MelcoLot Limited

(incorporated in the Cayman Islands with limited liability)

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

Annual Report
2011

新濠環彩
MelcoLot

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

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

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

*This report, for which the directors of MelcoLot Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on 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.*

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Ko Chun Fung, Henry
(Chief Executive Officer)
Mr. Moumouris, Christos

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
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKERS

China Construction Bank (Asia) Corporation Limited
Bank of China (Hong Kong) Limited

AUDITOR

Deloitte Touche Tohmatsu

LEGAL ADVISORS

Michael Li & Co.
Zhong Lun Law Firm

COMPANY WEBSITE

www.melcolot.com

STOCK CODE

8198

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 31 December 2011.

During the year, the loss attributable to shareholders amounted to HK$209.2 million. The losses were primarily comprised of non-cash charges such as impairment losses on intangible assets and goodwill, depreciation and amortisation expenses and imputed interest on convertible bonds.

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

The Group is a prominent supplier of high quality, lottery terminals for the China Sports Lottery Association (the "CSLA"). The Company was impacted by the CSLA's new procurement cycle which did not commence during the year as expected. Consequently, the Group needed to adopt a low margin strategy to maintain market share and this considerably impacted top and bottom lines. The CSLA did commence the evaluation process for new terminals in the third quarter of 2011; however, no outcome is expected until the third quarter of 2012.

In this regard, the Group strengthened its position on the distribution side of the terminal business. The Group has acquired majority control of Beijing Telenet Information Technology Ltd. ("Beijing Telenet"), formerly a jointly controlled entity of the Group. As a result, the Group is now better positioned to benefit from any upsurge in the terminal distribution sector after the new procurement cycle of the CSLA commences.

The Group also acquired the remaining 20% stake in an operating subsidiary, PAL Development Limited ("PAL Development"), such that PAL Development is now the wholly owned subsidiary of the Group. In addition, the Group also increased the capitalization of its own stake in an operating subsidiary, 山東省開創紀元電子商務信息有限公司(“開創紀元”), which is engaged in telephone betting in Shandong. Further details are mentioned in the Acquisitions section of the Management Discussion and Analysis.

During the year, the Group streamlined operations in the retail business and implemented various cost-cutting measures. The Group made developmental efforts in the paperless channels of the distribution of lottery products and services. Along these lines, steady progress was made in developing the multimedia content distribution channel for the Shi Shi Cai game in Chongqing of the People's Republic of China (the "PRC") and in enhancing paperless platforms in Shandong and Shanghai of the PRC.

The foregoing strategic changes form part of the Group's ongoing efforts to enhance its operating structure and strengthen its financial position. The Group is also engaged in efforts to reduce its overall liabilities through reorganization. While no binding agreements have been entered into to date, the Group will comply with the relevant disclosure requirements and make announcements at the appropriate time.

CEO'S STATEMENT

PROSPECTS

According to the regulations on lottery management that were recently released by China's Ministry of Finance and Ministry of Civil Affairs, all lottery ticket sales by unlicensed organizations are designated as "illegal lotteries" as of 1 March 2012. As a result, many lottery websites in the PRC recently announced the suspension of lottery ticket sales for both the CSLA and the China Welfare Lottery Issuing Centre, pending approval by the regulatory bodies. These developments are anticipated to aid the formal and planned development of paperless lottery distribution channels. The implementation of standardized formal approval and operating requirements should aid the development of the industry as a whole. This environment could be favorable to organizations with access to advanced industry know-how and global best practices. The Group will seek to capitalize on its strategic relationship with global lottery industry leader Intralot S.A. Integrated Lottery Systems and Services ("Intralot S.A."), and existing licensing arrangements for the use of its technology in the PRC. Intralot S.A. offers custom-made integrated solutions that ensure maximum security to players, regulators and operators. It is renowned for advanced product development standards and has extensive experience as a supplier and operator in varied environments worldwide. This means that the Group has access to world class technology and cutting-edge solutions that can be deployed effectively in the PRC.

It is clear that the PRC lottery markets will be increasingly regulated by the government. The robust growth of the market sales also continues unabated. Paperless sales channels appear to be the next frontier for rapid growth expansion in the market. Within this scenario, management will focus its developmental efforts on leveraging its advanced expertise in the area of paperless lottery distribution channels and technology solutions.

The CSLA exercise to evaluate and approve lottery terminals under the new procurement cycle is now underway. Although this exercise has been significantly delayed over the past couple of years, there is more clarity now and it is expected that the certification of new terminals will be approved over the course of the year. By acquiring Beijing Telenet to strengthen its position in the terminal distribution business, the Group is in a better position to forge ahead once the new procurement cycle commences.

CONCLUSION

The Group has undertaken numerous strategic initiatives in alignment with the development of the PRC lottery market. In addition, various efforts are in progress to improve its operating and capital structure. The management team remains committed to identifying and capitalizing on sustainable, profitable opportunities. I am confident that the investments made over the past years and the ongoing initiatives will position us on an enduring path to long-term success. I look forward to the growth of the Company in partnership with our shareholders, suppliers, business partners, bankers and customers. The management and the Board remain resolutely committed to the future of the Company for the benefit of its shareholders.

Ko Chun Fung, Henry
Executive Director and Chief Executive Officer

Hong Kong, 28 March 2012

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is primarily engaged in the provision of lottery-related technologies, systems and solutions in Asia. It is a recognized manufacturer and distributor of high quality, versatile lottery terminals for the lottery authorities in the PRC. The Group has developed a wide retail presence across several provinces in the PRC by managing a network of retail outlets for the sale of lottery tickets, including the increasingly popular skill games (similar to fixed-odds betting). The Group is also engaged in the distribution of scratch card tickets for both China Welfare Lottery and China Sports Lottery. As the license holder in the PRC for Intralot S.A.'s world leading lottery technologies, the Group is the multimedia content distribution systems provider of the high frequency game "Shi Shi Cai" in the Chongqing municipality of the PRC. The Group is also a member of the Nanum Lotto consortium which is the exclusive operator of South Korea's national welfare lottery.

According to the Ministry of Finance, the total sale of lottery tickets in the PRC for the year 2011 were RMB221.6 billion, an increase of 33.3% year-on-year, which was comprised of 32% and 35% growth for Welfare Lottery and Sports Lottery respectively. In order to cope with this growing trend, strengthen its competitiveness and prepare for the new challenges in this market, the Group intends to carry out a reorganization of its lottery business, of which the acquisitions below are comprised.

ACQUISITIONS

(i) On 18 January 2011, the Group entered into a supplemental agreement with Shandong Zhenglu Industrial Company Limited ("Shandong Zhenglu"), the non-controlling shareholder of the Company's subsidiary, 開創紀元, established in the PRC, following which the registered capital of 開創紀元 was increased from RMB2,666,700 to RMB10,000,000. The Group and Shandong Zhenglu contributed RMB4,900,000 and RMB2,433,300 respectively for the additional capital. The Group has also agreed to pay the sum of RMB2,433,300 to Shandong Zhenglu for its services rendered for 開創紀元 to obtain the telephone lottery license in Shandong Province, the PRC. Upon completion of the supplemental agreement, the Group holds 65% equity interests in 開創紀元, which will continue to be treated as an indirect, non wholly-owned subsidiary of the Company.

(ii) As announced on 27 July 2011 by the Company, the board of directors of Beijing Telenet, formerly a jointly controlled entity of the Group established in the PRC and principally engaged in the distribution of lottery terminals in the PRC, passed a board resolution to amend its articles of association so that certain board resolutions relating to the financial and operating policies of Beijing Telenet could be passed by simple majority votes. Following the amendments, the Group has the voting rights to effectively control the board of Beijing Telenet. As such, Beijing Telenet became an indirect 52.5% owned subsidiary of the Company and its financial information has been consolidated into the financial statements of the Group since the acquisition.

MANAGEMENT DISCUSSION AND ANALYSIS

(iii) Pursuant to a sale and purchase agreement dated 19 September 2011, the Group acquired 20% interest in PAL Development, a Hong Kong incorporated company principally engaged in the lottery business in the PRC through its subsidiaries, from LottVision Investments Holdings Limited, a wholly-owned subsidiary of Singapore listed LottVision Limited, for a consideration of HK$250,000. Upon completion of the acquisition, PAL Development became an indirect, wholly-owned subsidiary of the Company.

In addition, the Company entered into negotiations with a number of parties in relation to the aforementioned group reorganization. Aside from the contents disclosed, no legally binding agreement or contract has been entered into as of the date of this report. The group reorganization, if implemented, will reduce the overall liabilities of the Group. The Company will comply with the relevant disclosure requirements and make further announcements in the event that the Company enters into any agreements which, if carried out, would constitute notifiable transactions of the Company under the GEM Listing Rules.

OUTLOOK

Paperless channels of distribution appear poised to steer in the next phase of rapid growth in the PRC lottery industry. The recent government directions were aimed at improving the regulation of internet lottery and are positive developments that are expected to promote the orderly growth of this sector of the market. It is also expected that paperless channels will impact the growth of traditional sales channels such as retail shops to some degree. In response to these developments, the Group has aligned its operations by focusing on paperless channels and technology solutions and is carefully rationalizing its venue management consultancy business.

The Group's project in Chongqing of the PRC, in regards to the popular Shi Shi Cai game, has shown steady development. The roll-out of the advanced multimedia content delivery system currently under implementation will enhance sales and lead to incremental revenues for the Group. In addition, it will serve as a model for projects in other provinces. The Group has also made significant progress in upgrading the paperless platform for ticket distribution in Shandong of the PRC.

Despite the fact that the PRC lottery industry continues to show strong year-on-year growth as a whole, sales remain low compared to other more developed nations in per capita terms. As the overall economy continues to register robust growth in the PRC, remarkable lottery industry growth is expected to continue in the mid-term. Against this backdrop, the Group continues to maintain a selective presence in various industry verticals such as venue management consultancy, scratch distribution and provision of terminals to lottery authorities.

In this regard, the commencement of the evaluation process of terminals for CSLA's new procurement cycle is a positive development. The Group's strategic move to acquire control over Beijing Telenet has positioned it well for continued and active participation in the terminal distribution business after commencement of the new procurement cycle.

MANAGEMENT DISCUSSION AND ANALYSIS

At a corporate level, the Group is actively developing an approach to significantly improve the capital structure and reduce the overall liabilities. This will strengthen the Group's position in exploiting new business opportunities.

FINANCIAL REVIEW

During the year, revenues of the Group increased by 20%, amounting to HK$96.6 million (2010: HK$80.6 million). The Group continues to be engaged in one operating segment which is the lottery business. The Group's revenue for the year is analyzed by two categories as follows:

(1) Provision of management services for the distribution of lottery products

Revenues from the provision of management services for the distribution of lottery products rose by 8%, amounting to HK$13.2 million (2010: HK$12.2 million), which was primarily generated by the management of lottery retail outlets, high frequency games outlets and the distribution of scratch cards in the PRC.

(2) Manufacturing and sales of lottery terminals

The Group also generated income from the manufacturing and sales of lottery terminals for China Sports Lottery Administration Centre ("CSLA"), amounting to HK$83.4 million for the year ended 31 December 2011 (2010: HK$68.4 million). A significant increase of 22% was due to the consolidation of the revenue of Beijing Telenet into the Group given that it became a non wholly-owned subsidiary in July 2011. The Group adopted a low-pricing strategy in order to maintain the market share since the new equipment procurement cycle of CSLA had not yet been finalized. The Group was working with another substantial shareholder of the Company, Firich Enterprises Co., Ltd. ("Firich"), which is listed on the Taiwan Gre Tai Securities Market. Firich is a leading, worldwide point-of-sale system manufacturer.

Operating results

The Group's loss for the year was HK$215.9 million, an increase of 26% from HK$171.3 million in 2010. This mainly included the following non-cash items:

(i) imputed interest on convertible bonds amounting to HK$88.3 million (2010: HK$75.6 million) due to the liability component of the convertible bonds carried at amortized costs by using the effective interest method;

(ii) one-off impairment loss on intangible assets in relation to the expiry of the exclusivity period for the lottery software licenses in December 2011 amounting to HK$75.0 million (2010: Nil);

(iii) depreciation and amortization expenses of property, plant and equipment and intangible assets of HK$6.7 million (2010: HK$22.0 million); and

(iv) other impairment losses collectively amounting to HK$43.5 million (2010: HK$38.8 million).

