Annual Report 2012

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

(Incorporated in Bermuda with limited liability)

Stock code: 8161

* For identification purposes only

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DIRECTORS

Executive Directors

LAU Ting, *Chairperson and Chief Executive Officer*
WU Jingwei, *Co-Chief Executive Officer*
CHAN Tan Na, Donna, *Chief Financial Officer*
LI Zi Kui

Non-Executive Director

HOONG Cheong Thard

Independent Non-Executive Directors

HUANG Shenglan
CHAN Ming Fai
CUI Shuming

COMPANY SECRETARY

WONG Hiu Wong

COMPLIANCE OFFICER

CHAN Tan Na, Donna

AUTHORISED REPRESENTATIVES

CHAN Tan Na, Donna
WONG Hiu Wong

AUDIT COMMITTEE

HUANG Shenglan
CHAN Ming Fai
CUI Shuming

REMUNERATION COMMITTEE

HUANG Shenglan
CHAN Ming Fai
LAU Ting

NOMINATION COMMITTEE

LAU Ting
HUANG Shenglan
CHAN Ming Fai

AUDITORS

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

WEBSITE

www.chinalotsynergy.com

PRINCIPAL SHARE REGISTRARS

Butterfield Fulcrum Group (Bermuda) Limited
26 Burnaby Street
Hamilton HM 11
Bermuda

BRANCH SHARE REGISTRARS IN HONG KONG

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

LEGAL ADVISERS

Appleby
Baker & McKenzie

PRINCIPAL BANKERS

Standard Chartered Bank (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited
China Construction Bank (Asia) Corporation Limited

Financial Summary

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

RESULTS

	Year ended 31 December				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**607,255**	528,136	282,577	84,578	117,377
Gross profit	**482,506**	431,676	220,340	37,002	55,145
Impairment of goodwill	**–**	–	–	–	(854,725)
Share option expenses	**(1,015)**	(19,750)	(9,520)	(10,667)	(12,940)
Gain on redemption of convertible note, net of imputed interest expenses	**–**	–	151,119	(26,423)	(25,238)
Finance costs	**(19,825)**	(19,495)	(5,809)	–	–
Profit/(loss) before income tax	**271,529**	267,006	250,221	(82,722)	(927,032)
Income tax	**(69,196)**	(48,703)	(33,477)	(5,030)	580
Profit/(loss) for the year	**202,333**	218,303	216,744	(87,752)	(926,452)
Profit/(loss) attributable to:					
Owners of the Company	**67,513**	66,485	152,254	(81,596)	(930,729)
Non-controlling interests	**134,820**	151,818	64,490	(6,156)	4,277
	202,333	218,303	216,744	(87,752)	(926,452)

ASSETS AND LIABILITIES

	As at 31 December				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total current assets	**938,338**	948,416	614,238	1,175,545	1,110,564
Total assets	**1,998,308**	1,766,710	1,417,451	1,948,957	1,810,535
Total liabilities	**(743,763)**	(549,172)	(331,072)	(1,023,270)	(823,723)
Net assets	**1,254,545**	1,217,538	1,086,379	925,687	986,812

Management Discussion and Analysis

The Group is engaged as a technology and operation service provider of lottery systems, terminal equipment and game products in the lottery market in China. The principal businesses of the Group cover various lottery products ranging from video lottery, computer ticket game ("CTG") and high frequency lottery to new media lottery. With technical competencies and effective operational management, the Group has established a solid foundation and a reputable brand name providing the Group with comprehensive capability for sustainable development in the industry.

CHINA LOTTERY PERFORMANCE

Strong growth momentum was maintained in the lottery market in China in 2012, with total sales of lottery amounting to RMB261.52 billion, representing 18.0% growth year on year ("YOY"). Welfare Lottery and Sports Lottery contributed RMB151.03 billion and RMB110.49 billion respectively, up 18.2% and 17.8% YOY respectively. All lottery types showed double-digit sales growth except Scratch Cards in both lotteries. The top three fastest growing lottery types were Welfare Video Lottery, Sports CTG and Sports Single Match Game, which grew 31.8%, 26.2% and 23.0% YOY respectively.

BUSINESS REVIEW AND OUTLOOK

The Group made favourable development in all business segments in 2012. VLT, the only video lottery in the country, made the spotlight with the highest sales growth. Sales of VLT hit new record high attributable to the on-going deployment of the third-generation VLT terminal together with the steady increase in the number of newly approved VLT venues. Two historical breakthroughs were achieved in the CTG business. With Welfare Lottery, the Group will for the first time be serving not only Guangdong Welfare Lottery as it will be joined by Chongqing Welfare Lottery where the Group was chosen the winner in an open bid. With Sports Lottery, the Group will for the first time be providing CTG terminals to Sports Lottery as it will become a qualified terminal provider for China Sports Lottery Centre after passing the latest CTG terminal evaluation exercise held by the authority. Meanwhile, the Group's persistent efforts in the new media lottery business covering telephone lottery and new type lottery have yielded good progress in the development of new distribution channels and new games.

Lottery Business

China Welfare Lottery Video Lottery (VLT) Business

Taking high technology as its carrier, VLT has played a vital role in the China lottery industry. The Group is the exclusive equipment provider for VLT. Sales of VLT amounted to RMB6.39 billion in the fourth quarter of 2012, up 35.2% YOY, which was substantially higher than the overall industry growth of 12.9% YOY in the same period. The average daily sales per terminal of VLT exceeded RMB3,300, up 29.2% YOY. The total sales of VLT amounted to RMB22.42 billion in 2012, up 31.8% compared to 2011. That made VLT the fastest growing lottery type of all in the country in 2012 outpacing the overall industry growth of 18.0%, made it a truly vivid product with strong potential. The top five VLT provinces by sales in 2012 were Zhejiang (RMB2.95 billion), followed by Shandong (RMB2.27 billion), Guangdong (RMB1.86 billion), Jiangsu (RMB1.75 billion) and Hubei (RMB1.47 billion). VLT contributed over 20% of the total sales of Welfare lottery games in Anhui, Zhejiang, Gansu, Hubei and Hunan. On the other hand, sales of VLT achieved over 50% YOY growth in Guizhou, Hainan, Shanghai, Sichuan, Yunnan, Guangdong, Gansu and Jiangxi. Undoubtedly, VLT has become a key growth driver for Welfare Lottery in the provinces.

As at 31 December 2012, the Group had delivered 15,000 units of the third-generation terminals to the provinces as requested by China Welfare Lottery Centre ("CWLC"). In the meantime, according to the deployment planning of CWLC, the Group is working closely with both CWLC and provincial welfare lottery centres on system upgrade, testing and registration without affecting the operation of the venues.

Management Discussion and Analysis

VLT sales contributed RMB4.48 billion welfare funds in 2012. With the substantial increase in welfare funds, more public welfare initiatives including social security and charitable programs have been launched, benefitting more individuals and disadvantaged groups in need. Various similar programs and events were implemented by welfare lottery authorities in the provinces in 2012 to promote the culture and values of welfare lottery: public welfare, charity, health, happiness and innovation.

The market share of VLT is poised to further increase in 2013. Both CWLC and provincial welfare lottery authorities take the development of VLT as their top priority. According to the deployment planning of CWLC, the Group will provide another 15,000 units of the third-generation terminals in 2013, which should replace all the remaining first-generation terminals. Meanwhile a batch of new venues for third-generation terminals will be put into operation soon. The Group has made full preparations for this including capital expenditure, technology and service. The VLT terminal installed base will be further enlarged to contribute consistent earnings growth to the Group.

CTG and High Frequency Lottery Business

CTG Business

Total sales of Welfare CTG countrywide were RMB108.41 billion in 2012, up 19.5% YOY. Guangdong remained the top performing province in Welfare Lottery. In CTG alone, the province made RMB10.23 billion sales claiming 9.4% market share. The Group is the exclusive terminal provider of CTG to the province's Welfare Lottery. To satisfy the request of Guangdong Welfare Lottery Centre, the Group provided an additional 300 units of CTG terminals in the third quarter of 2012, which were put in the market in the fourth quarter. The Group will provide another 200 units of CTG terminals in early 2013 in a bid to assist Guangdong Welfare Lottery to maintain steady growth in sales and its leading position as the top performing province in Welfare Lottery in 2013.

Guangzhou San Huan Yong Xin Technology Company Limited ("GZSH"), a subsidiary of the Group, provides premium products and services to Guangdong province, and provides terminal maintenance service to Shenzhen Welfare Lottery. At the end of 2012, GZSH successfully won the bid for the procurement of Welfare Lottery CTG betting terminals and technical service for Chongqing Municipal Welfare Lottery Centre. GZSH is required to provide Welfare Lottery

Management Discussion and Analysis

CTG terminals and technical services to Chongqing Municipal Welfare Lottery Centre on revenue-sharing basis. As certain provincial supply contracts of Welfare CTG system and terminal will fall due in 2013, the Group will endeavour to secure such business opportunities with its competitive advantages in terminal product and vertical integration.

Guangzhou Lottnal Terminal Company Limited ("GZL"), a subsidiary of the Group, provided its lottery readers and other core components to a number of lottery companies local and abroad, as well as CTG terminals to Asia region in 2012. GZL participated in the latest CTG terminal evaluation exercise held by China Sports Lottery Centre in the fourth quarter of 2012 with its three terminal types including the standard type, the economy type and portable type. All of the three types were approved in the exercise including third party testing, expert review and internal technical testing. GZL will soon become a qualified terminal provider for Sports Lottery. GZL has made full preparations in technology, product and marketing, and strives to become a major terminal provider for Sports Lottery. Such important breakthrough will fundamentally broaden the earnings base of the Group's CTG business.

High Frequency Lottery Business (KENO)

Total sales of KENO in 2012 dropped compared to the previous year, mainly impacted by local high frequency games with higher payout ratio in the respective provinces. However, the average daily sales per terminal of KENO in certain provinces were found to be the highest among all CTG games in the relevant province, reflecting the vitality of the KENO game type. KENO has been selected as a priority lottery product in the 12th Five Year Plan of Welfare Lottery made in 2012, and together with CTG, VLT and Scratch Card, form the four main lottery types in Welfare Lottery. The Group believes that the new payout ratio and adoption of a flexible business model such as co-location arrangement will provide the catalyst for KENO to break the development bottleneck and grow rapidly.

New Media Lottery Business

On the telephone lottery business:

The Group's telephone lottery business grew rapidly in 2012, and achieved 183% sales growth compared to the previous year. In light of new regulations, adjustments were made to this business area for better compliance with requirements of lottery authorities. After years of dedication and efforts in the development of telephone lottery, the Group has established a leading position in offering advanced technology, products and operation for telephone lottery.

