the share options granted to the directors are set out in note 30.

(d) The Group's outstanding balances with related parties are set out in the consolidated statement of financial position and in notes 21, 23, 24, 26, 27 and 28.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

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

Name of the company	Country of incorporation or establishment and operations	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company 2010		2009		Principal activities
			Directly	Indirectly	Directly	Indirectly	
Rising Move	British Virgin Islands	USD100	**100%**	**-**	100%	-	Investment holding
Precious Success Holdings Limited	British Virgin Islands	USD100	**-**	**100%**	-	100%	Investment holding
PAL Development Limited	Hong Kong	HK$250,000,000	**-**	**80%**	-	80%	Investment holding
Global Score Asia Limited	British Virgin Islands	USD20,000	**-**	**100%**	-	100%	Investment holding
Trade Express Services Inc.	British Virgin Islands	USD20,000	**-**	**80%**	-	80%	Investment holding
寶加(北京)信息技術有限公司	PRC#	HK$150,000,000	**-**	**100%**	-	100%	Provision of management services for distribution of lottery products
北京華盈風彩科技有限公司	PRC##	RMB18,000,000	**-**	**100%**	-	100%	Provision of management services for distribution of lottery products
山東省開創紀元電子商務信息有限公司(“開創紀元”)	PRC##	RMB2,666,700	**-**	**60%**	-	60%	Provision of management services for distribution of lottery products
Oasis Rich International Limited	Republic of Mauritius	USD700,000	**-**	**60%**	-	60%	Investment holding
伍盛計算機科技(上海)有限公司	PRC#	USD700,000	**-**	**100%**	-	100%	Manufacturing and sales of lottery terminals and POS machines
KTeMS Co. Limited	South Korea	KRW50,000,000	**-**	**100%**	-	100%	Management of lottery business

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

44. EVENT AFTER THE REPORTING PERIOD

On January 18, 2011, the Group entered into a supplemental agreement with Shandong Zhenglu Industrial Company Limited ("Shandong Zhenglu"), a non-controlling shareholder of 開創紀元, pursuant to which the registered capital of 開創紀元 will be increased from RMB2,666,700 to RMB10,000,000. The Group will contribute RMB4,900,000 and Shandong Zhenglu will contribute RMB2,433,300 of the increase in registered capital of 開創紀元. Pursuant to the supplemental agreement, the Group has also agreed to pay Shandong Zhenglu the sum of RMB2,433,300 for the services rendered by Shandong Zhenglu, which is to 開創紀元 in obtaining the telephone lottery license. Upon completion of the supplemental agreement, the Group will hold 65% equity interests in 開創紀元 which will continue to be treated as an indirect non-wholly-owned subsidiary of the Company.

FINANCIAL SUMMARY

	Year ended December 31				
	2006	2007	2008	2009	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
RESULTS					
Revenue					
– Continuing operations	–	291	180,716	86,110	**80,608**
– Discontinued operations	326,611	361,645	426,300	240,319	**–**
	326,611	361,936	607,016	326,429	**80,608**
Profit/(loss) for the year attributable to owners of the Company					
– Continuing operations	–	(480,525)	(434,656)	(346,562)	**(160,908)**
– Discontinued operations	5,101	5,077	(7,485)	(41,457)	**–**
	5,101	(475,448)	(442,141)	(388,019)	**(160,908)**

	As at December 31				
	2006	2007	2008	2009	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
ASSETS AND LIABILITIES					
Total assets	200,741	1,123,233	1,045,825	508,769	**442,281**
Total liabilities	(135,528)	(582,966)	(856,086)	(709,951)	**(807,562)**
	65,213	540,267	189,739	(201,182)	**(365,281)**
Equity (capital deficiency) attributable to owners of the Company	65,213	484,078	159,515	(222,065)	**(375,134)**
Non-controlling interests	–	56,189	30,224	20,883	**9,853**
	65,213	540,267	189,739	(201,182)	**(365,281)**