MANAGEMENT DISCUSSION AND ANALYSIS

The Group also incurred non-cash net foreign exchange gain of HK$36.3 million (2010: exchange loss of HK$166,000) mostly arising on translation of convertible bonds, which partly offset the above mentioned losses.

The Group has further streamlined its operations and imposed tight cost control measures in all applicable areas. For the year ended 31 December 2011, employee benefits costs amounted to HK$18.9 million (2010: HK$19.3 million), represented a decrease of 2% year-on-year. Upon absorbing the operating costs of Beijing Telenet, however, other administrative expenses increased to HK$28.3 million (2010: HK$25.5 million) for the year ended 31 December 2011. This represented an increase of 11% compared to the corresponding period in 2010.

The Group also shared losses of associates, which are in the development stage of paperless lottery sales channels, amounting to HK$4.0 million for the year ended 31 December 2011 (2010: HK$4.7 million).

A tax charge of approximately HK$113,000 was provided for the year ended 31 December 2011 in relation to the subsidiaries operating in the PRC. In the year 2010, a tax credit of HK$3.9 million arising from fair value adjustments of intangible assets on previous business combinations was recorded.

Basic loss per share for the year ended 31 December 2011 increased by 30% to HK41.60 cents (2010: HK32.03 cents).

SIGNIFICANT INVESTMENT HELD

Available-for-sale investment

At 31 December 2011, the available-for-sale investment with a carrying amount of HK$138.1 million (2010: HK$138.8 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 possesses an exclusive license to operate nation-wide lotteries in South Korea. No investment income was received from the available-for-sale investment for the year ended 31 December 2011 (2010: Nil).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group continues to manage its balance sheet thoroughly and maintains conservative policies in cash and financial management. Surplus funds were placed in interest-bearing deposits with banks. As at 31 December 2011, bank balances and cash, denominated principally in Hong Kong dollars and Renminbi, amounted to HK$26.7 million (2010: HK$44.0 million). The Group does not maintain any bank borrowings and generally financed its operations and serviced its debts with internal resources, comprised of a loan from a related company and convertible bonds.

The loan from a related company of HK$80 million, which is classified as a current liability of the Group, is repayable on 14 July 2012 and bears interest at 1% per annum. It is payable to a related company that is beneficially owned by two substantial shareholders of the Company. Subsequent to the end of the reporting period, the repayment date of the loan has been further extended by one year to 14 July 2013 with other terms remaining unchanged.

MANAGEMENT DISCUSSION AND ANALYSIS

The convertible bonds, with a total principal amount of HK$884.0 million and held entirely by four substantial shareholders of the Company, namely Melco International Development Limited, Intralot S.A., Global Crossing Holdings Ltd. and Firich, are denominated in Hong Kong dollars. They bear interest at 0.1% per annum and entitle the holders to convert 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 13 December 2012 and 9 December 2013 for the principal amounts of HK$606.8 million and HK$277.2 million, respectively. As at 31 December 2011, the total liability component of the convertible bonds carried on the balance sheet of the Company amounting to HK$727.8 million (2010: HK$640.4 million), consisted of HK$554.7 million and HK$173.1 million and were classified as current liabilities and non-current liabilities respectively. The increase in the total liability component was mainly due to the non-cash imputed interest calculated using the effective interest method.

As at 31 December 2011, net current liabilities of the Group amounted to HK$571.3 million (2010: net current assets of HK$1.1 million). The year-on-year change was primarily due to the reclassification of the convertible bonds amounting to HK$554.7 million from non-current liabilities as of 31 December 2010 to current liabilities as of 31 December 2011. The debt ratio, being total debt divided by total assets, was 3.0 as at 31 December 2011 (2010: 1.8). The Group carried a capital deficiency, attributable to the owners of the Company, amounting to HK$615.4 million (2010: HK$375.1 million) mainly due to the liability component of the convertible bonds and the accumulated losses primarily generated by non-cash accounting charges.

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 and the group reorganization 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 31 December 2011, the Group had no capital commitments (2010: HK$11.9 million), 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 31 December 2011 and 2010.

CHARGES ON GROUP ASSETS

The convertible bonds of the Company are secured by the shares of certain subsidiaries of the Company as at 31 December 2011.

FOREIGN EXCHANGE EXPOSURE

As at 31 December 2011, 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.

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEE INFORMATION

As at 31 December 2011, the Group had a total of 83 full-time employees (2010: 91). The Group continues to provide remuneration packages to employees in line with 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 programs.

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at 31 December 2011.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Ko Chun Fung, Henry, aged 52, 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 43, 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 was the CEO and a director of Intralot Nederland BV, Director, International Markets of Intralot Interactive S.A.(I2) and a director of Intralot Korea. He served as Managing Director of Intralot Asia Pacific Ltd. (Hong Kong) and 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 participated as a member in the project implementation steering and executive committees for the Intralot projects in Malaysia, The Netherlands and South Africa and set up Intralot S.A.'s subsidiary in The Netherlands. He has left Intralot S.A. since October 2011.

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 52, is the founder and re-elected as Non-executive Chairman of the Company on 5 March 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 24 September 2001 and 30 December 2009. He was redesignated as Non-executive Director on 30 December 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 51, is a Non-executive Director of the Company. Mr. Wang is currently Chairman and executive director of Summit Ascent Holdings Limited, and a non-executive director of Melco Crown Entertainment Limited and China Precious Metal Resources Holdings Co Ltd, all of which are companies listed on the Main Board of the Stock Exchange. Between 2005 and 2009, Mr. Wang was the 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 previously 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 qualified as a chartered accountant with the Institute of Chartered Accountants of England and Wales in 1985.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Tsoi, David, aged 64, 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 50, 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 currently the Vice Chairman (Asia Coverage & Banking) of Standard Bank Plc, Hong Kong Branch and a director of Standard Bank Asia Limited ("Standard Bank") (also a member of Standard Bank's Asia Executive Committee) and an Independent Non-executive Director of Summit Ascent Holdings Limited, a company listed on the Main Board of the Hong Kong Stock Exchange. Mr. Pang has over 25 years of financial, management and investment banking experience in China, Asia and the United States. Before joining Standard Bank, Mr. Pang was the Managing Director and Vice Chairman, Investment Banking Division, at BOC International Holdings Ltd. ("BOCI") where he was also the Chairman of BOCI's Commitment Committee. Prior to joining BOCI, he was the 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 MBA Degree from Stanford University Graduate School of Business in the United States.

Mr. So Lie Mo, Raymond, aged 62, 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 42, is Chief Financial Officer and 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. Hussain, Aziz Zahid, aged 38, 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 is a CFA charter holder, a qualified chartered accountant and holds a Bachelor of Commerce degree from the University of Mumbai, India.

Mr. Tsang Hoi Pun, Thomas, aged 39, joined the Group in June 2007, is the Associate Director, Special Projects of the Group. Mr. Tsang is responsible for the management, overall planning, and implementation of existing projects with the business objectives of the Group's lottery business in China.

Mr. Tsang holds a Bachelor of Finance degree and a Master Science of International Business degree from the University of Wisconsin – Milwaukee. He has broad project analysis experience in infrastructure sector, technology, media and telecommunications sectors and retail sector.

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 are collectively responsible for promoting the success of the Company by directing and supervising the Company's affairs.

Through the practice of corporate governance in line with, and sometimes exceeding, the Code provisions, the Board is sensitive to the need for accountability, transparency, fairness and integrity of operations of the Company for the benefit of its shareholders and the investing public.

Throughout the year ended 31 December 2011, the Company met all the provisions on the Code contained in Appendix 15 of the GEM Listing Rules and has, recommended best practices where appropriate.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions that precisely follow the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules.

Specific enquiries have been made to all Directors who have confirmed their compliance with the required standard of dealings and the Company's code of conduct regarding Directors' securities transactions 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

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 adhered to the guidelines of the Code during the year and met regularly to discuss and formulate the overall policy and business strategy of the Company and its subsidiaries (the "Group"). A 14-day notice period has been applied to regular board meetings in order to enable all Directors an opportunity to attend. For all other board meetings, reasonable notice has been given. All Directors have an opportunity to include matters in the agenda for regular board meetings and have access to the advice and services of the company secretary to ensure that board procedures, and all applicable rules and regulations are followed. Draft and final versions of minutes of board meetings have been sent to all Directors for their respective comments and records within a reasonable time after the board meeting is held. The minutes provide detailed records of the matters considered by the board and the decisions reached, including any concerns raised by Directors or dissenting views. Minutes of board meetings and meetings of board committees are kept by the company secretary and are open for inspection at any given time upon reasonable notice by any Directors.

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

Director	**Attendance (rate)**
Mr. Chan Sek Keung, Ringo	8 (100%)
Mr. Ko Chun Fung, Henry	8 (100%)
Mr. Moumouris, Christos	6 (75%)
Mr. Wang, John Peter Ben	6 (75%)
Mr. Tsoi, David	8 (100%)
Mr. Pang Hing Chung, Alfred	8 (100%)
Mr. So Lie Mo, Raymond	8 (100%)

To assist Directors in executing their duties, written guidelines and procedures have been set out that enable them to seek independent professional advice, at the Company's expense, under appropriate circumstances. Also, the Company has arranged directors and officers liability insurance coverage in respect of legal action against the Directors, if any should transpire.

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 practicing certified public accountant, who acted as chairman of the Audit Committee.

Every Independent Non-executive Director has submitted a written confirmation to the Company, 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 Company or its subsidiaries or his connection with any associated 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, and in particular, none exist between Chairman and Chief Executive Officer.

CORPORATE GOVERNANCE REPORT

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

Mr. Chan Sek Keung, Ringo, Non-executive Director, was Chairman of the Board throughout the year, and ensured that all Directors were properly briefed on the issues arising at board meetings and received adequate, complete and reliable information in a timely manner.

Mr. Ko Chun Fung, Henry, Executive Director, was Chief Executive Officer of the Company throughout the year and was responsible for the day-to-day management of the Company's business.

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 market 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 incentives in the form of share options and discretionary performance bonuses were also employed.

The Remuneration Committee of the Board was established 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 organization and human resource 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 on the Remuneration Committee for the entire year:

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

During the year and up to the date of this report, 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 organization of the Group and its remuneration policy with reference to industry and market conditions.

Apart from determining the remuneration for Directors and senior management staff, the Remuneration Committee also made decisions regarding their allocation of share options from the Company.

NOMINATION OF DIRECTORS

The Nomination Committee of the Board was established in March 2009 with written terms of reference. Duties of the Nomination Committee are to advise the Board and make recommendations which include reviewing the structure, size and composition of the Board. The Nomination Committee also suggests the selection of individuals nominated for directorship and advises the Board where necessary, making assessments on matters relating to the autonomy of Independent Non-executive Directors, appointment and re-appointment of Directors as well as the 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 and up to the date of this report, 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	0 (0%)
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 12 May 2011, Messrs. Deloitte Touche Tohmatsu were re-appointed as the 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$1,220,000 for the audit of the Group's accounts for the year ended 31 December 2011 (2010: HK$1,170,000).

The external auditor is refrained from engaging in non-audit services except for the review of financial information of the Group for inclusion in the Company's circular amounting to HK$237,816 for the year (2010: HK$20,000 for reviewing the Group's final results announcement).

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 on 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 the 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 35 of this annual report. In particular, the Board is responsible for presenting a balanced, clear and comprehensible assessment of the Group's performance, position and prospects. It is also the Board's responsibility to oversee the preparation of the annual accounts which provide a reflective and fair view of the Group's state of affairs, results and cash flows for the year. To fulfill this responsibility, the Board regularly reviews the reports prepared by management on the Group's financial and operational performance as well as the development of major projects.

INTERNAL CONTROLS

The Board acknowledges its overall responsibility for the establishment and maintenance of a reliable and thorough system of internal controls and risk management measures to safeguard the shareholders' investments and the Group's assets. Furthermore, the Audit Committee has conducted a review of the Group's effectiveness on the system of internal controls, which covers all material controls, including financial, operational and compliance controls and risk management functions. In conducting its review, the Audit Committee took into consideration the adequacy of resources, qualifications and the staff experience of the Group.

DIRECTORS' REPORT

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2011.

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 40, 17 and 18 respectively to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2011 are set out in the consolidated statement of comprehensive income on page 37 of this annual report.

The Directors do not recommend the payment of a dividend.