The Group's proprietary mobile lottery development platform allows the adding of additional lottery games and betting features simultaneously and rapidly in various mobile platforms including the iOS, Android and Symbian. The mobile lottery client-end products developed on this platform have been made available in all mainstream application stores and highly commended by both its cooperation partners and lottery authorities, as well as given more business opportunities.

Management Discussion and Analysis

The Group continues to work closely with telecommunication operators and financial institutions. It is proud to be the only lottery company to enter into various forms of business cooperation with the country's all three telecommunication operators. Benefitted from their huge customer base, the Group has recorded consistent increase in sales and the number of mobile lottery users. The cooperation with financial institutions notably China Merchants Bank, Bank of Communications, Bank of China and Union Pay has fully demonstrated the advantage of mobile lottery in offering a more secure and convenient way of purchasing lottery tickets. It has become a top application in mobile banking. The Group's cooperation with many other financial institutions in offering mobile lottery will commence in 2013.

2013 will be a very crucial year for China and the Group in the development of telephone and internet lottery business. The Group seeks to capture more business opportunities in this area by enhancing its operation team and product offering.

On the new type lottery business:
In 2012, following further tightening of the distribution of lottery via new channels, lottery authorities have announced specific technical requirements and standards for the system construction and trial sales in relation to such new channels. The support and encouragement of policies provide strong protection as well as promising prospect for the development of the Group's new type lottery business.

In accordance with the requirements and standards announced, the Group has been in extensive cooperation with many lottery authorities in relation to the construction of new distribution channels. The Group provides comprehensive assistance taking advantage of its experience in product and market development. Under the new opportunity, the Group will assist lottery authorities to develop new players to lottery targeting hundreds of millions of middle to high income earners through creative marketing initiatives and a variety of game products. The Group believes that the new type lottery products will become the next spotlight in the China lottery market set to gain enormous market share.

Management Discussion and Analysis

Technical strength

The Group's Research and Development Centre continues to strengthen its capabilities by making improvements to the security, stability, ease of maintenance and functionality of the relevant system and terminal products. They ensure sound technical support is available to various business units of the Group in providing their services to customers.

Conclusion

Sales of lottery in China doubled in three years from RMB132.48 billion in 2009 to RMB261.52 billion in 2012. Coupled with such growth, important development was made in the regulatory framework for lottery in 2012 including the Implementation Details of the Regulations on the Administration of Lottery (《彩票管理條例實施細則》), the Regulations on the Administration of Lottery Funds (《彩票公益金管理辦法》), the Regulations on Financial Management for Lottery Authorities (《彩票機構財務管理辦法》) and the Regulations on the Administration of Sales and Distribution of Lottery (《彩票銷售發行管理辦法》). These regulations not only represent enhanced industry standards and transparency but also provide for greater protection for both lottery players and market participants. Further, the launch of telephone lottery in few selected provinces and the expected possible trial run of internet distribution of lottery in 2013 show that the China lottery market seeks comprehensive development promoting higher sales, enhanced regulation, increased protection and continuous innovation.

With stable earnings growth achieved in 2012, the Group has maintained profitability for third straight year. The Group will continue to lay a solid foundation for long term development by strengthening its existing businesses and profitability as well as capturing new opportunities with innovative products. The Group will strive to repay its shareholders with greater performance.

FINANCIAL REVIEW

The Group recorded a turnover of approximately HK$607.3 million for the year ended 31 December 2012, representing an increase of approximately 15% over 2011. The Group recorded approximately HK$67.5 million profit attributable to owners of the Company for the year ended 31 December 2012, representing an increase of approximately 2% over 2011. The Group's subsidiary 東莞天意電子有限公司 ("東莞天意") is principally engaged in the provision of VLT including maintenance services to Beijing Lottery Online Technology Co., Ltd ("CLO") under the contract. On 5 June 2012, 東莞天意 signed a supplementary agreement with CLO. Under the supplementary agreement, both parties agree to revise the VLT service fee from 2% to 1.7% with effect from 1 January 2012, where 0.4% fee for provision of maintenance services will be changed to 0.1% fee for provision of spare parts. 東莞天意 will no longer provide maintenance services to CLO for all existing and new VLT terminals. 東莞天意 is however responsible to provide the spare parts of VLT terminals to CLO who will take up all the maintenance services itself. During the year under review, 東莞天意 received 75% of the outstanding maintenance fee accumulated till 31 December 2011 of approximately HK$119.1 million. This amount comprised approximately HK$89.3 million in cash receipt and the remaining outstanding accounts receivable of approximately HK$29.8 million impaired is considered as compensation to CLO for its contribution to the maintenance work in the last three years. The Group considers that the above adjustment represents the best combination of the respective strengths of the parties to the contract. The repair and maintenance services for VLT delivered through local welfare lottery centres in the provinces and cities will allow such services to be provided in a more timely and cost-effective manner, while the role of 東莞天意 in the provision of VLT business will be more clearly defined with the right responsibilities and obligations. This will only benefit the long term and consistent rapid growth of VLT business. Moreover, the financial impact of the above adjustment has been offset by the continuing increase in average daily sales per terminal of VLT across various provinces.

Management Discussion and Analysis

LIQUIDITY, FINANCIAL RESOURCES, GEARING RATIO AND CAPITAL STRUCTURE

The Group believes that it has adequate financial resources to fund its capital and operating requirements. At 31 December 2012, the Company had an outstanding corporate guarantee for unlimited amount for a banking facilities of a property installment loan of approximately HK$106.9 million (2011: HK$106.9 million), and an outstanding corporate guarantee limited to approximately HK$17 million (2011: Nil) for a banking facilities of a property installment loan of approximately HK$17 million (2011: Nil); whereas, a subsidiary of the Group had an outstanding corporate guarantee for a maximum of RMB80 million (2011: RMB80 million) plus interest and fees for a banking facilities of a working capital loan of RMB150 million (2011: RMB80 million) granted to the Group. The Group had outstanding bank borrowings at 31 December 2012 of approximately HK$612.9 million (2011: HK$380.6 million). At 31 December 2012, the bank borrowings and banking facilities of the Group were secured by (i) leasehold land and buildings of the Group with a carrying amount of approximately HK$176.4 million (2011: HK$135.5 million), (ii) standby letters of credit issued by bank for an aggregate amount of US$55 million (2011: US$29.8 million), (iii) accounts receivable of approximately HK$47.4 million (2011: HK$152.4 million) and (iv) bank deposits amounting to approximately HK$446.9 million (2011: HK$293.8 million).

The Group's total equity amounted to approximately HK$1,254.5 million at 31 December 2012 (2011: HK$1,217.5 million). At 31 December 2012, net current assets of the Group amounted to approximately HK$233.7 million (2011: HK$413.7 million), including approximately HK$713.6 million in cash and deposits with banks and financial institution (2011: HK$648.9 million).

The gearing ratio (defined as total liabilities over total assets) of the Group at 31 December 2012 was approximately 37.2% (2011: 31%).

EXPOSURE TO EXCHANGE RATES FLUCTUATION

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

PLEDGE OF ASSET

At 31 December 2012, the Group's leasehold land and buildings at net book value of approximately HK$176.4 million (2011: HK$135.5 million) were pledged to bank to secure the bank borrowings granted to the Group. At 31 December 2012, the Group's accounts receivable at outstanding balance of approximately HK$47.4 million (2011: HK$152.4 million) and bank deposits amounting to approximately HK$446.9 million (2011: HK$293.8 million) were pledged to secure bank borrowings and banking facilities granted to the Group.

CONTINGENT LIABILITIES

At 31 December 2012, the Group did not have any material contingent liabilities (2011: Nil).

STAFF

At 31 December 2012, the Group had 480 (2011: 430) full time employees. The management believes that the competence of employees is a major contributing factor to the Group's sustained growth and advancement in profitability. Staff remuneration is based on performance and experience. In addition to basic salary, benefits for employees include a performance-related bonus, contributory provident fund, medical insurance and regulated employees' social security program in China. The Group also adopted a share option scheme under which options may be granted to eligible staff based on individual performance. Training programmes for staff are provided as and when required. The Group will further strengthen its team, and in particular on the build up of its technical team, in order to offer enhanced services for China's welfare lottery market.

Biographies of Directors and Senior Management

DIRECTORS

LAU Ting

Board's Chairperson and Chief Executive Officer

Ms. Lau, aged 56, is the Board's Chairperson, an Executive Director and the Chief Executive Officer of the Company. Ms. Lau is the founder of the Group and responsible for the planning and leading the implementation of the Group's overall strategies for operational development. She has over twenty years of solid experience in business planning and management, merger and acquisition, and financial and human resources management. Ms. Lau is also an executive director of Burwill Holdings Limited listed in Hong Kong.

WU Jingwei

Executive Director and Co-Chief Executive Officer

Mr. Wu, aged 41, is an Executive Director and the Co-Chief Executive Officer of the Company. The main role of Mr. Wu is to assists the Chief Executive Officer in planning and leading the implementation of the Group's overall strategies for development. Mr. Wu has over fifteen years of experience in information technology. Prior to joining the Group in 2007, Mr. Wu had held senior management positions in PKU Founder Group and Hisense Group. Mr. Wu holds a bachelor's degree in Mechanical Engineering from Beijing Technology and Business University.

CHAN Tan Na, Donna

Executive Director and Chief Financial Officer

Ms. Chan, aged 32, joined the Group in 2012 and is an Executive Director and Chief Financial Officer. Ms. Chan is responsible for the management of several departments of the Group including finance, investor relations and company secretarial. She holds a Bachelor degree in Economics and Finance from the University of Hong Kong and a Master degree in Economics from Boston University, USA. She is a qualified Chartered Financial Analyst (CFA) and holds licenses in relation to asset management from the Hong Kong Securities Institute. From 2005 to early 2012, Ms. Chan held positions at Deutsche Bank's Corporate Finance department and Atlantis Investment Management (Hong Kong) Limited, where she was involved in several initial public offerings, share placements, mergers and acquisitions, and bond issuances. Her experiences span across different sectors including technology, media, telecommunication, real estate, natural resources and consumer goods. In her capacity as a fund manager, she was in charge of equity investments in listed and unlisted companies in the Greater China region. She has also worked with a diverse portfolio of clients from Europe and the USA including sovereign wealth funds, mutual funds, endowment funds as well as other institutional investors.

LI Zi Kui

Executive Director, Vice President and General Manager of the Group's CTG Business Unit

Mr. Li, aged 49, is an Executive Director, Vice President and General Manager of the Group's CTG Business Unit. Mr. Li joined the Group in 2011. Mr. Li has over twenty-five years of solid management experience in the information technology sector. For near twenty years, he had been engaged in the China Welfare lottery space as a chief engineer with technical management responsibility, gaining extensive experience with proven track record in various lottery segments including computer ticket game, video lottery and instant lottery. Mr. Li holds a bachelor's degree in computer science and engineering from The PLA Information Engineering University and an EMBA from Beijing Institute of Technology and holds a senior engineer qualification.