FIXED ASSETS

Details of the movements in property, plant and equipment of the Group during the year are set out in note 14 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 31 December 2011, no reserve was available for distribution to the owners of the Company (2010: 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

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. Ko Chun Fung, Henry, Mr. Chan Sek Keung, Ringo and Mr. So Lie Mo, Raymond 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 IN SHARES AND SHARE OPTIONS

As at 31 December 2011, the interests of the Directors, the chief executive and their respective associates in the shares and share options of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by the 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

Name of Director	Number of shares: Beneficial owner	Number of shares: Held by controlled corporation(s)	Number of shares: Total number of shares	Approximate percentage of the issued share capital of the Company *(Note 1)*
Mr. Chan Sek Keung, Ringo	18,876,000	34,400,000 *(Note 2)*	53,276,000	10.59%
Mr. Tsoi, David	976,000	–	976,000	0.19%
Mr. Pang Hing Chung, Alfred	1,500,000	–	1,500,000	0.30%

Notes:

(1) As at 31 December 2011, the total number of the issued shares of the Company was 502,966,933.

(2) Mr. Chan Sek Keung, Ringo 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 share options 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	400,000	400,000
Mr. Pang Hing Chung, Alfred	Beneficial owner	400,000	400,000
Mr. So Lie Mo, Raymond	Beneficial owner	400,000	400,000
		41,220,000	41,220,000

Save as disclosed above, none of the Directors, the chief executive and their respective associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2011.

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 20 April 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 1.1.2011 and 31.12.2011
			HK$	
Director:				
Mr. Chan Sek Keung, Ringo	30.4.2002	17.11.2002 to 29.4.2012	0.55	3,000,000

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 17 May 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. No option under the pre-IPO share option scheme has been granted, exercised, cancelled or lapsed during the year ended 31 December 2011.

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 1.1.2011	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2011
			HK$		*(Note 1)*		
Directors:							
Mr. Ko Chun Fung, Henry	31.3.2008 *(Note 2)*	1.10.2008 to 31.3.2018	0.890	4,354,000	–	–	4,354,000
	10.7.2009 *(Note 3)*	10.7.2010 to 9.7.2019	0.367	4,000,000	–	–	4,000,000
	18.11.2010 *(Note 2)*	18.5.2011 to 17.11.2020	0.152	5,000,000	–	–	5,000,000
Mr. Moumouris, Christos	16.2.2009 *(Note 3)*	16.2.2010 to 15.2.2019	0.300	2,120,000	–	–	2,120,000
	10.7.2009 *(Note 3)*	10.7.2010 to 9.7.2019	0.367	2,500,000	–	–	2,500,000
	18.11.2010 *(Note 2)*	18.5.2011 to 17.11.2020	0.152	1,000,000	–	–	1,000,000
Mr. Chan Sek Keung, Ringo	20.2.2003 *(Note 4)*	20.2.2004 to 19.2.2013	0.138	1,200,000	–	–	1,200,000
	10.7.2009 *(Note 3)*	10.7.2010 to 9.7.2019	0.367	3,000,000	–	–	3,000,000
	18.11.2010 *(Note 2)*	18.5.2011 to 17.11.2020	0.152	2,000,000	–	–	2,000,000
Mr. Wang, John Peter Ben	31.3.2008 *(Note 2)*	1.10.2008 to 31.3.2018	0.890	3,846,000	–	–	3,846,000
	10.7.2009 *(Note 3)*	10.7.2010 to 9.7.2019	0.367	3,000,000	–	–	3,000,000
	18.11.2010 *(Note 2)*	18.5.2011 to 17.11.2020	0.152	5,000,000	–	–	5,000,000
Mr. Tsoi, David	12.1.2007 *(Note 4)*	12.1.2008 to 11.1.2017	0.088	187,500	(187,500)	–	–
	10.7.2009 *(Note 3)*	10.7.2010 to 9.7.2019	0.367	200,000	–	–	200,000
	18.11.2010 *(Note 2)*	18.5.2011 to 17.11.2020	0.152	200,000	–	–	200,000
Mr. Pang Hing Chung, Alfred	10.7.2009 *(Note 3)*	10.7.2010 to 9.7.2019	0.367	200,000	–	–	200,000
	18.11.2010 *(Note 2)*	18.5.2011 to 17.11.2020	0.152	200,000	–	–	200,000
Mr. So Lie Mo, Raymond	10.7.2009 *(Note 3)*	10.7.2010 to 9.7.2019	0.367	200,000	–	–	200,000
	18.11.2010 *(Note 2)*	18.5.2011 to 17.11.2020	0.152	200,000	–	–	200,000
				38,407,500	(187,500)	–	38,220,000

DIRECTORS' REPORT

Type of participants	Date of grant	Exercisable period	Exercise price per share	Number of share options: Outstanding at 1.1.2011	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2011
			HK$		*(Note 1)*		
Substantial shareholder: *(Note 5)*	31.3.2008 *(Note 2)*	1.10.2008 to 31.3.2018	0.890	4,354,000	–	–	4,354,000
	10.7.2009 *(Note 3)*	10.7.2010 to 9.7.2019	0.367	4,000,000	–	–	4,000,000
	18.11.2010 *(Note 2)*	18.5.2011 to 17.11.2020	0.152	5,000,000	–	–	5,000,000
				13,354,000	–	–	13,354,000
Employees:	12.1.2007 *(Note 4)*	12.1.2008 to 11.1.2017	0.088	45,000	(45,000)	–	–
	31.3.2008 *(Note 2)*	1.10.2008 to 31.3.2018	0.890	7,214,000	–	(252,000)	6,962,000
	16.2.2009 *(Note 3)*	16.2.2010 to 15.2.2019	0.300	3,200,000	–	–	3,200,000
	10.7.2009 *(Note 3)*	10.7.2010 to 9.7.2019	0.367	9,128,000	–	(130,000)	8,998,000
	18.11.2010 *(Note 2)*	18.5.2011 to 17.11.2020	0.152	13,390,000	–	(70,000)	13,320,000
				32,977,000	(45,000)	(452,000)	32,480,000
Advisors: *(Note 5)*	12.1.2007 *(Note 4)*	12.1.2008 to 11.1.2017	0.088	1,387,500	(112,500)	–	1,275,000
	31.3.2008 *(Note 2)*	1.10.2008 to 31.3.2018	0.890	6,606,000	–	–	6,606,000
	16.2.2009 *(Note 3)*	16.2.2010 to 15.2.2019	0.300	6,180,000	–	–	6,180,000
	10.7.2009 *(Note 3)*	10.7.2010 to 9.7.2019	0.367	6,630,000	–	–	6,630,000
	18.11.2010 *(Note 2)*	18.5.2011 to 17.11.2020	0.152	7,200,000	–	–	7,200,000
				28,003,500	(112,500)	–	27,891,000
				112,742,000	(345,000)	(452,000)	111,945,000

DIRECTORS' REPORT

Notes:

(1) 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$0.146.

(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 one year, starting from six months of the grant date at stepped six months increments of 50% 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 three years, starting from the first anniversary of the grant date at stepped annual increments of 33% 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 four years, starting from the first anniversary of the grant date at stepped annual increments of 25% of the total options granted.

(5) 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.

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 31 December 2011, 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**	**Percentage of the 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	10.53%
Mr. Chang Tung-Bing ("**Mr. Chang**")	–	20,787,042 *(Note 5)*	20,787,042	4.13%
Firich Enterprises Co., Ltd. ("**Firich**")	2,097,498	10,880,000 *(Note 6)*	12,977,498	2.58%

DIRECTORS' REPORT

(b) Long positions in underlying shares of the Company

Name of shareholder	Number of underlying shares: Beneficial owner	Number of underlying shares: Held by controlled corporation(s)	Total number of underlying shares	Percentage of the issued share capital of the Company *(Note 1)*
Melco	–	470,006,743 *(Note 2)*	470,006,743	93.45%
Mr. Ho	13,354,000 *(Note 7)*	470,006,743 *(Note 3)*	483,360,743	96.10%
Intralot S.A.	–	366,376,270 *(Note 4)*	366,376,270	72.84%
Mr. Chang	–	206,104,195 *(Note 5)*	206,104,195	40.98%
Firich	20,796,766	–	20,796,766	4.13%

Notes:

(1) As at 31 December 2011, the total number of the issued shares of the Company was 502,966,933.

(2) Melco is deemed by the SFO to be interested in 58,674,619 shares of the Company and 470,006,743 underlying shares from convertible bonds in the Company as described in (8) 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 470,006,743 underlying shares from convertible bonds in the Company as described in (8) 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 (8) and (9) below by virtue of its indirect holding of its wholly owned subsidiaries, Intralot Holdings International Limited and Intralot International Limited.

(5) Mr. Chang is deemed by the SFO to be interested in 20,787,042 shares of the Company and 206,104,195 underlying shares from convertible bonds in the Company as described in (8) below by virtue of his direct holding in the entire share capital of Universal Rich Holdings Limited and its wholly owned subsidiary, Global Crossing Holdings Ltd. Pursuant to a sale and purchase agreement dated 15 December 2011, Universal Rich Holdings Limited acquired the entire share capital of Global Crossing Holdings Ltd. from Firich.

(6) Firich is deemed by the SFO to be interested in 10,880,000 shares of the Company by virtue of its direct holding of its wholly owned subsidiary, Toprich Company Limited.

DIRECTORS' REPORT

(7) 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.

(8) On 13 December 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 13 December 2012. Power Way Group Limited had subsequently distributed all Convertible Bonds I to its shareholders, and as to principal amount of HK$399,505,732 by Melco LottVentures Holdings Limited, HK$175,188,566 by Global Crossing Holdings Ltd., HK$17,677,251 by Firich and the balance of HK$14,428,451 by Intralot International Limited, after several transfers, as at 31 December 2011.

(9) Pursuant to an agreement dated 7 September 2008 (as amended by a supplemental agreement dated 26 September 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 9 December 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 9 December 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 of the Company as at 31 December 2011.

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

CONNECTED TRANSACTION

On 18 January 2011, a supplemental agreement (the "Supplemental Agreement") was entered into among 山東省開創紀元電子商務信息有限公司（"開創紀元"）, 山東正魯實業有限責任公司（"山東正魯"）and the Group, pursuant to which the registered capital of 開創紀元 has been increased from RMB2,666,700 to RMB10,000,000 while the Group and 山東正魯 has contributed respectively RMB4,900,000 and RMB2,433,300 of the increase in the registered capital of 開創紀元. Pursuant to the Supplemental Agreement, the Group has also agreed to pay 山東正魯 the sum of RMB2,433,300 for the services rendered in assisting 開創紀元 in obtaining the telephone lottery licence in the Shandong province, the PRC.

As 山東正魯 is a substantial shareholder of 開創紀元 and thus a connected person of the Company, the Supplemental Agreement and the transaction contemplated thereunder constituted a connected transaction on the part of the Company under the GEM Listing Rules. Details of the transaction were set out in the announcement of the Company dated 18 January 2011.

DIRECTORS' REPORT

CONTINUING CONNECTED TRANSACTIONS

(a) As announced by the Company on 15 July 2010, the Company and Intralot S.A. entered into a supply agreement (the "Intralot 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, the PRC. The Intralot Agreement shall be effective from 15 July 2010 until 30 June 2012.

Intralot S.A. is a substantial shareholder of the Company and therefore a connected person of the Company as defined in the GEM Listing Rules. The transaction contemplated under the Intralot Agreement constituted a continuing connected transaction. Details of the transaction were set out in the announcement of the Company dated 15 July 2010.

(b) On 26 November 2010, 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 with Firich for a term of three years ending 31 December 2013 (the "Purchase Agreement") whereby 伍盛 would purchase from Firich certain materials/unfinished parts for the manufacture of point of sale and lottery vending terminals, annual cap amounts of which are HK$155 million, HK$202 million and HK$263 million for each of the three years respectively. On 26 November 2010, 伍盛 also entered into a supply agreement with Firich for a term of three years ending 31 December 2013 (the "Supply Agreement") whereby 伍盛 would sell and deliver to Firich the finished point of sale, lottery vending terminals and accessory products, annual cap amounts of which are HK$33 million, HK$43 million and HK$56 million for each of the three years respectively. Details of the transactions were set out in the circular of the Company dated 17 December 2010.

Firich, being a substantial shareholder of the Company, is a connected person of the Company within the meanings of the GEM Listing Rules and the transactions contemplated under the Purchase Agreement and the Supply Agreement constituted continuing connected transactions.

The aggregate amounts for the year ended 31 December 2011 attributable to the Purchase Agreement and the Supply Agreement were approximately HK$59.3 million and HK$90,000 respectively.

(c) On 30 September 2011, 伍盛 entered into a consultancy agreement (the "Consultancy Agreement") with 寶加（北京）信息技術有限公司（"寶加"）, an indirect wholly-owned subsidiary of the Company, whereby 寶加 has agreed to provide the technical advice and services to 伍盛 relating to the lottery terminals and its customers for a term of one year at an annual consultancy fee of RMB6,565,500.

Mr. Ding Jingge ("Mr. Ding") is a director of a non wholly-owned subsidiary of the Company; therefore, a connected person of the Company as defined in the GEM Listing Rules. Mr. Ding was the ultimate beneficial owner of 32.86% equity interest in 伍盛 when the Group entered into the Consultancy Agreement; hence, 伍盛 was an associate of Mr. Ding. Accordingly, the transaction contemplated under the Consultancy Agreement constituted a continuing connected transaction. Details of the transaction were set out in the Company's announcement dated 30 September 2011.

DIRECTORS' REPORT

(d) On 27 March 2012, Beijing Telenet Information Technology Ltd. ("Beijing Telenet"), an indirect non wholly-owned subsidiary of the Company entered into a supply agreement (the "Beijing Telenet Agreement") with 北京英特達系統技術有限公司 ("英特達"), which is a non wholly-owned subsidiary of 北京海熒華彩信息技術有限公司 ("北京海熒"), pursuant to which, Beijing Telenet agreed to supply to 英特達 the lottery terminals for a term of one year commencing from the date such supply agreement be approved by the shareholders of the Company in the extraordinary general meeting to be on 18 May 2012. It is expected that the annual cap of the supply agreement would be HK$200,000,000 which is subject to the shareholders' approval in the extraordinary general meeting. Details of the transaction were set out in the announcement of the Company dated 27 March 2012.

北京海熒, being also a substantial shareholder of Beijing Telenet, is a connected person of the Company within the meanings of the GEM Listing Rules and the transactions contemplated under the Beijing Telenet Agreement constituted continuing connected transactions.

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 31 December 2011, 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 the 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.

DIRECTORS' REPORT

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 31 December 2011.

CHARITABLE DONATIONS

During the year, the Group made charitable donations amounting to approximately HK$2,360,000 (2010: HK$2,280,000).

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the purchases attributable to the largest supplier, Firich, a substantial shareholder of the Company, as well as 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 subsidiary of a 35% non-controlling shareholder of a group entity of the Company, amounted to approximately 60% of the Group's total revenue. The five largest customers of the Group comprised approximately 93% 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.

AUDITOR

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, 28 March 2012

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 37 to 103, which comprise the consolidated statement of financial position as at 31 December 2011, 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 31 December 2011, and of its 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.

Emphasis of Matter

Without qualifying our opinion, we draw attention to note 2 to the consolidated financial statements which indicates that the Group incurred a loss of approximately HK$215,932,000 during the year ended 31 December 2011 and, as of that date, the Group's current liabilities exceeded its current assets and total assets by approximately HK$571,342,000 and HK$417,451,000, respectively. Note 2 to the consolidated financial statements further describes the financing and liquidity issues the Group is currently facing and measures being taken or contemplated to deal with them. The eventual success of these measures cannot presently be determined and accordingly, these conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
28 March 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	NOTES	2011 HK$'000	2010 HK$'000
Revenue	6	**96,622**	80,608
Changes in inventories of finished goods and work-in-progress		**(12,494)**	16,924
Purchase of inventories and raw materials consumed		**(71,131)**	(85,591)
Other income and gains		**37,126**	1,000
Employee benefits costs		**(18,852)**	(19,273)
Depreciation and amortisation		**(6,732)**	(22,009)
Impairment losses on:			
– intangible assets	16	**(75,035)**	–
– trade and other receivables	21	**(11,744)**	–
– amount due from an associate	24	**(2,436)**	–
– interest in an associate	17	**(1,393)**	–
– goodwill	15	**(27,903)**	(38,791)
Share of results of associates	17	**(3,976)**	(4,743)
Share of results of jointly controlled entities		**(480)**	263
Other expenses		**(28,293)**	(25,457)
Finance costs	8	**(89,098)**	(78,155)
Loss before taxation		**(215,819)**	(175,224)
Taxation	9	**(113)**	3,939
Loss for the year	10	**(215,932)**	(171,285)
Other comprehensive income			
Exchange differences arising on translation		**(29,834)**	3,382
Total comprehensive expense for the year		**(245,766)**	(167,903)
Loss for the year attributable to:			
Owners of the Company		**(209,219)**	(160,908)
Non-controlling interests		**(6,713)**	(10,377)
		(215,932)	(171,285)
Total comprehensive expense attributable to:			
Owners of the Company		**(239,675)**	(157,526)
Non-controlling interests		**(6,091)**	(10,377)
		(245,766)	(167,903)
Loss per share	13		
Basic and diluted		**(HK41.60 cents)**	(HK32.03 cents)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	NOTES	2011 HK$'000	2010 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**12,901**	9,831
Goodwill	15	**–**	27,903
Intangible assets	16	**–**	77,277
Interests in associates	17	**2,888**	8,257
Interests in jointly controlled entities	18	**–**	11,898
Available-for-sale investment	19	**138,102**	138,802
		153,891	273,968
CURRENT ASSETS			
Inventories	20	**29,551**	41,219
Trade and other receivables	21	**94,403**	38,251
Amounts due from jointly controlled entities	22	**–**	33,362
Amounts due from a related company	23	**–**	10,503
Amount due from an associate	24	**–**	1,000
Bank balances and cash	25	**26,676**	43,978
		150,630	168,313
CURRENT LIABILITIES			
Trade and other payables	26	**71,109**	68,208
Amounts due to related companies	23	**11,340**	10,540
Amount due to an associate	24	**3,074**	6,139
Tax payable		**1,735**	2,321
Loan from a related company	27	**80,000**	80,000
Convertible bonds	28	**554,714**	–
		721,972	167,208
NET CURRENT (LIABILITIES) ASSETS		**(571,342)**	1,105
		(417,451)	275,073

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	NOTES	2011 HK$'000	2010 HK$'000
CAPITAL AND RESERVES			
Share capital	29	**5,030**	5,026
Reserves		**(620,435)**	(380,160)
Equity attributable to owners of the Company		**(615,405)**	(375,134)
Non-controlling interests		**24,900**	9,853
TOTAL CAPITAL DEFICIENCY		**(590,505)**	(365,281)
NON-CURRENT LIABILITY			
Convertible bonds	28	**173,054**	640,354
		(417,451)	275,073

The consolidated financial statements on pages 37 to 103 were approved and authorised for issue by the Board of Directors on 28 March 2012 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 31 December 2011

	Attributable to owners of the Company										
	Share capital HK$'000	Share premium HK$'000	Share-based payment reserve HK$'000	PRC statutory reserves HK$'000 (Note i)	Other reserve HK$'000 (Note ii)	Convertible bonds equity reserve HK$'000	Exchange reserve HK$'000	Accumulated losses HK$'000	Sub-total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2010	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	–	–	–	–	–	–	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 31 December 2010	5,026	368,923	26,501	3,543	–	645,492	40,790	(1,465,409)	(375,134)	9,853	(365,281)
Exchange differences arising on translation	–	–	–	–	–	–	(30,456)	–	(30,456)	622	(29,834)
Loss for the year	–	–	–	–	–	–	–	(209,219)	(209,219)	(6,713)	(215,932)
Total comprehensive income (expense) for the year	–	–	–	–	–	–	(30,456)	(209,219)	(239,675)	(6,091)	(245,766)
Recognition of equity-settled share-based payments	–	–	4,299	–	–	–	–	–	4,299	–	4,299
Issue of ordinary shares upon exercise of share options	4	40	(17)	–	–	–	–	–	27	–	27
Release on disposal of a jointly controlled entity	–	–	–	–	–	–	(3,464)	3,464	–	–	–
Acquisition of a subsidiary *(note 35)*	–	–	–	–	–	–	–	–	–	13,463	13,463
Acquisition of additional interests in subsidiaries	–	–	–	–	(4,922)	–	–	–	(4,922)	4,672	(250)
Capital contribution by non-controlling interest	–	–	–	–	–	–	–	–	–	3,003	3,003
At 31 December 2011	5,030	368,963	30,783	3,543	(4,922)	645,492	6,870	(1,671,164)	(615,405)	24,900	(590,505)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

Notes:

(i) For subsidiaries established in 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.

(ii) On 18 January 2011, the Group entered into a supplemental agreement with Shandong Zhenglu Industrial Company Limited ("Shandong Zhenglu"), a non-controlling shareholder of 山東省開創紀元電子商務信息有限公司 ("開創紀元"), a 60% owned subsidiary of the Company immediately before the transaction. Pursuant to the agreement, the registered capital of 開創紀元 was increased from RMB2,666,700 to RMB10,000,000 of which RMB4,900,000 (equivalent to HK$6,047,000) and RMB2,433,300 (equivalent to HK$3,003,000) were contributed by the Group and Shandong Zhenglu, respectively. Upon completion of the capital injection, the Group's equity interest in 開創紀元 was increased from 60% to 65%. The difference between the adjustment to non-controlling interests and the consideration paid, amounting to HK$154,000, is recognised as an equity transaction in other reserve.

On 19 September 2011, the Group entered into a sale and purchase agreement with LottVision Investments Holdings Limited ("LottVision"), the non-controlling shareholder of PAL Development Limited ("PAL Development"), a 80% owned subsidiary of the Company immediately before the transaction. Pursuant to the agreement, the Group agreed to purchase and LottVision agreed to sell its 20% equity interests in PAL Development, at a consideration of HK$250,000. Upon completion of the acquisition, PAL Development became a wholly-owned subsidiary of the Company. The difference between the adjustment to non-controlling interests and the consideration paid, amounting to HK$4,768,000, is recognised as an equity transaction in other reserve.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	NOTE	2011 HK$'000	2010 HK$'000
OPERATING ACTIVITIES			
Loss before taxation		**(215,819)**	(175,224)
Adjustments for:			
Allowance for inventories		**8,101**	2,106
Depreciation and amortisation		**6,732**	22,009
Equity-settled share-based payments		**4,299**	4,300
Impairment losses on:			
– intangible assets		**75,035**	–
– trade and other receivables		**11,744**	–
– amount due from an associate		**2,436**	–
– interest in an associate		**1,393**	–
– goodwill		**27,903**	38,791
Write-off of other receivables		**–**	545
Interest expenses		**89,098**	78,155
Interest income		**(166)**	(701)
Loss on disposal of property, plant and equipment		**462**	596
Net foreign exchange gain		**(36,301)**	–
Share of results of associates		**3,976**	4,743
Share of results of jointly controlled entities		**480**	(263)
Operating cash flows before movements in working capital		**(20,627)**	(24,943)
Decrease (increase) in inventories		**5,353**	(23,149)
(Increase) decrease in trade and other receivables		**(11,421)**	2,220
Decrease in amounts due from jointly controlled entities		**16,903**	2,243
Decrease (increase) in amounts due from related companies		**–**	148
(Decrease) increase in trade and other payables		**(10,557)**	23,960
Cash used in operations		**(20,349)**	(19,521)
Income taxes paid		**(699)**	(8,123)
NET CASH USED IN OPERATING ACTIVITIES		**(21,048)**	(27,644)
INVESTING ACTIVITIES			
Deferred consideration on disposal of subsidiaries in previous years		**10,503**	20,000
Acquisition of a subsidiary (net of cash and cash equivalents acquired)	35	**1,535**	–
Proceeds from disposal of property, plant and equipment		**536**	63
Interest received		**166**	203
Purchase of property, plant and equipment		**(7,394)**	(1,766)
Investment in associates		**(3,065)**	(6,861)
Advance to an associate		**(1,436)**	(1,000)
NET CASH FROM INVESTING ACTIVITIES		**845**	10,639

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	2011	2010
	HK$'000	*HK$'000*
FINANCING ACTIVITIES		
Capital contribution by non-controlling interest	**3,003**	–
Proceeds from exercise of share options	**27**	157
Interest paid	**(884)**	(884)
Acquisition of additional interest in a subsidiary	**(250)**	–
Payment of dividend to non-controlling shareholders of a subsidiary	**–**	(653)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	**1,896**	(1,380)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(18,307)**	(18,385)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**43,978**	61,555
EFFECTS OF FOREIGN EXCHANGE RATE CHANGES	**1,005**	808
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	**26,676**	43,978

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

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 ("Stock Exchange") since 17 May 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's subsidiaries operate 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$215,932,000 during the year ended 31 December 2011 and, as of that date, the Group's current liabilities exceeded its current assets and total assets by approximately HK$571,342,000 and HK$417,451,000, respectively.