Biographies of Directors and Senior Management

HOONG Cheong Thard

Non-Executive Director

Mr. Hoong, aged 44, currently is a Non-Executive Director and the Consultant of the Company. Mr. Hoong joined the Group in 2006 and had been an Executive Director and the Chief Executive Officer of the Company until September 2008. Mr. Hoong has over ten years of experience in investment banking and has extensive experience in international capital markets and mergers and acquisitions. Mr. Hoong was a Director in Equity Capital Markets at Deutsche Bank responsible for Greater China. He was also previously an Executive Director in Equity Capital Markets at UBS and has held senior positions in Corporate Finance at Barclays Group and a major international accounting firm where he was involved in auditing. Mr. Hoong is currently the Managing Director of Far East Consortium International Limited, a company listed in Hong Kong, and the Director and President of Tokai Kanko Co. Limited, a company listed in Tokyo, Japan. Mr. Hoong is also a non-executive director of Kosmopolito Hotels International Limited, a company listed in Hong Kong and a non-executive director of Land General Berhad, a company listed in Malaysia. He is a member of the Institute of Chartered Accountants in England and Wales and holds a bachelor's degree in Mechanical Engineering from Imperial College, University of London.

HUANG Shenglan

Independent Non-Executive Director

Mr. Huang, aged 61, joined the Group in 2002 and is an Independent Non-Executive Director. Mr. Huang was an executive director and the deputy governor of China Everbright Bank, Head Office and was an executive director and the general manager of China Everbright Technology Limited. Mr. Huang holds a diploma in Arts from Huazhong Normal University and in International Economics from Huadong Normal University and a certificate in International Economic Law from Xiamen University and in Advanced Management Programme from the Business School of Harvard University, USA. Mr. Huang is also an independent non-executive director of Burwill Holdings Limited and Symphony Holdings Limited and a non-executive director of China Fortune Investments (Holding) Limited, which are listed companies in Hong Kong. Mr. Huang was an Independent Director of Chongqing Road & Bridge Co. Limited, a company listed in Shanghai, in the previous three years.

CHAN Ming Fai

Independent Non-Executive Director

Mr. Chan, aged 51, joined the Group in 2006 and is an Independent Non-Executive Director of the Company. He is currently the Chief Executive Officer of Full Seas Technology Group and is primarily responsible for the formulation and execution of the Group's strategy. Prior to that, he was the President of Dandelion Capital Group, which is a private financial advisory company. He has over twenty years of experience in investment banking and asset management. Mr. Chan had worked for Jardine Fleming Investment Management with a major responsibility to market unit trusts and asset management products in Hong Kong and subsequently in various Asian markets, and was particularly instrumental in the establishment of Jardine Fleming's investment trust operation in Japan, Korea and Indonesia. Mr. Chan also cofounded the KGI Group, which is a pan-Asian investment bank with shareholders including major investors and institutions in Asia, where he was the head of the asset management operation which managed about USD400 million in hedge funds and other portfolios, and was also a member of the management committee of KGI Group. Mr. Chan received a bachelor's degree in Social Sciences with major in Economics from the University of Hong Kong. Mr. Chan is also an independent non-executive director of Burwill Holdings Limited, a company listed in Hong Kong. During the period from May 2009 to September 2010, Mr. Chan was a Non-Executive Director of Advanced Engine Components Limited, a company listed in Australia.

Biographies of Directors and Senior Management

CUI Shuming

Independent Non-Executive Director

Mr. Cui, aged 75, joined the Group in 2008 and is an Independent Non-Executive Director of the Company. He graduated from People's University of China. He was the Deputy Head of the Bank of China, Jiangsu branch, the Executive Director of The National Commercial Bank, Ltd. and the General Manager of its Hong Kong branch, a Director and the Executive Vice President of The Ka Wah Bank Limited and an Independent Non-Executive Director of two public listed companies in Hong Kong, namely, Cheung Tai Hong Holdings Limited (currently known as ITC Properties Group Limited) and Wah Sang Gas Holdings Limited. Mr. Cui is currently an Independent Non-Executive Director of Burwill Holdings Limited and Yue Da Mining Holdings Limited, both are listed companies in Hong Kong. He has over forty years' experience in international finance and corporate planning and management.

SENIOR MANAGEMENT

CHEN Hengben

Mr. Chen, aged 73, joined the Group in 2008. He is currently the Vice President of the Group and the Chairman of the Group's CTG Business in Guangdong Province. Mr. Chen, who is among the pioneers in China engaged in the development of the lottery system and equipment, has over 40 years of practical experience in computer science and electronic engineering. He was a member of Guangdong Provincial Committee of the Chinese People's Political Consultative Conference, a senior engineer for the Research Institute of China Ordnance Industry and the vice president covering technology for the Computer Center of Guangdong Provincial Science and Technology Commission; In 1992, he took part in establishing Guangzhou Horse Race Ground and assumed the position of vice chief commander for the project construction of the Real Time Racing Lottery Bidding System for Guangzhou Horse Race Ground. In 1999, he was appointed as chief commander for the project construction of Macau Dog Racing Club Real Time Lottery Bidding System. Afterwards he founded Guangzhou San Huan Yong Xin Technology Company Limited and Guangzhou Lottnal Terminal Technology Company Limited. Mr. Chen holds a bachelor's degree in Computer from South China University of Technology.

LAN Jianzhang

Mr. Lan, aged 41, joined the Group in 2009. He is currently the Vice President of the Group and General Manager of the Group's new Lottery Business Unit. Mr. Lan had held senior position at China Lottery Online Technology Co., Ltd, responsible for the strategies, products and business development. He has extensive and proven experience in the lottery industry including video lottery segment. Mr. Lan has over fifteen years' experience in the information technology and internet sector. He had held management positions at leading companies in the sector including the PKU Founder Group, responsible for the development of high-end information technology and household appliances. Mr. Lan holds a bachelor's degree from Beijing University of Aeronautics & Astronautics, a master's degree in physics from Chinese Academy of Sciences, and an EMBA from Beijing Institute of Technology.

HE Ying

Ms. He, aged 43, joined the Group in 2007. She is currently the Vice President of the Group, General Manager of the Group's Mobile and Internet Services Business Unit and General Manager of Marketing Department. Ms. He had been the general manager of the marketing department at Founder Technology Group Corporation and vice general manager at Hisense Cyber Product Limited. Ms. He has been engaged in the information technology industry for fifteen years, has extensive experience in marketing and corporate management. Ms. He holds a bachelor's degree in Computer Science from the Beijing University of Technology.

JI Youjun

Mr. Ji, aged 40, joined the Group in 2007. He is currently the Vice President of the Group and the General Manager of the Research & Development Center of the Group. Mr. Ji had been the head of household product development at Founder Technology Group Corporation and vice general manager at Hisense Cyber Product Limited. Mr. Ji has extensive experience in the development and management of information technology hardware and software products. He holds a bachelor's degree from Harbin University of Science and Technology.

Biographies of Directors and Senior Management

CHONG Ming, John

Mr. Chong, aged 41, joined the Group in 2001. He is Currently the Vice President of the Group and Director of Investor Relations, with over 10 years of solid experience in corporate management and sino-foreign cooperation. Mr. Chong was an officer with the legal aid department of the Department of Justice and the Legislative Council Secretariat of Hong Kong respectively. Mr. Chong holds a degree in Translation and Interpretation from the City University of Hong Kong, and is currently completing a Juris Doctoral degree with the Chinese University of Hong Kong.

ZHU Xinxin, Sandy

Ms. Zhu, aged 33, joined the Group in 2008. She is currently the Vice President of the Group and Director of Human Resource and Administrative Department (China). Ms. Zhu had been the operation manager of Protiviti Independent Risk Consulting, China, a global business consulting and internal audit firm. Ms. Zhu had also worked in Accenture, a global leading management consulting, technology services and outsourcing company. At Accenture, she participated in various projects like CNOOC SAP implementation project, Robert Half International PeopleSoft Implementation project and BP Finance & Accounting Outsourcing project. Ms. Zhu holds a bachelor's degree in business and finance from the University of Westminster and a master's degree in development finance from the University of Manchester.

TAN Yung Kai, Richard

Mr. Tan, aged 41, joined the Group in 2000. He is currently the Financial Controller of the Group, responsible for the overall compliance and financial accounting of the Company. Mr. Tan has over ten years of experience in the audit and the accounting fields. He had worked for Deloitte Touche Tohmatsu, an international accounting firm involved in the various auditing and due diligence activities. He holds a bachelor's degree in Commerce from McGill University, Canada and a master's degree in Corporate Finance from the Hong Kong Polytechnic University. Mr. Tan is a member of the Hong Kong Institute of Certified Public Accountants and American Institution of Certified Public Accountants.

SONG Xiaojun

Ms. Song, aged 46, joined the Group in 2007. She is currently the Head of the Legal Department of the Group. Ms. Song obtained the lawyer qualification certificate in mainland China and she has over seventeen years of experience in legal areas, specialising in commercials, dispute resolutions and intellectual property. Ms. Song had worked at the China University of Politics and Law, law firms in Mainland China and Hong Kong respectively. Ms. Song holds a bachelor's degree in law from the China University of Politics and Law and a master's degree (Magister Juris) in European and Comparative Law from Oxford University.

ZHANG Yi

Mr. Zhang, aged 36, joined the Group in 2008. He is currently the Financial Controller (China) of the Group, responsible for the overall financing and investment management of the Group's China region. Prior to joining the Group, Mr. Zhang had previously been the Investment Head of Investment Development Department of Fosun Group (0656.HK). Fosun Group is one of the largest non-state-owned corporations in China with operations in pharmaceutical, property development, steel, mining, retail, services and strategic investment. Mr. Zhang had also worked for Yongjin Group and Jiuzhitang Co., Ltd (000989.SZ), both are the famous corporations in China. Mr. Zhang has near fifteen years of experience in the financial management and investment management fields. Mr. Zhang holds an international MBA and bachelor's degree in Economics from the Guanghua School of Management, Peking University. Mr. Zhang is also a non-practicing member of the Chinese Institute of Certified Public Accountants (CICPA) and a member of the Association of Chartered Certified Accountants (ACCA).

WONG Hiu Wong

Mr. Wong, aged 29, joined the Group in 2009. He is currently the Company Secretary of the Company, responsible for the overall compliance matters within the Group and providing advice to its corporate exercise and adaptation of latest corporate governance policies. Prior to joining the Group, Mr. Wong had worked for a Hong Kong listed group, responsible for the compliance issues of its companies listed on Main Board and GEM Board respectively. Mr. Wong is an associate member of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries and a member of The Hong Kong Institute of Directors. He holds a master's degree in Corporate Governance and Directorship from the Hong Kong Baptist University and a bachelor's degree in Business from LSE, the University of London.