To deal with these financing and liquidity issues, the Company intended to carry out a reorganisation of the Group's lottery business, which involved obtaining control of an entity over which the Group previously had joint control, as disclosed in note 35, in addition to making equity investments in certain subsidiaries during the year. The Company entered into negotiations with a number of parties, together with all substantial shareholders of the Company defined under the Securities and Futures Ordinance (the "Substantial Shareholders"), in relation to its ongoing group reorganisation, which included among other matters, (i) very substantial disposals and repurchases of certain convertible bonds issued by the Company to certain Substantial Shareholders, each of the repurchases may constitute a share repurchase under the Hong Kong Code on Share Repurchases, (ii) an open offer, (iii) special deals and a whitewash waiver under the Hong Kong Code on Takeovers and Mergers, and (iv) the proposed increase in the authorised share capital of the Company. No agreements have yet been reached as at the date these consolidated financial statements are authorised for issuance.

The Company has obtained assurances from its Substantial Shareholders that it is their policy to provide support and assistance as may be required to enable the Group to maintain capital and liquidity levels at levels sufficient to meet its obligations. Furthermore, the holders of the Company's convertible bonds have agreed not to request cash redemption of those bonds on or before the maturity dates unless the Group has the necessary financial resources available for cash redemption to occur. In reviewing the Group's current and future financial position, the directors of the Company have considered the following factors:

- The agreement by the bondholders not to request cash redemption of the convertible bonds on or before the maturity dates unless the Group has the necessary financial resources available for cash redemption to occur;
- The likelihood of concluding the very substantial disposals and repurchases of certain convertible bonds;
- The possibility of making an open offer;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

- The potential for restructuring or capitalising of the loan from a related company beneficially owned by certain Substantial Shareholders to equity, the repayment date of which has been further extended one year to 14 July 2013 subsequent to the end of the reporting period;

- The possibility of new business opportunities described above.

In light of the matters set out in the preceding paragraphs, the directors of the Company have prepared the consolidated financial statements on a going concern basis.

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 standard, amendments and interpretation ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
HKAS 24 (as revised in 2009)	Related Party Disclosures
Amendments to HKAS 32	Classification of Rights Issues
Amendments to HK(IFRIC) – Int 14	Prepayments of a Minimum Funding Requirement
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

The application of the above new and revised HKFRSs 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.

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

Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets[1]
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[5]
Amendments to HKAS 12	Deferred Tax – Recovery of Underlying Assets[4]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[6]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

[1] Effective for annual periods beginning on or after 1 July 2011.
[2] Effective for annual periods beginning on or after 1 January 2013.
[3] Effective for annual periods beginning on or after 1 January 2015.
[4] Effective for annual periods beginning on or after 1 January 2012.
[5] Effective for annual periods beginning on or after 1 July 2012.
[6] Effective for annual periods beginning on or after 1 January 2014.

HKFRS 9 "Financial Instruments"

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" to be subsequently measured at 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 reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. There will be no impact to the Group as there are no such financial liabilities.

The directors anticipate that the adoption of HKFRS 9 in the future might have 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 the reporting period before the application of the new standard.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and HK (SIC)-Int 12 Consolidation – Special Purpose Entities. HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 Interests in Joint Ventures and HK (SIC)-Int 13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements.

In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The directors anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and, based on the existing group structure, the application of these five standards will have no significant impact on amounts reported in the consolidated financial statements.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

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 (effective from 1 January 2010 onwards).

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 (other reserve) and attributed to owners of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

Changes in the Group's ownership interests in existing subsidiaries (Continued)

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost; (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them); and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognise as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried 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 as specified by applicable HKFRSs). 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 "Financial Instruments: Recognition and Measurement" or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income Taxes" and HKAS 19 "Employee Benefits" respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based Payment" at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that standard.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations *(Continued)*

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another standard.

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 reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting 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 31 December 2011

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 and 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 and 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.

Upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

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 31 December 2011

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 and 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 and 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.

Upon disposal of a jointly controlled entity that results in the Group losing joint control over that jointly controlled entity, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the jointly controlled entity attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the jointly controlled entity. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that jointly controlled entity on the same basis as would be required if that jointly controlled entity had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that jointly controlled entity would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss when it loses joint control over that jointly controlled entity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Jointly controlled entities *(Continued)*

When a group entity transacts with its 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 services and solutions for distribution of lottery products, which relates to provision of venue management consultancy services to lottery retail outlets and wholesale distribution of lottery scratch cards, provision of lottery game technology solutions update and platforms for distribution of lottery products, is recognized when the service or solution is rendered and when the right to receive the income, which is calculated on a commission basis, has been established.

Revenue from sales of goods is recognised when goods, including lottery terminals are delivered and title has passed.

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 income can be measured reliably. Interest income 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 in the consolidated statement of financial position 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing

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

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. 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.

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 entities are translated into the presentation currency of the Group (i.e. HK$) 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 transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 recognised as expenses when employees have rendered service entitling them to the contributions.

Taxation

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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.

Current and deferred tax is recognised in profit or loss. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

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. The estimated useful life and amortisation method are reviewed at the end of the reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately 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 31 December 2011

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.

Gains or losses arising from derecognition of an intangible asset acquired in a business combination 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 31 December 2011

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. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

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 (or a CGU) in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost, determined using the weighted average cost method, and net realisable value. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets

The Group's financial assets are classified into loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

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/an associate 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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be 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.

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, in addition, 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, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's 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, 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 is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. The Group's financial liabilities are generally classified into other financial liabilities.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

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.

Convertible bonds

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments (Continued)

Convertible bonds *(Continued)*

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

Other financial liabilities

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

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, 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.

The Group derecognises financial liabilities when, and only when the Group's obligations are discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Share-based payment transactions

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payment transactions *(Continued)*

Share options granted to directors, employees, substantial shareholder and advisors after 7 November 2002 and vested on or after 1 January 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 original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, 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 31 December 2011

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 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$27,903,000, which represented the entire carrying amount of goodwill, (2010: HK$38,791,000) was recognised in profit or loss.

As at 31 December 2010, the carrying amount of goodwill is HK$27,903,000, net of accumulated impairment loss of HK$1,022,812,000. Details of the recoverable amount calculation are disclosed in note 15.

Allowance for inventories

Inventories represent lottery terminals which 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 profit or loss as allowance for inventories. Included in loss for the year is an amount of HK$8,101,000 (2010: HK$2,106,000) in respect of write-down of inventories to estimated net realisable values. As at 31 December 2011, the carrying amount of inventories is HK$29,551,000 (2010: HK$41,219,000).

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. 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 asset and an impairment loss of HK$75,035,000 which represented the entire carrying amount of the lottery software licences, (2010: Nil) was recognised in profit or loss. Details of the impairment are disclosed in note 16.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

Estimated impairment of trade and other 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 31 December 2011, the carrying amount of trade receivables is HK$82,858,000 (net of allowance for doubtful debts of HK$1,276,000) (2010: HK$13,260,000). As at 31 December 2011, the carrying amount of other receivables is HK$9,491,000 (net of allowance for doubtful debts of HK$10,468,000 (2010: HK$23,631,000).

6. REVENUE

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

	2011	2010
	HK$'000	*HK$'000*
Lottery business		
Provision of services and solutions for distribution of lottery products	**13,241**	12,169
Manufacturing and sales of lottery terminals	**83,381**	68,439
	96,622	80,608

7. SEGMENT INFORMATION

The Group's revenue and contribution to loss were solely derived from lottery business which comprises provision of services and solutions for distribution of lottery products and manufacturing and sales of lottery terminals. The chief operating decision maker, the Chief Executive Officer, reviews 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 the 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 is derived in the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

7. SEGMENT INFORMATION *(Continued)*

Geographical information *(Continued)*

The following is an analysis of the non-current assets (other than financial instruments), analysed by the geographical area in which the assets are located:

	2011	2010
	HK$'000	*HK$'000*
Non-current assets		
The PRC	**15,594**	134,848
Hong Kong	**195**	318
	15,789	135,166

Information about major customers

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

	2011	2010
	HK$'000	*HK$'000*
Customer A	**57,682**	–
Customer B	**25,648**	67,009

Over 83% of the Group's revenue in 2010 came from Customer B, Beijing Telenet Information Technology Ltd. ("Beijing Telenet"), a jointly controlled entity of the Group. Beijing Telenet became a subsidiary of the Group on 27 July 2011 as detailed in note 35.

Immediately after the acquisition of Beijing Telenet, sales of Beijing Telenet to Customer A thereafter account for the largest revenue for the Group in 2011.

8. FINANCE COSTS

	2011	2010
	HK$'000	*HK$'000*
Interest on:		
Loan from a related company wholly repayable within five years	**800**	2,511
Effective interest expense on convertible bonds	**88,298**	75,644
	89,098	78,155

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

9. TAXATION

	2011	2010
	HK$'000	*HK$'000*
PRC Enterprise Income Tax		
– Current year	**113**	–
Deferred taxation (note 31)		
– Current year	**–**	(3,939)
	113	(3,939)

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. No Hong Kong Profits Tax was provided 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 1 January 2008 onwards.

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

	2011	2010
	HK$'000	*HK$'000*
Loss before taxation	**(215,819)**	(175,224)
Tax at the domestic income tax at the rate of 25% (Note)	**(53,955)**	(43,806)
Tax effect of income not taxable for tax purposes	**(9,256)**	(230)
Tax effect of expenses not deductible for tax purposes	**56,823**	33,233
Tax effect of tax losses not recognised	**5,630**	5,744
Utilisation of tax losses previously not recognised	**(243)**	–
Tax effect of share of results of jointly controlled entities	**120**	(66)
Tax effect of share of results of associates	**994**	1,186
Taxation for the year	**113**	(3,939)

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

At 31 December, 2011, the Group has unused tax losses of HK$116,641,000 (2010: HK$95,093,000) 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$62,744,000 (2010: HK$57,671,000) that are allowed to be carried forward and utilised against the income of subsequent years. The loss carry forward period shall not exceed 5 years. Other losses may be carried forward indefinitely.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

10. LOSS FOR THE YEAR

Loss for the year has been arrived at after charging:

	2011 HK$'000	2010 HK$'000
Amortisation of intangible assets	2,265	18,323
Depreciation of property, plant and equipment	4,467	3,686
Total depreciation and amortisation	6,732	22,009
Directors' emoluments	4,298	4,028
Other staff costs:		
Salaries and other benefits	10,280	11,215
Retirement benefit scheme contributions	1,535	1,190
Share-based payments	2,739	2,840
Total employee benefit expenses	18,852	19,273
Auditor's remuneration	1,220	1,170
Allowance for inventories (included in purchase of inventories and raw materials consumed)	8,101	2,106
Write-off of other receivables	–	545
Loss on disposal of property, plant and equipment	462	596
Operating lease rentals in respect of land and buildings	4,476	4,134
Charity Donation	2,360	2,280
Net foreign exchange loss	–	166

and after crediting:

	2011 HK$'000	2010 HK$'000
Net foreign exchange gain	36,301	–
Bank interest income	44	78
Other interest income	122	623

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

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

	Chan Sek Keung, Ringo	**Ko Chun Fung, Henry**	**Moumouris, Christos**	**Wang, John Peter Ben**	**Tsoi, David**	**Pang Hing Chung, Alfred**	**So Lie Mo, Raymond**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
2011								
Fees	–	–	–	120	144	120	132	516
Other emoluments								
Salaries and other benefits	–	2,040	–	–	–	–	–	2,040
Bonus *(Note)*	–	170	–	–	–	–	–	170
Contributions to retirement benefit schemes	–	12	–	–	–	–	–	12
Share-based payments	265	522	228	479	20	23	23	1,560
Total emoluments	265	2,744	228	599	164	143	155	4,298

Note: Bonus is recommended by the Remuneration Committee and is approved by the board of directors, having regard to the individual's contribution to the Group.