Report of the Directors

The board of Directors of the Company (the "Board") presents to the shareholders their report together with the audited financial statements of the Group for the year ended 31 December 2012.

FINANCIAL RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 31 December 2012 are set out in the consolidated income statement on page 34.

No interim dividend was paid during the year.

The Board has recommended the payment of a final dividend of 0.18 HK cents (2011: Nil) per share for the year ended 31 December 2012 to the shareholders whose names appear on the register of members of the Company on 23 May 2013. The proposed final dividend is subject to approval of shareholders at the Annual General Meeting to be held on Tuesday, 14 May 2013.

PRINCIPAL ACTIVITIES AND SEGMENT INFORMATION

The principal activity of the Company is investment holding.

The Group is engaged as a technology and operation service provider of lottery systems, terminal equipment and game products in the lottery market in China. The principal businesses of the Group cover various lottery products ranging from video lottery, computer ticket game and high frequency lottery to new media lottery.

Analysis of the Group's turnover and segment information for the year ended 31 December 2012 are set out in note 5 to the consolidated financial statements.

MAJOR SUPPLIERS AND CUSTOMERS

The Group's five largest customers accounted for about 98% of its turnover for the year. In addition, the largest customer of the Group accounted for about 78% of the Group's turnover.

The percentage of the Group's purchases attributable to the Group's five largest suppliers was about 68%. In addition, the largest supplier of the Group accounted for about 34% of the Group's purchases.

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

PROPERTY, PLANT AND EQUIPMENT

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

SUBSIDIARIES

The particulars of the Company's principal subsidiaries as at 31 December 2012 are set out in note 17 to the consolidated financial statements.

SHARE CAPITAL

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

Report of the Directors

REDEMPTION OF NEW CONVERTIBLE NOTE

Pursuant to the terms and conditions of the New Convertible Note (the "New Convertible Note") mentioned in the announcement of the Company dated 21 September 2010, the Company has fully redeemed the outstanding principal amount of HK$71,250,000 under the New Convertible Note in cash on 11 May 2012, the business day immediately preceding the maturity date.

CHANGES OF DIRECTOR, COMPANY SECRETARY, COMPLIANCE OFFICER AND AUTHORISED REPRESENTATIVE

1. Ms. CHAN Tan Na, Donna has been appointed as an Executive Director and Chief Financial Officer of the Company since 16 February 2012 and as an Compliance Officer and Authorised Representative since 1 June 2012;
2. Mr. CHAN Shing has resigned as an Executive Director of the Company with effect from 16 February 2012;
3. Mr. LIAO Yuang-whang has resigned as an Executive Director, Chief Financial Officer, Compliance Officer and Authorised Representative of the Company with effect from 16 March 2012;
4. Ms. LAU Ting has been appointed as Compliance Officer and Authorised Representative of the Company since 16 March 2012 and resigned as Compliance Officer and Authorised Representative of the Company with effect from 1 June 2012;
5. Mr. TAN Yung Kai, Richard has resigned as Company Secretary and Authorised Representative of the Company with effect from 1 June 2012; and
6. Mr. WONG Hiu Wong has been appointed as Company Secretary and Authorised Representative of the Company since 1 June 2012.

ISSUANCE OF CONSIDERATION SHARES

Pursuant to the terms and conditions of a transfer agreement entered into by the Company's subsidiary as mentioned in the announcement of the Company dated 14 February 2011, up to 27,612,666 consideration shares (subject to adjustment if the vendors cannot fulfill the profit guarantee for 2011) would be conditionally allotted and issued by the Company at an issue price of HK$0.45 per consideration share as partial settlement of the relevant acquisition. The Company has allotted and issued the total of 27,612,666 shares of the Company on 3 April 2012 in accordance with the terms of that transfer agreement.

Pursuant to the terms and conditions of a transfer agreement entered into by the Company's subsidiary as mentioned in the announcement of the Company dated 2 November 2011, 43,360,000 consideration shares (subject to adjustment if the vendors cannot fulfill the profit guarantee for 2011 and profit guarantee for 2012) would be conditionally allotted and issued by the Company at an issue price of HK$0.45 per consideration share as partial settlement of the relevant acquisition. The Company has allotted and issued the total of 13,008,000 shares of the Company, as the first batch, on 3 April 2012 in accordance with the terms of that transfer agreement.

CHANGE OF ADDRESS OF BERMUDA SHARE REGISTRAR

The Company's Bermuda principal share registrar and transfer agent Butterfield Fulcrum Group (Bermuda) Limited has changed its address to 26 Burnaby Street, Hamilton HM 11, Bermuda with effect from 1 November 2012.

RESERVES

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

Report of the Directors

DISTRIBUTABLE RESERVES

As at 31 December 2012, the distributable reserves to the shareholders in accordance with the Company's Bye-laws was approximately HK$34,807,000 (As at 31 December 2011: HK$20,154,000).

PRE-EMPTIVE RIGHTS

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

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year ended 31 December 2012.

SHARE OPTION SCHEME

As at 31 December 2012, there were options for 600,400,000 shares granted by the Company pursuant to the option scheme, as adopted by the shareholders of the Company on 30 July 2002 (the "2002 Option Scheme"), which were valid and outstanding. At the annual general meeting of the Company held on 18 May 2012, an ordinary resolution has be passed for the Company to terminate the operation of the 2002 Share Option Scheme in accordance with its terms (such that no further options could thereafter be offered under the 2002 Option Scheme but in all other respects the provisions of the 2002 Option Scheme shall remain in full force and effect and all options granted prior to such termination and not exercised at the date of termination shall remain valid) and a new share option scheme (the "2012 Option Scheme") has been adopted by the shareholders of the Company at the same day. As at 31 December 2012, there were options for 417,000,000 shares granted by the Company pursuant to the 2012 Option Scheme which were valid and outstanding.

Summary of the principal terms of the 2012 Option Scheme is as follows:

(i) Purpose of the Option Scheme

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

(ii) Eligible Participants

Any employee (whether full time or part time), senior executive, manager, director (including executive, non-executive and independent non-executive director), officer, buying agent, selling agent, consultant, sales representative or marketing representative of, or supplier or provider of goods or services to the Company, any of its affiliates or any Invested Entity, or their respective controlled entities, chief executives, or substantial shareholders, or any person who satisfies the criteria set out in the 2012 Option Scheme.

(iii) Maximum number of shares

The limit on the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the option scheme and any other share option schemes of the Company and/or its holding company and/or its subsidiary must not exceed 30% of the number of issued shares from time to time. The total number of Shares available for issue under the option scheme as at the date of this report is 328,258,466 Shares, representing approximately 4.40% of the issued share capital of the Company as of that date.

Report of the Directors

SHARE OPTION SCHEME *(Cont'd)*

(iv) Maximum entitlement of each Eligible Participant

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

(v) Option period

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

(vi) Payment on acceptance of option

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

(vii) Subscription price

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

(viii) The life of the Option Scheme

The option scheme shall be valid and effective for a period of ten years commencing on 18 May 2012, after which period no further options will be granted or accepted but the provisions of the option scheme shall remain in full force and effect in all other respects.

Report of the Directors

SHARE OPTION SCHEME *(Cont'd)*

Movements of share options granted under the 2002 Option Scheme and 2012 Option Scheme during the year ended 31 December 2012:

	Date of grant	Exercise price per Share HK$	Exercise period from	until	No. of Shares under the options: outstanding at the beginning of the year	granted during the year	exercised during the year	cancelled during the year	forfeited during the year	expired during the year	outstanding at the end of the year	Closing price per Share at the date of grant of the options during the year HK$
2002 Option Scheme												
(i) Name of Directors												
WU Jingwei	04/07/2007	0.975	01/01/2012	31/12/2013	800,000	–	–	–	–	–	800,000	–
	25/08/2008	0.500	25/08/2011	24/08/2013	2,000,000	–	–	–	–	–	2,000,000	–
	25/08/2008	0.500	25/08/2012	24/08/2013	2,000,000	–	–	–	–	–	2,000,000	–
	02/10/2009	0.500	01/09/2011	31/08/2014	3,400,000	–	–	–	–	–	3,400,000	–
	02/10/2009	0.500	01/09/2012	31/08/2014	3,400,000	–	–	–	–	–	3,400,000	–
	02/10/2009	0.500	01/09/2013	31/08/2014	3,400,000	–	–	–	–	–	3,400,000	–
	13/05/2011	0.216	13/05/2011	12/05/2013	11,500,000	–	–	–	–	–	11,500,000	–
LI Zi Kui	17/08/2009	0.500	17/02/2010	16/08/2014	5,000,000	–	–	–	–	–	5,000,000	–
	17/08/2009	0.500	17/08/2010	16/08/2014	5,000,000	–	–	–	–	–	5,000,000	–
HOONG Cheong Thard	30/06/2006	0.285	16/08/2007	29/06/2016	17,600,000	–	–	–	–	–	17,600,000	–
	30/06/2006	0.285	16/08/2008	29/06/2016	17,600,000	–	–	–	–	–	17,600,000	–
	06/04/2009	0.500	12/09/2009	11/09/2012	6,000,000	–	–	–	–	(6,000,000)	–	–
	06/04/2009	0.500	12/09/2010	11/09/2012	6,000,000	–	–	–	–	(6,000,000)	–	–
	06/04/2009	0.500	12/09/2011	11/09/2012	6,000,000	–	–	–	–	(6,000,000)	–	–
	13/05/2011	0.216	13/05/2011	12/05/2013	2,000,000	–	–	–	–	–	2,000,000	–
HUANG Shenglan	13/05/2011	0.216	13/05/2011	12/05/2013	2,000,000	–	–	–	–	–	2,000,000	–
CHAN Ming Fai	13/05/2011	0.216	13/05/2011	12/05/2013	2,000,000	–	–	–	–	–	2,000,000	–
CUI Shuming	13/05/2011	0.216	13/05/2011	12/05/2013	2,000,000	–	–	–	–	–	2,000,000	–
(ii) Continuous contract employees	11/05/2007	0.775	02/05/2008	01/05/2014	1,800,000	–	–	–	–	–	1,800,000	–
	11/05/2007	0.775	02/05/2009	01/05/2014	1,800,000	–	–	–	–	–	1,800,000	–
	11/05/2007	0.775	02/05/2010	01/05/2014	1,800,000	–	–	–	–	–	1,800,000	–
	11/05/2007	0.775	02/05/2011	01/05/2014	1,800,000	–	–	–	–	–	1,800,000	–
	11/05/2007	0.775	02/05/2012	01/05/2014	1,800,000	–	–	–	–	–	1,800,000	–
	11/05/2007	0.775	02/05/2013	01/05/2014	3,000,000	–	–	–	–	–	3,000,000	–
	04/07/2007	0.975	04/07/2008	03/07/2012	400,000	–	–	–	–	(400,000)	–	–
	04/07/2007	0.975	04/07/2009	03/07/2012	400,000	–	–	–	–	(400,000)	–	–
	02/10/2007	0.920	01/01/2008	31/12/2011	1,500,000	–	–	–	–	(1,500,000)	–	–
	02/10/2007	0.920	01/01/2009	31/12/2011	1,500,000	–	–	–	–	(1,500,000)	–	–
	13/11/2007	0.960	01/01/2008	31/12/2011	1,000,000	–	–	–	–	(1,000,000)	–	–
	13/11/2007	0.960	01/01/2009	31/12/2011	1,000,000	–	–	–	–	(1,000,000)	–	–
	25/08/2008	0.500	11/03/2009	10/03/2013	600,000	–	–	–	–	–	600,000	–
	25/08/2008	0.500	11/03/2010	10/03/2013	600,000	–	–	–	–	–	600,000	–
	25/08/2008	0.500	11/03/2011	10/03/2013	600,000	–	–	–	–	–	600,000	–
	25/08/2008	0.500	11/03/2012	10/03/2013	600,000	–	–	–	–	–	600,000	–
	25/08/2008	0.500	25/08/2009	24/08/2013	2,400,000	–	–	–	–	–	2,400,000	–
	25/08/2008	0.500	25/08/2010	24/08/2013	2,400,000	–	–	–	–	–	2,400,000	–
	25/08/2008	0.500	25/08/2011	24/08/2013	4,400,000	–	–	–	*(2,000,000)	–	2,400,000	–
	25/08/2008	0.500	25/08/2012	24/08/2013	4,400,000	–	–	–	*(2,000,000)	–	2,400,000	–
	09/04/2009	0.500	17/08/2009	16/08/2013	400,000	–	–	–	–	–	400,000	–
	09/04/2009	0.500	17/08/2010	16/08/2013	400,000	–	–	–	–	–	400,000	–
	09/04/2009	0.500	17/08/2011	16/08/2013	400,000	–	–	–	–	–	400,000	–
	09/04/2009	0.500	17/08/2012	16/08/2013	400,000	–	–	–	–	–	400,000	–