	Chan Sek Keung, Ringo	Ko Chun Fung, Henry	Moumouris, Christos	Wang, John Peter Ben	Tsoi, David	Pang Hing Chung, Alfred	So Lie Mo, Raymond	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'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

Of the five individuals with the highest emoluments in the Group, one (2010: one) was director of the Company whose emolument is included in the disclosures as above. The emoluments of the remaining four (2010: four) individuals were as follows:

	2011	2010
	HK$'000	*HK$'000*
Salaries and other benefits	**3,587**	3,314
Bonus	**170**	–
Contributions to retirement benefit schemes	**48**	48
Share-based payments	**200**	399
	4,005	3,761

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

Their emoluments were within the following bands:

	2011 No. of employees	2010 No. of employees
Nil to HK$1,000,000	**2**	2
HK$1,000,001 to HK$1,500,000	**2**	2

During both years ended 31 December 2011 and 2010, 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.

12. DIVIDENDS

No dividend was declared or proposed during 2011, nor has any dividend been proposed since the end of the reporting period (2010: Nil).

13. LOSS PER SHARE

The calculation of the basic and diluted loss per share for the year ended 31 December 2011 is based on the loss attributable to the owners of the Company of HK$209,219,000 (2010: HK$160,908,000) and on the weighted average number of 502,936,686 (2010: 502,394,034) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

14. PROPERTY, PLANT AND EQUIPMENT

	Lottery terminals	Machinery and equipment	Furniture, fixtures and equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST					
At 1 January 2010	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 31 December 2010	4,152	7,017	7,295	413	18,877
Additions	–	7,384	10	–	7,394
Acquired on acquisition of a subsidiary	–	608	191	–	799
Disposals	(1,111)	(2,221)	(1,604)	–	(4,936)
Exchange realignment	209	464	227	19	919
At 31 December 2011	3,250	13,252	6,119	432	23,053
DEPRECIATION					
At 1 January 2010	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 31 December 2010	2,409	4,431	2,136	70	9,046
Provided for the year	998	2,164	1,229	76	4,467
Eliminated on disposals	(921)	(1,772)	(1,245)	–	(3,938)
Exchange realignment	160	257	154	6	577
At 31 December 2011	2,646	5,080	2,274	152	10,152
CARRYING AMOUNTS					
At 31 December 2011	604	8,172	3,845	280	12,901
At 31 December 2010	1,743	2,586	5,159	343	9,831

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$^1/_3$%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

15. GOODWILL

	2011	2010
	HK$'000	*HK$'000*
COST		
Balance at beginning and end of year	**1,050,715**	1,050,715
IMPAIRMENT		
Balance at beginning of year	**1,022,812**	984,021
Impairment loss recognised in the year	**27,903**	38,791
Balance at end of year	**1,050,715**	1,022,812
CARRYING AMOUNTS AT 31 DECEMBER	**–**	27,903

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

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 operating results of subsidiaries of the Group, which are 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 7 years (2010: 8 years) with 5% (2010: 5%) growth rate and discount rate of 12.5% (2010: 11.8%). The cash flows beyond 7 years are extrapolated using a steady growth rate of 3% (2010: 3%).

In 2010, the cash flow projection for 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 recoverable amount of the CGU based on value-in-use calculation is less than its carrying amount, accordingly, impairment loss of HK$38,791,000 was recognised in 2010.

In 2011, 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. However, in view of the delay and uncertainty in the launching of new models of lottery terminals up to the date of this report and continuing net operating cash outflow was incurred during the year, the recoverable amount of the CGU is significantly lower than its carrying amount, and accordingly, full impairment loss of HK$27,903,000 was recognised during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

16. INTANGIBLE ASSETS

	Lottery software licences HK$'000 (note a)	License rights HK$'000 (note b)	Technology know-how HK$'000 (note c)	Total HK$'000
COST				
At 1 January 2010	75,035	161,586	25,252	261,873
Exchange realignment	–	961	–	961
At 31 December 2010	75,035	162,547	25,252	262,834
Exchange realignment	–	513	–	513
At 31 December 2011	75,035	163,060	25,252	263,347
AMORTISATION AND IMPAIRMENT				
At 1 January 2010	–	141,097	25,252	166,349
Provided for the year	–	18,323	–	18,323
Exchange realignment	–	885	–	885
At 31 December 2010	–	160,305	25,252	185,557
Provided for the year	–	2,265	–	2,265
Impairment loss recognised	75,035	–	–	75,035
Exchange realignment	–	490	–	490
At 31 December 2011	75,035	163,060	25,252	263,347
CARRYING AMOUNTS				
At 31 December 2011	–	–	–	–
At 31 December 2010	75,035	2,242	–	77,277

Notes:

(a) In September 2008, the Group acquired, inter alia, a perpetual license right, with 3-year exclusivity, to use and sublicense the software in connection with projects of China Sports Lottery Administration Centre ("CSLA") and a perpetual, non-exclusive license right to use and sublicense the software in connection with projects of China Welfare Lottery Issuing Centre ("CWLI"). The lottery software (the "Software") is a system platform to support and upgrade the lottery products and gaming operations.

In 2010, the Group was in the process of negotiating with CSLA and CWLI on providing services for system support and upgade of their games by using the Software. The license right in connection with CSLA projects was operated under the exclusivity period and the Group expected to obtain the projects from CSLA and CWLI successfully. Accordingly, no impairment loss on intangible assets has been recognized in consolidated financial statements in as at 31 December 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

16. INTANGIBLE ASSETS *(Continued)*

Notes: (Continued)

(a) (Continued)

During the year ended 31 December 2011, the conditions for extension of the license's exclusive right in connection with projects of CSLA have not been achieved and the related license right was expired in December 2011 and become non-exclusive. Up to the expiration of the license right, the Group has no concrete projects that have been agreed with CSLA or CWLI to use the Software. Accordingly, the Group carried out a review of the recoverable amount of the business on distribution of lottery products and gaming products by using the Software. The recoverable amount in the review is significantly lower than its carrying amount, the decrease in the recoverable amount is attributable to lower than anticipated usage of the Software and profits expected to be generated in the coming years. Therefore, an impairment loss of HK$75,035,000 (2010: Nil) was recognised in relation to the Software during the year ended 31 December 2011. The amount of impairment loss has been charged to the consolidated statement of comprehensive income.

(b) 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. The carrying amount of the license rights, net of accumulated impairment, has been fully amortised during the year ended 31 December 2011. The amortisation charge for the year is included in depreciation and amortisation in the consolidated statement of comprehensive income.

(c) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

17. INTERESTS IN ASSOCIATES

	2011 HK$'000	2010 HK$'000
Costs of unlisted investments in associates	**13,000**	13,000
Share of post-acquisition losses	**(8,719)**	(4,743)
Impairment loss recognised during the year *(note b)*	**(1,393)**	–
	2,888	8,257

As at 31 December 2011 and 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 services for distribution of lottery products
China Excellent Net Technology Investment Limited ("China Excellent")	Hong Kong	Hong Kong	35% (note b)	Provision of services for distribution of mobile lottery products

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

17. INTERESTS IN ASSOCIATES *(Continued)*

Notes:

(a) On 21 June 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 provision of services for distribution of lottery products in the PRC. ChariLot is beneficially owned as to 60% by Calo and 40% by Rising Move. The capital injection by Rising Move for the 40% shareholding in ChariLot is HK$10,000,000, all of which are shares issued to Rising Move in 2010. During the year ended 31 December 2011, an amount of HK$3,065,000 (2010: HK$3,861,000) has been paid. The unpaid amount of HK$3,074,000 represents the amount due to an associate.

(b) On 24 February 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 for HK$7,000,000. The principal activity of China Excellent is proposed to be a vehicle for investment in and provision of services for distribution of mobile lottery products in the PRC.

The Group had paid HK$3,000,000 for the consideration in 2010. The remaining HK$4,000,000 will be paid subject to conditions, including to obtain a license (the "Mobile Lottery license") for the welfare mobile lottery business in the PRC from Shanghai Welfare Lottery Issuing Centre (the "Shanghai WLIC"). As at 31 December 2011, the Group has not paid for the remaining consideration as the conditions have not been satisfied.

In 2010, in view that the Partner was actively negotiating with the Shanghai WLIC in obtaining the license, directors of the Company expected China Excellent to obtain the license in 2011. Accordingly, no impairment was recognised in 2010. However, China Excellent position was unable to obtain the Mobile Lottery License in 2011 and net liabilities were noted at end of the reporting period. The directors of the Company expected minimal cash flows would be generated from the investment. Therefore, the Group has recognised an impairment loss of HK$1,393,000 in the profit or loss in respect of the investment in China Excellent.

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

	2011	2010
	HK$'000	*HK$'000*
Total assets	**4,075**	10,671
Total liabilities	**(2,793)**	(1,103)
Net assets	**1,282**	9,568
Revenue	**64**	–
Loss for the year	**5,269**	6,434

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

18. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2011	2010
	HK$'000	*HK$'000*
Cost of unlisted investments in jointly controlled entities	**15,560**	26,529
Share of post-acquisition losses	**(15,560)**	(14,631)
	–	11,898

As at 31 December 2011 and 2010, 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**
			2011	2010	**2011**	2010	
PALTECH Company Limited ("PALTECH")	Hong Kong	Ordinary	**60%** *(note a)*	60%	**60%**	60%	Inactive
Beijing Telenet	PRC, wholly foreign owned enterprise for a term of 30 years commencing 10 August 2006	Registered	**–** *(note b)*	52.5%	**–**	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) As at 31 December 2011 and 2010, the Group indirectly owns a 52.5% equity interest in Beijing Telenet. Pursuant to the original shareholders' agreement, the financial and operating policies of Beijing Telenet require approval from two-third of the directors, while the Group has the right to appoint only four out of seven directors. Beijing Telenet is jointly controlled by the Group and other significant shareholders, therefore, Beijing Telenet is classified as a jointly controlled entity of the Group as at 31 December 2010.

On 27 July 2011, Beijing Telenet passed a board resolution to amend its Articles of Association so that resolutions for its financial and operating policies can be passed by simple majority votes (the "Articles Amendments"). Upon the implementation of the Articles Amendments, the Group has the rights to govern the financial and operating policies of Beijing Telenet, which requires simple majority votes of the Beijing Telenet board. Accordingly, Beijing Telenet became an indirectly non wholly-owned subsidiary of the Company from the date of the Articles Amendments. Details of the acquisition are set out in note 35.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

18. 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 which are accounted for using the equity method is set out below:

	2011	2010
	HK$'000	*HK$'000*
Current assets	**–**	36,427
Non-current assets	**–**	432
Current liabilities	**–**	22,636
Revenue recognised in profit or loss	**14,686**	44,069
Expenses recognised in profit or loss	**15,166**	43,806

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:

	2011	2010
	HK$'000	*HK$'000*
Unrecognised share of losses of a jointly controlled entity for the year	**1**	3
Accumulated unrecognised share of losses of a jointly controlled entity	**194**	193

19. 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 31 December 2011

20. INVENTORIES

	2011	2010
	HK$'000	*HK$'000*
Raw materials	**10,240**	9,414
Work-in-progress	**11,605**	15,818
Finished goods	**7,706**	15,987
	29,551	41,219

21. TRADE AND OTHER RECEIVABLES

	2011	2010
	HK$'000	*HK$'000*
Trade receivables	**84,134**	13,260
Less: allowance for doubtful debts	**(1,276)**	–
	82,858	13,260
Other receivables	**19,959**	23,631
Less: allowance for doubtful debts	**(10,468)**	–
	9,491	23,631
Prepayments and deposits	**2,054**	1,360
	94,403	38,251

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

	2011	2010
	HK$'000	*HK$'000*
Within 30 days	**24,752**	5,831
31 – 90 days	**33,515**	371
91 – 180 days	**14,927**	612
181 – 365 days	**2,944**	407
Over 365 days	**6,720**	6,039
	82,858	13,260

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

21. TRADE AND OTHER RECEIVABLES *(Continued)*

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.

Included in the Group's trade receivable balance were debtors with aggregate carrying amount of HK$24,591,000 (2010: HK$7,058,000) 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 were amounts of HK$5,617,000 (2010: HK$5,960,000) due from a subsidiary of a substantial shareholder of the Company and amounts of HK$70,108,000 (2010: Nil) due from a subsidiary of a 37.5% non-controlling shareholder of a group entity. The amounts are unsecured, interest-free and repayable according to credit terms granted to the subsidiary of the substantial shareholder.