Report of the Directors

SHARE OPTION SCHEME *(Cont'd)*

	Date of grant	Exercise price per Share HK$	Exercise period from	until	outstanding at the beginning of the year	No. of Shares under the options granted during the year	exercised during the year	cancelled during the year	forfeited during the year	expired during the year	outstanding at the end of the year	Closing price per Share at the date of grant of the options during the year HK$
2002 Option Scheme												
(ii) Continuous contract employees	15/06/2009	0.500	15/06/2010	14/06/2015	5,000,000	–	–	–	–	–	5,000,000	–
	15/06/2009	0.500	15/06/2011	14/06/2015	5,000,000	–	–	–	–	–	5,000,000	–
	17/08/2009	0.500	17/02/2010	16/08/2014	36,000,000	–	–	–	–	–	36,000,000	–
	17/08/2009	0.500	17/08/2010	16/08/2014	36,000,000	–	–	–	–	–	36,000,000	–
	02/10/2009	0.500	01/09/2010	31/08/2014	1,450,000	–	–	–	–	–	1,450,000	–
	02/10/2009	0.500	01/09/2011	31/08/2014	4,950,000	–	–	–	*(3,500,000)	–	1,450,000	–
	02/10/2009	0.500	01/09/2012	31/08/2014	4,950,000	–	–	–	*(3,500,000)	–	1,450,000	–
	02/10/2009	0.500	01/09/2013	31/08/2014	4,950,000	–	–	–	*(3,500,000)	–	1,450,000	–
	04/12/2009	0.500	04/12/2009	03/12/2012	5,000,000	–	–	–	–	(5,000,000)	–	–
	04/12/2009	0.500	04/12/2009	03/12/2012	5,000,000	–	–	–	–	(5,000,000)	–	–
	04/12/2009	0.500	04/12/2009	03/12/2012	5,000,000	–	–	–	–	(5,000,000)	–	–
	13/05/2011	0.216	13/05/2011	12/05/2013	74,500,000	–	–	–	*(11,500,000)	–	63,000,000	–
(iii) Other participants	25/08/2008	0.500	25/08/2009	24/08/2013	150,000	–	–	–	–	–	150,000	–
	25/08/2008	0.500	25/08/2010	24/08/2013	150,000	–	–	–	–	–	150,000	–
	25/08/2008	0.500	25/08/2011	24/08/2013	150,000	–	–	–	–	–	150,000	–
	25/08/2008	0.500	25/08/2012	24/08/2013	150,000	–	–	–	–	–	150,000	–
	13/05/2011	0.216	13/05/2011	12/05/2013	89,200,000	–	–	–	(41,500,000)	–	47,700,000	–
	30/05/2011	0.250	30/05/2011	29/05/2013	296,000,000	–	–	–	–	–	296,000,000	–
Total:					706,700,000	–	–	–	(67,500,000)	(38,800,000)	600,400,000	

Report of the Directors

SHARE OPTION SCHEME *(Cont'd)*

	Date of grant	Exercise price per Share HK$	Exercise period from	until	outstanding at the beginning of the year	No. of Shares under the options: granted during the year	exercised during the year	cancelled during the year	forfeited during the year	expired during the year	outstanding at the end of the year	Closing price per Share at the date of grant of the options during the year HK$
2012 Option Scheme												
(i) Name of Directors												
LAU Ting	13/11/2012	0.109	13/05/2013	12/05/2015	–	3,500,000	–	–	–	–	3,500,000	HK$0.109
	13/11/2012	0.109	13/05/2014	12/05/2016	–	3,500,000	–	–	–	–	3,500,000	HK$0.109
WU Jingwei	13/11/2012	0.109	13/05/2013	12/05/2015	–	24,000,000	–	–	–	–	24,000,000	HK$0.109
	13/11/2012	0.109	13/05/2014	12/05/2016	–	24,000,000	–	–	–	–	24,000,000	HK$0.109
CHAN Tan Na, Donna	13/11/2012	0.109	13/05/2013	12/05/2015	–	20,000,000	–	–	–	–	20,000,000	HK$0.109
	13/11/2012	0.109	13/05/2014	12/05/2016	–	20,000,000	–	–	–	–	20,000,000	HK$0.109
LI Zi Kui	13/11/2012	0.109	13/05/2013	12/05/2015	–	7,500,000	–	–	–	–	7,500,000	HK$0.109
	13/11/2012	0.109	13/05/2014	12/05/2016	–	7,500,000	–	–	–	–	7,500,000	HK$0.109
HOONG Cheong Thard	13/11/2012	0.109	13/05/2013	12/05/2015	–	2,500,000	–	–	–	–	2,500,000	HK$0.109
	13/11/2012	0.109	13/05/2014	12/05/2016	–	2,500,000	–	–	–	–	2,500,000	HK$0.109
HUANG Shenglan	13/11/2012	0.109	13/05/2013	12/05/2015	–	2,500,000	–	–	–	–	2,500,000	HK$0.109
	13/11/2012	0.109	13/05/2014	12/05/2016	–	2,500,000	–	–	–	–	2,500,000	HK$0.109
CHAN Ming Fai	13/11/2012	0.109	13/05/2013	12/05/2015	–	2,500,000	–	–	–	–	2,500,000	HK$0.109
	13/11/2012	0.109	13/05/2014	12/05/2016	–	2,500,000	–	–	–	–	2,500,000	HK$0.109
CUI Shuming	13/11/2012	0.109	13/05/2013	12/05/2015	–	2,500,000	–	–	–	–	2,500,000	HK$0.109
	13/11/2012	0.109	13/05/2014	12/05/2016	–	2,500,000	–	–	–	–	2,500,000	HK$0.109
(ii) Continuous contract employees	13/11/2012	0.109	13/05/2013	12/05/2015	–	92,000,000	–	–	–	–	92,000,000	HK$0.109
	13/11/2012	0.109	13/05/2014	12/05/2016	–	92,000,000	–	–	–	–	92,000,000	HK$0.109
	20/11/2012	0.109	20/05/2013	19/05/2015	–	1,500,000	–	–	–	–	1,500,000	HK$0.106
	20/11/2012	0.109	20/05/2014	19/05/2016	–	1,500,000	–	–	–	–	1,500,000	HK$0.106
(iii) Other participants	13/11/2012	0.109	13/05/2013	12/05/2015	–	25,000,000	–	–	–	–	25,000,000	HK$0.109
	13/11/2012	0.109	13/05/2014	12/05/2016	–	25,000,000	–	–	–	–	25,000,000	HK$0.109
	20/11/2012	0.109	20/05/2013	19/05/2015	–	25,000,000	–	–	–	–	25,000,000	HK$0.106
	20/11/2012	0.109	20/05/2014	19/05/2016	–	25,000,000	–	–	–	–	25,000,000	HK$0.106
Total:					–	417,000,000	–	–	–	–	417,000,000	

Notes:

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

2. For the share options granted during the year, (i) the closing price per Share immediately before the date of grant of 13 November 2012 was HK$0.112; and (ii) the closing price per Share immediately before the date of grant of 20 November 2012 was HK$0.107.

3. A total of 25,000,000 share options were held by Mr. Liao Yuang-whang, who was a participant as a continuous contract employee and had resigned as the Company's Executive Director with effect from 16 March 2012. Those share options (included in the figures which is marked with*) have been forfeited during the period.

Report of the Directors

DIRECTORS

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

Executive Directors:

Ms. LAU Ting
Mr. WU Jingwei
Ms. CHAN Tan Na, Donna (appointed on 16 February 2012)
Mr. LI Zi Kui
Mr. LIAO Yuang-whang (resigned on 16 March 2012)
Mr. CHAN Shing (resigned on 16 February 2012)

Non-Executive Director:

Mr. HOONG Cheong Thard

Independent Non-Executive Directors:

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

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

Biographical details of the Directors of the Company are set out on pages 10 to 12.

SENIOR MANAGEMENT

Biographical details of the senior management of the Group are set out on pages 12 to 13.

Report of the Directors

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

As at 31 December 2012, the interests and short positions of the Directors and chief executive of the Company (including those interests and short positions which were taken or deemed to have interests and short positions under the provisions of the Securities and Futures Ordinance (the "SFO")) in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standards of dealing by directors of the listed issuer as referred to in Rule 5.46 of the Rules Governing the Listing of Securities on The Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules"), were as follows:

(1) Interests in Shares of the Company

Name of Directors	Number of shares				Approximate percentage of the Company's issued share capital
	Beneficial interests	Family interests	Corporate interests	Total	
LAU Ting	259,974,373(L)	389,286,426(L)	867,762,948(L) 23,093,192(S)	1,517,023,747(L) 23,093,192(S) *(Note 1)*	20.36%(L) 0.31%(S)
WU Jingwei	20,000,000(L)	–	–	20,000,000(L)	0.27%(L)
LI Zi Kui	6,500,000(L)	–	–	6,500,000(L)	0.09%(L)
HUANG Shenglan	4,000,000(L)	–	–	4,000,000(L)	0.05%(L)

Notes:

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

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

Report of the Directors

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

(2) Interests in Underlying Shares

As at 31 December 2012, the interests of the Directors and chief executive of the Company in options for Shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standards of dealing by directors of the listed issuer as referred to in Rule 5.46 of the GEM Listing Rules, were as disclosed in the previous section headed "Share Option Scheme" of this report.