Aging of trade receivables which are past due but not impaired

	2011	2010
	HK$'000	*HK$'000*
91 – 180 days	**14,927**	612
181 – 365 days	**2,944**	407
Over 365 days	**6,720**	6,039
	24,591	7,058

Included in the trade receivables due over 365 days but not impaired are amounts of HK$4,813,000 (2010: HK$4,602,000) due from a subsidiary of a substantial shareholder of the Company.

The directors of the Company consider no deterioration in credit qualities of the trade debtors and the settlement pattern after the end of the reporting period from these trade debtors are satisfactory, the directors consider that no provision for impairment loss is required. The Group does not hold any collateral over these balances.

Movement in the allowance for trade receivables

	2011	2010
	HK$'000	*HK$'000*
Balance at beginning of the year	**–**	–
Impairment losses recognised	**1,276**	–
Balance at end of the year	**1,276**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

21. TRADE AND OTHER RECEIVABLES *(Continued)*

Included in trade receivables are amounts net of individually impaired receivables amounting to HK$1,276,000 (2010: Nil). The directors of the Company take into consideration about the current financial position of the counterparties and their repayment history and consider that the chances of collection of the outstanding amounts are remote.

Movement in the allowance for other receivables

	2011	2010
	HK$'000	*HK$'000*
Balance at beginning of the year	**–**	–
Impairment losses recognised	**10,468**	–
Balance at end of the year	**10,468**	–

Included in other receivables are amounts of individually impaired receivables amounting to HK$10,468,000 (2010: Nil). The amount represents the advances granted to an operator in respect of the lottery retail outlets which have been closed down during the year. As at 31 December 2011, the directors of the Company considered that HK$4,549,000 advances to the same operator in respect of the remaining lottery retail outlets are still recoverable after considering that the lottery retail outlets are still operating in the PRC with gross margin.

22. AMOUNTS DUE FROM JOINTLY CONTROLLED ENTITIES

	2010
	HK$'000
Amounts due from jointly controlled entities	35,150
Allowances made	(1,788)
	33,362

The amounts were unsecured, interest-free and of trade nature with a credit period of 90 days.

The aging analysis of amounts due from jointly controlled entities of trade nature based on the invoice date as at 31 December 2010 was as follows:

	2010
	HK$'000
Within 30 days	22,151
31 – 90 days	11,211
	33,362

The amounts due from jointly controlled entities as at 31 December 2010 were within the credit period range and no amount was past due but not considered to be impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

23. AMOUNTS DUE FROM (TO) RELATED COMPANIES

Details of amounts due from related companies are as follows:

	31 December		1 January	Maximum balance outstanding during the year ended 31 December	
	2011	2010	2010	**2011**	2010
	HK$'000	*HK$'000*	*HK$'000*	***HK$'000***	*HK$'000*
Amount due from a company in which a director of the Company has controlling interest *(Note)*	**–**	10,503	20,005	**10,503**	20,623

Note: The amount represents the deferred consideration on disposal of subsidiaries in December 2009. The amount was guaranteed by a director of the Company and borne interest rate of 5% per annum. The amount was denominated in currency other than the functional currency of the relevant group entity. The entire amount has been settled during the year.

The amounts due to related companies mainly represent balances due to companies beneficially owned by certain substantial shareholders, 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.

24. AMOUNT DUE FROM (TO) AN ASSOCIATE

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

As at the end of the reporting period, the directors of the Company take into consideration of the net liabilities position of China Excellent and consider that the chance of collection of the outstanding amount is remote. Accordingly, an impairment loss of HK$2,436,000 was recognised during the year on the entire outstanding balance due from that associate.

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 0.43% (2010: 0.02%) per annum and cash on hand.

As at 31 December 2011, an amount of HK$18,660,000 (2010: HK$30,128,000) is denominated in currency other than the functional currency of the relevant group entity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

26. TRADE AND OTHER PAYABLES

	2011	2010
	HK$'000	*HK$'000*
Trade payables *(note)*	**56,241**	62,220
Other payables	**10,575**	4,963
Accruals	**4,293**	1,025
	71,109	68,208

Note: Included in trade payables are amounts of HK$45,903,000 (2010: HK$62,128,000) due to a subsidiary of a substantial shareholder of the Company. The amounts are unsecured, interest-free and repayable according to credit terms granted by the subsidiary of the substantial shareholder.

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

As at 31 December 2011, an amount of HK$5,944,000 (2010: Nil) included in other payables, is denominated in currency other than the functional currency of the relevant group entity.

27. LOAN FROM A RELATED COMPANY

As at 31 December 2011, the loan from a related company which is beneficially owned by substantial shareholders, is unsecured, carries interest at 5% from drawdown date on 14 July 2008 up to 14 July 2010 and changed to 1% when extended the repayment date from 14 July 2010 up to 14 July 2012 and is repayable on 14 July 2012 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 the reporting period, the loan has been further extended one year to 14 July 2013 with other terms remain unchanged.

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

28. CONVERTIBLE BONDS

On 13 December 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 anti-dilutive 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 13 December 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

28. CONVERTIBLE BONDS *(Continued)*

On 9 December 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 anti-dilutive 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 9 December 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:

	2011	2010
	HK$'000	*HK$'000*
Carrying amount at the beginning of the year	**640,354**	565,594
Interest charged *(note 8)*	**88,298**	75,644
Interest paid	**(884)**	(884)
Carrying amount at the end of the year	**727,768**	640,354

	2011	2010
	HK$'000	*HK$'000*
Analysed for reporting purposes as:		
Current	**554,714**	–
Non-current	**173,054**	640,354
	727,768	640,354

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 31 December 2011

29. SHARE CAPITAL

	Number of ordinary shares	Amount HK$'000
Ordinary shares of HK$0.01 each:		
Authorised:		
At 1 January 2010, 31 December 2010 and 31 December 2011	2,000,000,000	20,000
Issued and fully paid:		
At 1 January 2010	500,813,433	5,008
Exercise of share options	1,808,500	18
At 31 December 2010	502,621,933	5,026
Exercise of share options	345,000	4
At 31 December 2011	502,966,933	5,030

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 20 April 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 17 May 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 31 December 2011

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 HK$	Number of share options outstanding at 1/1/2010 31/12/2010 and 31/12/2011
Directors	30/4/2002 (note)	17/11/2002 to 29/4/2012	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 7 November 2002 and share options that were granted after 7 November 2002 and had vested before 1 January 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 20 April 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 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 31 December 2011

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 with 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 31 December 2011

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 1/1/2011	Granted during the year	Reclassified during the year	Exercised during the year	Forfeited during the year	Outstanding at 31/12/2011
Directors	20/2/2003 *(note 3)*	20/2/2004 to 19/2/2013	0.138	1,200,000	-	-	-	-	1,200,000
	12/1/2007 *(note 3)*	12/1/2008 to 11/1/2017	0.088	187,500	-	-	(187,500)	-	-
	31/3/2008 *(note 4)*	1/10/2008 to 31/3/2018	0.890	8,200,000	-	-	-	-	8,200,000
	16/2/2009 *(note 5)*	16/2/2010 to 15/2/2019	0.300	2,120,000	-	-	-	-	2,120,000
	10/7/2009 *(note 5)*	10/7/2010 to 9/7/2019	0.367	13,100,000	-	-	-	-	13,100,000
	18/11/2010 *(note 4)*	18/5/2011 to 17/11/2020	0.152	13,600,000	-	-	-	-	13,600,000
Substantial shareholder	31/3/2008 *(note 4)*	1/10/2008 to 31/3/2018	0.890	4,354,000	-	-	-	-	4,354,000
	10/7/2009 *(note 5)*	10/7/2010 to 9/7/2019	0.367	4,000,000	-	-	-	-	4,000,000
	18/11/2010 *(note 4)*	18/5/2011 to 17/11/2020	0.152	5,000,000	-	-	-	-	5,000,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

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 1/1/2011	Granted during the year	Reclassified during the year	Exercised during the year	Forfeited during the year	Outstanding at 31/12/2011
Employees	12/1/2007 *(note 3)*	12/1/2008 to 11/1/2017	0.088	45,000	–	–	(45,000)	–	–
	31/3/2008 *(note 4)*	1/10/2008 to 31/3/2018	0.890	7,214,000	–	–	–	(252,000)	6,962,000
	16/2/2009 *(note 5)*	16/2/2010 to 15/2/2019	0.300	3,200,000	–	–	–	–	3,200,000
	10/7/2009 *(note 5)*	10/7/2010 to 9/7/2019	0.367	9,128,000	–	–	–	(130,000)	8,998,000
	18/11/2010 *(note 4)*	18/5/2011 to 17/11/2020	0.152	13,390,000	–	–	–	(70,000)	13,320,000
Advisors *(note 2)*	12/1/2007 *(note 3)*	12/1/2008 to 11/1/2017	0.088	1,387,500	–	–	(112,500)	–	1,275,000
	31/3/2008 *(note 4)*	1/10/2008 to 31/3/2018	0.890	6,606,000	–	–	–	–	6,606,000
	16/2/2009 *(note 5)*	16/2/2010 to 15/2/2019	0.300	6,180,000	–	–	–	–	6,180,000
	10/7/2009 *(note 5)*	10/7/2010 to 7/9/2019	0.367	6,630,000	–	–	–	–	6,630,000
	18/11/2010 *(note 4)*	18/5/2011 to 17/11/2020	0.152	7,200,000	–	–	–	–	7,200,000
				112,742,000	–	–	(345,000)	(452,000)	111,945,000
Exercisable at the end of the year				42,274,640					96,907,480

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

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 1/1/2010	Granted during the year	Reclassified during the year	Exercised during the year	Forfeited during the year	Outstanding at 31/12/2010
Directors	20/2/2003 *(note 3)*	20/2/2004 to 19/2/2013	0.138	1,200,000	–	–	–	–	1,200,000
	12/1/2007 *(note 3)*	12/1/2008 to 11/1/2017	0.088	375,000	–	–	(187,500)	–	187,500
	31/3/2008 *(note 4)*	1/10/2008 to 31/3/2018	0.890	8,200,000	–	–	–	–	8,200,000
	16/2/2009 *(note 5)*	16/2/2010 to 15/2/2019	0.300	3,620,000	–	–	–	(1,500,000)	2,120,000
	10/7/2009 *(note 5)*	10/7/2010 to 9/7/2019	0.367	14,600,000	–	–	–	(1,500,000)	13,100,000
	18/11/2010 *(note 4)*	18/5/2011 to 17/11/2020	0.152	–	13,600,000	–	–	–	13,600,000
Substantial shareholder	31/3/2008 *(note 4)*	1/10/2008 to 31/3/2018	0.890	4,354,000	–	–	–	–	4,354,000
	10/7/2009 *(note 5)*	10/7/2010 to 9/7/2019	0.367	4,000,000	–	–	–	–	4,000,000
	18/11/2010 *(note 4)*	18/5/2011 to 17/11/2020	0.152	–	5,000,000	–	–	–	5,000,000
Employees	23/2/2004 *(note 3)*	23/2/2005 to 22/2/2014	0.165	42,500	–	–	(30,000)	(12,500)	–
	11/10/2004 *(note 3)*	11/10/2005 to 10/10/2014	0.124	57,500	–	–	(57,500)	–	–
	12/1/2007 *(note 3)*	12/1/2008 to 11/1/2017	0.088	215,000	–	(125,000)	(45,000)	–	45,000
	31/3/2008 *(note 4)*	1/10/2008 to 31/3/2018	0.890	9,373,000	–	(700,000)	–	(1,459,000)	7,214,000
	16/2/2009 *(note 5)*	16/2/2010 to 15/2/2019	0.300	3,200,000	–	–	–	–	3,200,000
	10/7/2009 *(note 5)*	10/7/2010 to 9/7/2019	0.367	9,478,000	–	250,000	–	(600,000)	9,128,000
	18/11/2010 *(note 4)*	18/5/2011 to 17/11/2020	0.152	–	13,390,000	–	–	–	13,390,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

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 1/1/2010	Granted during the year	Reclassified during the year	Exercised during the year	Forfeited during the year	Outstanding at 31/12/2010
Advisors *(note 2)*	23/2/2004 *(note 3)*	23/2/2005 to 22/2/2014	0.165	24,000	-	-	(24,000)	-	-
	11/10/2004 *(note 3)*	11/10/2005 to 11/10/2014	0.124	7,000	-	-	(7,000)	-	-
	12/1/2007 *(note 3)*	12/1/2008 to 11/1/2017	0.088	2,720,000	-	125,000	(1,457,500)	-	1,387,500
	1/3/32008 *(note 4)*	1/10/2008 to 31/3/2018	0.890	5,906,000	-	700,000	-	-	6,606,000
	16/2/2009 *(note 5)*	16/2/2010 to 15/2/2019	0.300	6,180,000	-	-	-	-	6,180,000
	10/7/2009 *(note 5)*	10/7/2010 to 9/7/2019	0.367	6,880,000	-	(250,000)	-	-	6,630,000
	18/11/2010 *(note 4)*	18/5/2011 to 17/11/2020	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:

(1) The Group had not applied HKFRS 2 "Share-based Payment" to share options that were granted after 2 November 2002 and had vested before 1 January 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

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 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 increment of 50% of the total options granted.