Save as otherwise disclosed above, as at 31 December 2012, none of the Directors or chief executive of the Company had, or were deemed under the SFO to have, any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) which were required to be recorded in the register kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standards of dealing by directors of listed issuer as referred to in Rule 5.46 of the GEM Listing Rules.

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

As at 31 December 2012, according to the register required to be kept by the Company under Section 336 of the SFO, the following persons (other than the Directors and chief executive of the Company) had interests and short positions in the shares and underlying shares of the Company:

Interests in Shares

Name of Shareholder	Number of shares					Approximate percentage interest in the Company's issued share capital
	Beneficial interests	Family Interest	Investment Manager	Corporate interests	Total	
CHAN Shing	389,286,426(L)	259,974,373(L)	–	867,762,948(L) 23,093,192(S)	1,517,023,747(L) 23,093,192(S) *(Note 1)*	20.36%(L) 0.31%(S)
Atlantis Capital Holdings Limited	–	–	–	680,000,000(L)	680,000,000(L) *(Note 2)*	9.12%(L)
LIU Yang	–	–	–	680,000,000(L)	680,000,000(L) *(Note 2)*	9.12%(L)
Favor King Limited	–	–	–	582,864,906(L)	582,864,906(L) *(Note 1)*	7.82%(L)
FIL Limited	–	–	445,104,000(L)	–	445,104,000(L)	5.97%(L)

Report of the Directors

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

Interests in Shares *(Cont'd)*

Notes:

1. For the corporate interests, 147,162,496 shares, includes abovementioned 23,093,192 shares, were held by Hang Sing which was owned as to 51% by Orient Strength, a company which was whollyowned by Ms. LAU Ting and Mr. CHAN Shing. 137,735,546 shares were held by Strong Purpose, a company which was wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 580,932,594 shares were held by Glory Add which was wholly owned by Favor King Limited, a company which was whollyowned by Ms. LAU Ting and Mr. CHAN Shing. 1,932,312 shares were held by Burwill Holdings Limited of which Ms. LAU Ting and Mr. CHAN Shing were the controlling shareholders. The shares of the family interests were owned by Ms. LAU Ting. As Ms. LAU Ting is the spouse of Mr. CHAN Shing, the interests of each of Mr. CHAN Shing and Ms. LAU Ting were deemed to be the interests of each other.

2. These shares represent the same block of interest held by Atlantis Capital Holdings Limited and Ms. LIU Yang. Atlantis Investment Management (Hong Kong) Limited interested in 680,000,000 shares among these shares. Atlantis Fund Management (Ireland) Limited and Atlantis Investment Management (London) Limited interested in 200,000,000 shares respectively among these shares. The above three companies were wholly-owned by Atlantis Capital Holdings Limited, which in turn was wholly-owned by Ms. LIU Yang. 20,000,000 shares were held by Riverwood Asset Management (Cayman) Limited which was wholly owned by Ms. LIU Yang.

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

Save as disclosed above, as at 31 December 2012, there was no person (other than the Directors and chief executive of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and/or who were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN CONTRACTS

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

SERVICE CONTRACTS WITH DIRECTORS

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

FINANCIAL SUMMARY

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

Report of the Directors

EMPLOYEE RETIREMENT BENEFIT

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

COMPETING INTERESTS

None of the Directors or their respective associates has any interest in any business which competes or potentially competes, either directly or indirectly, with the business of the Group.

PUBLIC FLOAT

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

AUDITORS

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

On behalf of the Board
LAU Ting
Chairperson

Hong Kong, 8 March 2013

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

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

In the opinion of the Directors, the Company has complied with all the applicable code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 of the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") for the financial year ended 31 December 2012, except for the deviations as disclosed in this report.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the required standard of dealings regarding securities transactions by directors set out in Rules 5.48 to 5.67 of the GEM Listing Rules as its code of conduct for dealings in securities of the Company by the Directors (the "Code of Conduct"). Having made specific enquiry of all Directors, all Directors confirmed that they had complied with the required standard of dealings set out in the Code of Conduct throughout the financial year ended 31 December 2012.

BOARD OF DIRECTORS

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

Executive Directors

Ms. LAU Ting
Mr. WU Jingwei
Ms. CHAN Tan Na, Donna (appointed on 16 February 2012)
Mr. LI Zi Kui
Mr. LIAO Yuang-whang (resigned on 16 March 2012)
Mr. CHAN Shing (resigned on 16 February 2012)

Non-Executive Director

Mr. HOONG Cheong Thard

Independent Non-Executive Directors

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

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

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

Corporate Governance Report

BOARD OF DIRECTORS *(Cont'd)*

The Non-executive Directors (including the Independent Non-executive Directors) serve the relevant function of bringing independent judgement on the development, performance and risk management of the Group.

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

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

The attendance of the Board Meeting, Committees Meeting and Annual General Meeting during the year are as follows:

	Number of meetings attended/eligible to attend				
	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	Annual General Meeting
Executive Directors					
Ms. LAU Ting	4/4	–	4/4	–	1/1
Mr. WU Jingwei	4/4	–	–	–	0/1
Ms. CHAN Tan Na, Donna (appointed on 16 February 2012)	4/4	–	–	–	0/1
Mr. LI Zi Kui	4/4	–	–	–	0/1
Mr. LIAO Yuang-whang (resigned on 16 March 2012)	1/1	–	–	–	–
Mr. CHAN Shing (resigned on 16 February 2012)	–	–	–	–	–
Non-Executive Director					
Mr. HOONG Cheong Thard	4/4	–	–	–	1/1
Independent Non-Executive Directors					
Mr. HUANG Shenglan	4/4	4/4	4/4	–	0/1
Mr. CHAN Ming Fai	4/4	4/4	4/4	–	1/1
Mr. CUI Shuming	4/4	4/4	–	–	0/1

Corporate Governance Report

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

NON-EXECUTIVE DIRECTORS

Although more than half of the Non-executive Directors of the Company are not appointed for a specific term as is stipulated in Code provision A.4.1, all of them are subject to retirement by rotation in accordance with the Bye-laws of the Company. The Board will ensure the retirement of each Director, other than the one who holds the office as Chairperson or Managing Director pursuant to the Bye-laws of the Company, by rotation at least once every three years. The Chairperson is not subject to retirement by rotation as is stipulated in Code provision A.4.2 as the Board considers that the continuity of office of the Chairperson provides the Group a strong and consistent leadership and is of great importance to the smooth operations of the Group. Due to other business commitments, Mr. HUANG Shenglan and Mr. CUI Shuming, being the Independent Non-executive Directors, did not attend the annual general meeting of the Company held on 18 May 2012 as stipulated in Code provision A.6.7. However, Mr. HOONG Cheong Thard, being the Non-executive Director, and Mr. CHAN Ming Fai, being the Independent Non-executive Director and also member of three Board committees of the Company, has attended the annual general meeting of the Company held on 18 May 2012. Mr. HUANG Shenglan, Mr. CHAN Ming Fai and Mr. CUI Shuming are subject to retirement by rotation at the forthcoming annual general meeting in accordance with the Company's Bye-laws.

REMUNERATION COMMITTEE

The Remuneration Committee was established on 10 August 2006 with specific written terms of reference which deal with its authority and duties. The terms of reference of the Remuneration Committee has been posted on the Company's website and is made available on request. The Remuneration Committee mainly responsible for determining the policy for the remuneration of Directors and the senior management, and consider and review the terms of service contract of the Directors and the senior management. The Remuneration Committee has the delegated responsibility to determine the remuneration packages, in consultation with the Chairman, the Deputy Chairman, the Managing Director or the Chief Executive Officer of the Company, of individual Executive Directors and Senior Management. The Remuneration Committee currently consists of three members, namely Mr. HUANG Shenglan and Mr. CHAN Ming Fai, both being Independent Non-executive Directors, and Ms. LAU Ting, the Executive Director. The chairperson of the Remuneration Committee is Mr. HUANG Shenglan.

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

Corporate Governance Report

NOMINATION COMMITTEE

The Nomination Committee was established on 15 March 2012 with specific written terms of reference which deal with its authority and duties. The terms of reference of the Nomination Committee has been posted on the Company's website and is made available on request. The Nomination Committee mainly responsible for making recommendations to the board on the appointment or re-appointment of directors and succession planning for directors and identifying individuals suitably qualified to become board members and making recommendations to the board on the selection. The Nomination Committee currently consists of three members, namely Ms. LAU Ting, the Executive Director, and Mr. HUANG Shenglan and Mr. CHAN Ming Fai, both being Independent Non-executive Directors. The chairperson of the Nomination Committee is Ms. LAU Ting.

The Nomination Committee will identify suitable candidates for members of the Board when there is a vacancy or an additional director is considered necessary and will propose the appointment of such candidates to the Board for consideration. The Board will review the qualifications of the relevant candidates for determining the suitability to the Group on the basis of his qualifications, experience and background.

No meeting of the Nomination Committee was held during the year as the Nomination Committee was established on 15 March 2012 and there is no proposed appointment or removal of directors after its establishment.

AUDIT COMMITTEE

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

The Audit Committee's functions include:

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

The Audit Committee held four meetings during the year under review, two of which were attended by the external auditors, HLB Hodgson Impey Cheng.

The Audit Committee has reviewed and discussed with the management the accounting principles and practices adopted by the Group and auditing, internal controls and financial reporting matters. The audited financial results of the Group for the financial year ended 31 December 2012 have been reviewed by the Audit Committee. The terms of reference of the Audit Committee has been posted on the Company's website and is made available on request.

SENIOR MANAGEMENT'S REMUNERATION

The annual remuneration ranges of the Senior Management are set out as below:

	Number of Employee(s)
From HK$0 to HK$1,000,000	6
HK$1,000,001 or above	4

Corporate Governance Report

AUDITORS' REMUNERATION

For the year ended 31 December 2012, the Group had engaged the Group's external auditors, HLB Hodgson Impey Cheng, to provide the following services and their respective fees charged are set out as below:

	Fee Charged for the year ended 31 December	
	2012	2011
	HK$	HK$
Types of Services		
Audit for the Group	**800,000**	750,000

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR ACCOUNTS

The Directors' responsibilities for the accounts and the responsibilities of the external auditors to the shareholders are set out on page 32.

CORPORATE GOVERNANCE FUNCTION

The Board is to perform the corporate governance duties with written terms of reference which include the applicable code provisions as set out in the Code. The Board has reviewed the compliance with the Code and disclosure of the Company in this Corporate Governance Report and review the policy for corporate governance of the Company and duties performed by the Board. All Directors are able to make further enquiries and they may seek independent professional advice and consultation when necessary. To enhance proper and up-to-date understanding of the Company's operations and business, legal and other regulatory requirements and appropriate emphasis on the roles, functions and duties of Directors, the Company has provide relevant reading materials as professional development programs to the Directors. The Company has received training records of all Directors (except those have resigned during the year) who have participated in continuous professional development to develop and refresh their knowledge and skills during the year as below:

	Training Records Received*
Executive Directors	
Ms. LAU Ting	✓
Mr. WU Jingwei	✓
Ms. CHAN Tan Na, Donna (appointed on 16 February 2012)	✓
Mr. LI Zi Kui	✓
Mr. LIAO Yuang-whang (resigned on 16 March 2012)	N/A
Mr. CHAN Shing (resigned on 16 February 2012)	N/A
Non-Executive Director	
Mr. HOONG Cheong Thard	✓
Independent Non-Executive Directors	
Mr. HUANG Shenglan	✓
Mr. CHAN Ming Fai	✓
Mr. CUI Shuming	✓

Note: Finished the professional development programs including those provided by the Company in relation to the Directors' Duties and Regulation Information.

Corporate Governance Report

INTERNAL CONTROL

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

INVESTOR RELATIONS

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

Pursuant to Section 74 of the Bermuda Companies Act 1981, the Board, notwithstanding anything in the Bye-laws of the Company shall, on the requisition of members of the Company holding at the date of the deposit of the requisition not less than one-tenth of such of the paid-up capital of the Company as at the date of the deposit carrying the right of voting at general meetings of the Company, forthwith proceed duly to convene a special general meeting of the Company. The requisition must state the purposes of the meeting, and must be signed by the requisitionists and deposited at the registered office of the Company, and may consist of several documents in like form each signed by one or more requisitionists. The Company arranges for the notice to its shareholders to be sent at least 10 clear business days before each of the general meetings of the Company in accordance with Code Provision E.1.3 of the Code.

To put forward proposals at an annual general meeting or a special general meeting, the shareholders shall submit a written notice of those proposals with the detail contact information to the Company Secretary at the Principal Place of Business. The request will be verified with the Company's Branch Share Registrars and Transfer Office in Hong Kong and upon its confirmation that the request is proper and in order, the Company Secretary will ask the Board to include the resolution in the agenda for the general meeting.

The corporate website of the Company (http://www.chinalotsynergy.com/) provides an effective communication platform via which the public and investor community can enjoy fast, easy access to up-to-date information regarding the Group. Enquiries to the Board or the Company are welcome and can be addressed to the Investor Relations Department by mail to Unit 3308, 33rd Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong or by fax to (852) 2136 6608.

Independent Auditors' Report

HLB 國衛會計師事務所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

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

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

We have audited the consolidated financial statements of China LotSynergy Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 34 to 104, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

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

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

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

Independent Auditors' Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

Hong Kong, 8 March 2013

Consolidated Income Statement

For the year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Turnover	5	607,255	528,136
Costs of sales and services		(124,749)	(96,460)
Gross profit		482,506	431,676
Other income and gains	6	21,059	14,367
General and administrative expenses		(177,286)	(130,666)
Impairment of accounts receivable		(29,789)	–
Share option expenses		(1,015)	(19,750)
Operating profit	7	295,475	295,627
Finance costs	8	(19,825)	(19,495)
Share of losses of jointly-controlled entities	18	(4,121)	(9,126)
Profit before income tax		271,529	267,006
Income tax expense	9	(69,196)	(48,703)
Profit for the year		202,333	218,303
Profit attributable to:			
Owners of the Company		67,513	66,485
Non-controlling interests		134,820	151,818
		202,333	218,303
Earnings per share attributable to owners of the Company during the year			
— basic	11	0.91 HK cents	0.90 HK cents
— diluted	11	0.90 HK cents	0.89 HK cents

		2012 HK$'000	2011 HK$'000
Dividends	14	13,415	–

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Profit for the year		**202,333**	218,303
Other comprehensive income/(expense):			
Fair value gain/(loss) on available-for-sale financial assets	*20*	**2,266**	(9,499)
Reclassification adjustment on disposal of available-for-sale financial assets		**–**	(7,149)
Currency translation differences		**164**	16,445
Other comprehensive income/(expense) for the year		**2,430**	(203)
Total comprehensive income for the year		**204,763**	218,100
Attributable to:			
Owners of the Company		**69,943**	59,862
Non-controlling interests		**134,820**	158,238
Total comprehensive income for the year		**204,763**	218,100

Consolidated Statement of Financial Position

At 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment	15	495,864	281,679
Intangible assets	16	413,763	396,132
Investments in jointly-controlled entities	18	99,782	103,739
Available-for-sale financial assets	20	31,128	28,862
Deferred income tax assets	30	17,176	4,622
Prepaid rentals		2,257	3,260
		1,059,970	818,294
Current assets			
Inventories	21	28,682	29,907
Accounts receivable	22	65,867	177,160
Prepayments, deposits and other receivables	23	106,728	70,461
Amounts due from jointly-controlled entities	18	401	457
Amount due from a related company	24	21,564	21,564
Income tax receivable		1,490	–
Cash and bank balances	25	713,606	648,867
		938,338	948,416
Total assets		1,998,308	1,766,710
Current liabilities			
Accounts payable	26	46,195	12,813
Accruals and other payables		22,852	40,901
Amounts due to jointly-controlled entities	18	6,173	4,811
Income tax payable		15,474	18,110
Financial liabilities at fair value through profit or loss	27	1,093	9,155
Bank borrowings	28	612,855	380,602
Convertible note	29	–	68,308
		704,642	534,700
Net current assets		233,696	413,716
Total assets less current liabilities		1,293,666	1,232,010

Consolidated Statement of Financial Position *(Cont'd)*

At 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Non-current liabilities			
Deferred income tax liabilities	30	39,121	14,472
Net assets		1,254,545	1,217,538
Equity attributable to owners of the Company			
Share capital	31	18,631	18,530
Reserves	33	866,477	877,478
Retained profits		196,344	109,896
		1,081,452	1,005,904
Non-controlling interests		173,093	211,634
Total equity		1,254,545	1,217,538

LAU TING
Director

CHAN TAN NA, DONNA
Director

Statement of Financial Position

At 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment	15	**39**	98
Investments in subsidiaries	17	**9**	9
		48	107
Current assets			
Prepayments, deposits and other receivables		**1,112**	1,112
Amounts due from subsidiaries	17	**831,966**	899,249
Cash and bank balances	25	**1,149**	1,143
		834,227	901,504
Total assets		**834,275**	901,611
Current liabilities			
Accruals and other payables		**344**	511
Amounts due to subsidiaries	17	**8**	8
Convertible note	29	**–**	68,308
		352	68,827
Net current assets		**833,875**	832,677
Total assets less current liabilities		**833,923**	832,784
Non-current liabilities			
Deferred income tax liabilities	30	**–**	486
Net assets		**833,923**	832,298
Equity attributable to owners of the Company			
Share capital	31	**18,631**	18,530
Reserves	33	**796,694**	809,823
Retained profits	34	**18,598**	3,945
		833,923	832,298

LAU TING
Director

CHAN TAN NA, DONNA
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	Attributable to owners of the Company				
	Share capital HK$'000 *(Note 31)*	Reserves HK$'000 *(Note 33)*	(Accumulated losses)/ retained profits HK$'000	Non-controlling interests HK$'000	Total HK$'000
Balance at 1 January 2011	18,505	1,714,406	(808,897)	162,365	1,086,379
Comprehensive income					
Profit for the year	–	–	66,485	151,818	218,303
Other comprehensive (expense)/income:					
Release of revaluation reserve upon depreciation of leasehold land and building	–	(181)	181	–	–
Fair value loss on available-for-sale financial assets	–	(9,499)	–	–	(9,499)
Reclassification adjustment on disposal of available-for-sale financial assets	–	(7,149)	–	–	(7,149)
Currency translation differences	–	10,025	–	6,420	16,445
Total other comprehensive (expense)/income	–	(6,804)	181	6,420	(203)
Total comprehensive (expense)/income	–	(6,804)	66,666	158,238	218,100
Total contributions by and distributions to owners of the Company recognised directly in equity					
Reduction of share premium	–	(813,537)	813,537	–	–
Release of convertible note equity reserve upon redemption of convertible note at maturity	–	(9,718)	9,718	–	–
Share option scheme:					
— value of employee services	–	6,381	–	–	6,381
— value of other participants' services	–	13,369	–	–	13,369
— share options exercised	25	2,253	–	–	2,278
— vested share options cancelled and expired	–	(28,872)	28,872	–	–
Total contributions by and distributions to owners of the Company	25	(830,124)	852,127	–	22,028
Dividends paid to non-controlling interests	–	–	–	(113,913)	(113,913)
Non-controlling interests arising on business combinations	–	–	–	4,944	4,944
Total transactions with owners	25	(830,124)	852,127	(108,969)	(86,941)
Balance at 31 December 2011	18,530	877,478	109,896	211,634	1,217,538

Consolidated Statement of Changes in Equity *(Cont'd)*

For the year ended 31 December 2012

	Attributable to owners of the Company				
	Share capital HK$'000 *(Note 31)*	Reserves HK$'000 *(Note 33)*	Retained profits HK$'000	Non-controlling interests HK$'000	Total HK$'000
Balance at 1 January 2012	18,530	877,478	109,896	211,634	1,217,538
Comprehensive income					
Profit for the year	–	–	67,513	134,820	202,333
Other comprehensive (expense)/income:					
Release of revaluation reserve upon depreciation of leasehold land and building	–	(302)	302	–	–
Fair value gain on available-for-sale financial assets	–	2,266	–	–	2,266
Currency translation differences	–	164	–	–	164
Total other comprehensive income	–	2,128	302	–	2,430
Total comprehensive income	–	2,128	67,815	134,820	204,763
Total contributions by and distributions to owners of the Company recognised directly in equity					
Issue of consideration shares	101	4,489	–	–	4,590
Release of convertible note equity reserve upon redemption of convertible note at maturity	–	(11,670)	11,670	–	–
Share option scheme:					
— value of employee services	–	730	–	–	730
— value of other participants' services	–	285	–	–	285
— vested share options forfeited and expired	–	(6,963)	6,963	–	–
Total contributions by and distributions to owners of the Company	101	(13,129)	18,633	–	5,605
Dividends paid to non-controlling interests	–	–	–	(173,361)	(173,361)
Total transactions with owners	101	(13,129)	18,633	(173,361)	(167,756)
Balance at 31 December 2012	18,631	866,477	196,344	173,093	1,254,545