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

In respect of the share options exercised during the year ended 31 December 2011, the weighted average share price at the date(s) of exercise is HK$0.14 (2010: HK$0.29) and the weighted average closing price at the date(s) immediately before exercise is HK$0.15 (2010: HK$0.29).

No share options were granted during the year.

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

	Grant dates of share options 18/11/2010
Number of options granted	39,190,000
Closing share price immediately before date of grant	HK$0.154
Exercise price	HK$0.152
Exercise multiplier	2.20 – 2.80
Expected volatility	80.51%
Option life	10 years
Risk-free interest rate	2.45%
Expected dividend yield	N/A
Fair value of an option	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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

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

Exercise 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$4,299,000 (2010: HK$4,300,000) for the year ended 31 December 2011 in relation to share options granted by the Company.

31. DEFERRED TAXATION

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

	Fair value adjustments of intangible assets on business combinations *HK$'000*
At 1 January 2010	3,939
Credit to profit or loss	(3,939)
At 31 December 2010 and 2011	–

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. 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$38,072,000 (2010: HK$36,782,000) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

32. COMPANY'S FINANCIAL INFORMATION

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

	2011 *HK$'000*	2010 *HK$'000*
Total assets	**278,160**	356,564
Total liabilities	**824,642**	730,267
Share capital	**5,030**	5,026
Reserves *(note)*	**(551,512)**	(378,729)
Total equity	**(546,482)**	(373,703)

Note:

	Share premium *HK$'000*	Share-based payment reserve *HK$'000*	Convertible bonds equity reserve *HK$'000*	Exchange reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 January 2010	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 31 December 2010	368,923	26,501	645,492	–	(1,419,645)	(378,729)
Loss for the year	–	–	–	–	(140,804)	(140,804)
Exchange differences arising on translation	–	–	–	(36,301)	–	(36,301)
Recognition of equity-settled share-based payments	–	4,299	–	–	–	4,299
Issue of ordinary shares upon exercise of share options	40	(17)	–	–	–	23
At 31 December 2011	368,963	30,783	645,492	(36,301)	(1,560,449)	(551,512)

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 31 December 2011 and 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

33. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of loan from a related company disclosed in note 27, convertible bonds disclosed in note 28, 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.

34. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2011	2010
	HK$'000	*HK$'000*
Financial assets		
Loans and receivables (including cash and cash equivalents)	**114,476**	107,702
Available-for-sale financial asset	**138,102**	138,802
Financial liabilities		
Amortised cost	**888,998**	804,216

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, amounts due from jointly controlled entities, amounts 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

34. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to loan from a related company (see note 27 for details) and convertible bonds issued by the Company (see note 28 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 level of exposure to cash flow interest rate risk is not significant.

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, other payables, 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 end of the reporting period are as follows:

	Assets		**Liabilities**	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
HK$	**18,026**	40,940	**822,182**	738,030
USD	**634**	691	**5,944**	–

Sensitivity analysis

If RMB had strengthened by 5% against HK$, loss for the year ended 31 December 2011 would have been decreased by HK$40,203,000 (2010: HK$34,855,000). If RMB had strengthened by 5% against USD, loss for the year ended 31 December 2011 would have been decreased by HK$266,000 (2010: increased by HK$35,000). 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

34. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk

At 31 December 2011, 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 93% (2010: 94%) of the Group's trade receivables are due from the Group's five largest customers which operate in the PRC. The principal activities of which are mainly including trading of lottery terminals and distribution of lottery products. In respect of one of these customers, the Group has recognised an allowance during the year (see note 21). In respect of the other five largest customers, given the close business relationship between the Group and these customers and their good repayment history, the directors consider that the credit risk associated with the balances of the customers are low.

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 deposits with several banks with good reputation, amount due from a jointly controlled entity of HK$33,362,000 as at 31 December 2010 which were mainly due from one party only, and the amount due from a related party of HK$10,503,000 as at 31 December 2010, the Group does not have any other significant concentration of credit risk.

Liquidity risk

The Group exposed to liquidity risk of being unable to finance its future working capital and financial requirements when they fall due. The net liabilities of the Group as at 31 December 2011 was HK$562,229,000 (2010: HK$365,281,000). In view of this, the directors of the Company has given careful consideration to the future liquidity of the Group and have been taking steps to improve the liquidity of the Group and details of which are set out in note 2.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

34. FINANCIAL INSTRUMENTS *(Continued)*

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

Liquidity risk (Continued)

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

	Weighted average interest rate %	Less than 3 months or on demand *HK$'000*	3 months to 1 year *HK$'000*	1 – 5 years *HK$'000*	Total undiscounted cash flow *HK$'000*	Carrying amount at 31.12.2011 *HK$'000*
2011						
Non-derivative financial liabilities						
Trade and other payables	–	66,816	–	–	66,816	66,816
Amounts due to related companies	–	11,340	–	–	11,340	11,340
Amount due to an associate	–	3,074	–	–	3,074	3,074
Convertible bonds	0.10	–	607,380	277,452	884,832	727,768
Loan from a related company	1.00	–	80,400	–	80,400	80,000
Total		81,230	687,780	277,452	1,046,462	888,998

As disclosed in note 27, loan from a related party has been further extended the repayment date to 14 July 2013 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 31.12.2010 *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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

34. FINANCIAL INSTRUMENTS *(Continued)*

(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.

35. ACQUISITION OF A SUBSIDIARY

As detailed in note 18, Beijing Telenet passed a board resolution for Articles Amendments on 27 July 2011. Prior to this Articles Amendments, the Group, through two indirectly non-wholly owned subsidiaries, owned 52.5% equity interests in Beijing Telenet, which was jointly controlled with other significant shareholders. Upon the implementation of the Articles Amendments, the Group is able to control and govern the financial and operating policies of Beijing Telenet and Beijing Telenet became a subsidiary of the Company. However, the Group's equity interest in Beijing Telenet remains to be 52.5%. In the opinion of the directors, the carrying amount of the net assets of Beijing Telenet on the date of acquisition approximated the fair values of the respective assets and liabilities and accordingly, no re-measurement of fair value was performed on the acquisition date. In addition carrying value of 52.5% of Beijing Telenet as a jointly controlled entity of the Group at the date of obtaining control amounted to HK$14,882,000, which approximated the fair value of the 52.5% equity interest of Beijing Telenet as at the date.

Beijing Telenet is principally engaged in distribution of lottery terminals.

Asset acquired and liabilities recognised at the date of acquisition are as follows:

	HK$'000
Property, plant and equipment	799
Bank balances and cash	1,535
Inventories	320
Trade and other receivables	52,708
Trade and other payables	(27,017)
	28,345
Interest in a jointly controlled entity	
– Previously held interest before acquisition	14,882
Non-controlling interests	13,463
	28,345

Note: The fair value of trade and other receivables at the date of acquisition amounted to HK$52,708,000 which is the same as the gross contractual amounts of these trade and other receivable acquired. None of the contractual cash flows of the above amount is estimated to be uncollectible.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

35. ACQUISITION OF A SUBSIDIARY *(Continued)*

Non-controlling interest

The non-controlling interest in Beijing Telenet recognised at the acquisition date were measured by reference to the non-controlling interest's proportionate share of the recognised amount of the net assets of Beijing Telenet and amounted to HK$13,463,000.

Cash inflow arising on acquisition of Beijing Telenet

	HK$'000
Bank balances and cash acquired	1,535

36. 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$1,547,000 (2010: HK$1,202,000) represents contributions paid and payable to the above schemes by the Group in respect of the current accounting period. As at 31 December 2011, all contributions in respect of the reporting period had been paid to the above schemes.

37. PLEDGE OF ASSETS

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

38. 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:

	2011 HK$'000	2010 HK$'000
Within one year	**3,822**	3,202
In the second to fifth year inclusive	**4,191**	6,689
	8,013	9,891

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.

39. RELATED PARTY DISCLOSURES

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

Class of related parties	Nature of transactions	2011 HK$'000	2010 HK$'000
Substantial shareholders of the Company	Purchase of property, plant and equipment	**6,912**	–
	Interest expense paid for convertible bonds	**884**	884
Jointly controlled entity *(Note)*	Sales of lottery terminals	**25,648**	67,009
Associate	Consultancy fee income	**600**	300
Non-controlling shareholder of a group entity	Service fee expense	**3,003**	–
Subsidiary of a 35% non-controlling shareholder of a group company *(Note)*	Sales of lottery terminals	**57,682**	–
Subsidiaries of substantial shareholders of the Company	Service fee expense	**607**	345
	Sales of lottery terminals	**102**	992
	Purchase of inventories	**59,295**	82,142
A company beneficially owned by substantial shareholders	Interest expense	**800**	2,511
A company in which a director of the Company has controlling interest	Interest income	**122**	623

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

39. RELATED PARTY DISCLOSURES *(Continued)*

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

Note: Sales to the jointly controlled entity, represented sales to Beijing Telenet, accounted for 83% of the Group's revenue in 2010. Upon obtaining the control of Beijing Telenet during the year as disclosed in note 35, Beijing Telenet became a subsidiary of the Group and accordingly, the revenue of the Group after obtaining the control was generated from Beijing Telenet 's sole customer, which is a subsidiary of a 35% shareholder of Beijing Telenet.

(b) Compensation of key management personnel

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

	2011	2010
	HK$'000	*HK$'000*
Short-term benefits	**6,483**	6,420
Post-employment benefits	**60**	63
Share-based payments	**1,760**	1,957
	8,303	8,440

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, 22, 23, 24, 26, 27 and 28.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

40. 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	Place 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 2011 Directly	2011 Indirectly	2010 Directly	2010 Indirectly	Principal activities
Rising Move	British Virgin Islands	USD100	**100%**	**-**	100%	-	Investment holding
Precious Success Holdings Limited	British Virgin Islands	USD100	**-**	**100%**	-	100%	Investment holding
PAL Development	Hong Kong	HK$250,000,000	**-**	**100%**	-	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
開創紀元	PRC##	RMB10,000,000	**-**	**65%**	-	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
Beijing Telenet	PRC#	RMB10,000,000	**-**	**52.5%**	-	-	Distribution of lottery terminals

\# 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.

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

FINANCIAL SUMMARY

	Year ended 31 December				
	2007 *HK$'000*	2008 *HK$'000*	2009 *HK$'000*	2010 *HK$'000*	**2011** ***HK$'000***
RESULTS					
Revenue					
– Continuing operations	291	180,716	86,110	80,608	**96,622**
– Discontinued operations	361,645	426,300	240,319	–	**–**
	361,936	607,016	326,429	80,608	**96,622**
Profit/(loss) for the year attributable to owners of the Company					
– Continuing operations	(480,525)	(434,656)	(346,562)	(160,908)	**(209,219)**
– Discontinued operations	5,077	(7,485)	(41,457)	–	**–**
	(475,448)	(442,141)	(388,019)	(160,908)	**(209,219)**

	As at 31 December				
	2007 *HK$'000*	2008 *HK$'000*	2009 *HK$'000*	2010 *HK$'000*	**2011** ***HK$'000***
ASSETS AND LIABILITIES					
Total assets	1,123,233	1,045,825	508,769	442,281	**304,521**
Total liabilities	(582,966)	(856,086)	(709,951)	(807,562)	**(895,026)**
	540,267	189,739	(201,182)	(365,281)	**(590,505)**
Equity attributable to owners of the Company	484,078	159,515	(222,065)	(375,134)	**(615,405)**
Non-controlling interests	56,189	30,224	20,883	9,853	**24,900**
	540,267	189,739	(201,182)	(365,281)	**(590,505)**