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Cash flows from operating activities			
Operating cash flows before changes in working capital	35	350,619	347,573
Changes in working capital	35	69,385	(9,001)
Cash generated from operation	35	420,004	338,572
Income tax paid		(61,227)	(63,920)
Net cash generated from operating activities		358,777	274,652
Cash flows from investing activities			
Purchase of property, plant and equipment		(253,065)	(46,556)
Acquisition of subsidiaries		–	(6,963)
Proceeds from disposal of property, plant and equipment		9	102
Purchase of intangible assets		(24,159)	(22,397)
Repayment from/(advance to) a jointly-controlled entity		56	(46)
Proceeds from disposal of available-for-sale financial assets		–	30,549
Interest income from bank deposits		11,383	4,454
Increase in pledged time deposits with maturity of more than three months		(202,470)	(211,308)
Decrease/(increase) in restricted bank deposits		49,383	(49,383)
Net cash used in investing activities		(418,863)	(301,548)
Cash flows from financing activities			
Redemption of convertible note		(71,250)	(95,000)
Interest paid		(15,904)	(1,939)
Proceeds from issue of shares		–	2,278
Repayment of bank borrowings		(74,161)	(11,713)
Proceeds from bank borrowings		306,414	287,196
Dividends paid to non-controlling interests		(173,361)	(113,913)
Net cash (used in)/generated from financing activities		(28,262)	66,909
Net (decrease)/increase in cash and cash equivalents		(88,348)	40,013
Cash and cash equivalents at beginning of the year		355,040	314,476
Effect of foreign exchange rate changes		–	551
Cash and cash equivalents at end of the year *(Note)*	25	266,692	355,040

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

1. GENERAL INFORMATION

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

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

These consolidated financial statements are presented in Hong Kong dollars ("HK$"), unless otherwise stated. These consolidated financial statements were approved and authorised for issue by the board of directors of the Company (the "Board") on 8 March 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

Changes in accounting policy and disclosures

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

There are no HKFRSs or HK(IFRIC) interpretations that are effective for the first time for the financial year beginning on or after 1 January 2012 that would be expected to have a material impact on the Group.

(b) *New standards and interpretations not yet adopted*

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

Amendment to HKAS 1, 'Financial statement presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in other comprehensive income.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

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

2.1 Basis of preparation *(Cont'd)*

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

(b) New standards and interpretations not yet adopted (Cont'd)

HKFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements, which are largely aligned between HKFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRSs or US GAAP.

HKFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. HKFRS 9 was issued in November 2009 and October 2010. It replaces the parts of HKAS 39 that relate to the classification and measurement of financial instruments. HKFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the HKAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather the income statement, unless this creates an accounting mismatch. The Group is yet to assess HKFRS 9's full impact and intends to adopt HKFRS 9 no later than the accounting period beginning on or after 1 January 2015. The Group will also consider the impact of the remaining phases of HKFRS 9 when completed by the Board.

HKFRS 10, 'Consolidated financial statements', builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group is yet to assess HKFRS 10's full impact and intends to adopt HKFRS 10 no later than the accounting period beginning on or after 1 January 2013.

HKFRS 11, 'Joint arrangements', replaces HKAS 31 and HK(SIC)-Int 13 and describes the accounting for joint arrangements with joint control. The standard addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation. The Group is yet to assess HKFRS 11's full impact and intends to adopt HKFRS 11 no later than the accounting period beginning on or after 1 January 2013.

HKFRS 12, 'Disclosures of interests in other entities', includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group is yet to assess HKFRS 12's full impact and intends to adopt HKFRS 12 no later than the accounting period beginning on or after 1 January 2013.

There are no other HKFRSs or HK(IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

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

2.2 Subsidiaries

2.2.1 Consolidation

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control.

De-facto control may arise from circumstances such as enhanced minority rights or contractual terms between shareholders, etc.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(a) *Business combinations*

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

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

2.2 Subsidiaries *(Cont'd)*

2.2.1 Consolidation (Cont'd)

(b) *Changes in ownership interests in subsidiaries without change of control*

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions — that is, as transactions with owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) *Disposal of subsidiaries*

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

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

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

2.3 Jointly-controlled entities

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

The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in a jointly-controlled entity equals or exceeds its interest in the jointly-controlled entity, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the jointly-controlled entity.

The Group determines at each reporting date whether there is any objective evidence that the investment in the jointly-controlled entity is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the jointly-controlled entity and its carrying value and recognises the amount adjacent to 'share of profit/(loss) of a jointly-controlled entity' in the income statement.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

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

2.3 Jointly-controlled entities *(Cont'd)*

Profits and losses resulting from upstream and downstream transactions between the Group and its jointly-controlled entity are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the jointly-controlled entities. Unrealised gains on transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's interest in the jointly-controlled entities. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of jointly-controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in jointly-controlled entities are recognised in the income statement.

2.4 Segment reporting

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

2.5 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

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

2.5 Foreign currency translation *(Cont'd)*

(c) Group companies

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

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

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

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

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

(d) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, 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.

In the case of a partial disposal that does not result in the group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the group's ownership interest in associates or jointly-controlled entities that do not result in the group losing significant influence or joint control) the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

2.6 Property, plant and equipment

Land and buildings comprise mainly offices. Leasehold land classified as finance lease and all other property, plant and equipment is stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

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

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

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

Leasehold land classified as finance lease	Shorter of remaining lease term or useful life
Buildings	2.5%
Lottery terminals leased to third parties under operating leases	20%
Leasehold improvements	20% – 50% (over the period of leases)
Plant and equipment	10% – 20%
Computer equipment and software	20% – 33%
Office equipment and furniture	10% – 25%
Motor vehicles	10% – 25%

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

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

2.7 Intangible assets

(a) *CLO Contract*

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

(b) *Goodwill*

Goodwill arises on the acquisition of subsidiaries and joint ventures and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

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

2.7 Intangible assets *(Cont'd)*

(c) Development costs

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

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

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

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

2.8 Impairment of non-financial assets

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

2.9 Financial assets

2.9.1 Classification

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

(a) Loans and receivables

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

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

2.9 Financial assets *(Cont'd)*

2.9.1 Classification (Cont'd)

(b) Available-for-sale financial assets

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

2.9.2 Recognition and measurement

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

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

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

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

2.10 Offsetting financial instruments

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

2.11 Impairment of financial assets

(a) Assets carried at amortised cost

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

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

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

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

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

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

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

(b) Assets classified as available-for-sale

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

2.12 Inventories

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

2.13 Trade and other receivables

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

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

2.14 Cash and cash equivalents

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

2.15 Share capital

Ordinary shares are classified as equity.

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

2.16 Trade payables

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

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

2.17 Borrowings

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

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

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

2.18 Borrowing costs

General and specific 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

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

2.19 Compound financial instruments

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

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

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

Liability component of a convertible instrument is classified as current unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.20 Current and deferred income tax

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

(a) Current income tax

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

(b) Deferred income tax

Inside basis differences

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

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

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

(b) ***Deferred income tax*** *(Cont'd)*

Outside basis differences

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

(c) ***Offsetting***

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

2.21 Employee benefits

(a) ***Employee leave entitlements***

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

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

(b) ***Bonus plans***

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

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

(c) ***Retirement benefits***

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

(d) ***Termination benefits***

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to a termination when the entity has a detailed formal plan to terminate the employment of current employees without possibility of withdrawal. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

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

2.22 Share-based payments

(a) Equity-settled share-based payment transactions

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

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

(b) Share-based payment transactions among group entities

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

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

2.23 Provisions

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

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

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

2.24 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns and value-added tax. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below.

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

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

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

2.25 Interest income

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

2.26 Dividend income

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

2.27 Operating leases

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

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

(a) Market risk

(i) Foreign exchange risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. Approximately 99% (2011: 99%) of the Group's turnover and approximately 100% (2011: 100%) of costs are denominated in the operating units' functional currencies. The Group manages the foreign exchange exposure arising from its normal course of business activities and investments in foreign operations by funding its local operations and investments through cash flow generated from business transactions locally. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure closely and will consider hedging significant foreign currency exposure should the need arise.

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

	Increase/ (decrease) in RMB %	**Increase/ (decrease) in profit after income tax HK$'000**	**Increase/ (decrease) in equity HK$'000**
2012			
If HK$ weakens against RMB	**5**	**4,480**	**27,080**
If HK$ strengthens against RMB	**(5)**	**(4,472)**	**(25,467)**

	Increase/ (decrease) in RMB %	Increase/ (decrease) in profit after income tax HK$'000	Increase/ (decrease) in equity HK$'000
2011			
If HK$ weakens against RMB	5	7,456	29,331
If HK$ strengthens against RMB	(5)	(7,469)	(27,202)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

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

3.1 Financial risk factors *(Cont'd)*

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

(ii) Price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group is exposed to equity price risk arising from individual equity investments classified as available-for-sale financial assets (Note 20) as at 31 December 2012.

The following table demonstrates the sensitivity to 5% increase/decrease in the fair values of the equity investments with all other variables held constant and after any impact on tax, based on their carrying amounts at the end of the reporting period. For the purpose of this analysis, for available-for-sale equity investments, the impact is deemed to be on the available-for-sale investment revaluation reserve and no account is given for factors such as impairment which might impact the income statement.

	Increase/ (decrease) in equity HK$'000
2012	
5% increase in equity price	**1,556**
5% decrease in equity price	**(1,556)**

	Increase/ (decrease) in equity HK$'000
2011	
5% increase in equity price	1,443
5% decrease in equity price	(1,443)

(iii) Cash flow and fair value interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate time deposits and fixed-rate bank borrowings.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings. It is the Group's policy to keep its borrowing at floating rate of interests so as to minimise the fair value interest risk. The Group cash flow interest rate risk is mainly concentrated on the fluctuation of HIBOR and LIBOR arising from the Group's bank borrowings denominated in HK$ and United States dollars ("US$").

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

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

3.1 Financial risk factors *(Cont'd)*

(a) Market risk (Cont'd)

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

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

	Increase/ (decrease) in interest rates %	Increase/ (decrease) in profit after income tax HK$'000	Increase/ (decrease) in equity HK$'000
2012			
HK$ and US$	**5**	**(523)**	**(523)**
HK$ and US$	**(5)**	**523**	**523**

	Increase/ (decrease) in interest rates %	Increase/ (decrease) in profit after income tax HK$'000	Increase/ (decrease) in equity HK$'000
2011			
HK$ and US$	5	(603)	(603)
HK$ and US$	(5)	603	603

(b) Credit risk

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

The credit risk of the Group's financial assets, which comprise bank balances, accounts receivable, amounts due from jointly-controlled entities, amount due from a related company and deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. At the end of the reporting period, the Group had certain concentrations of credit risk as 72% (2011: 86%) and 97% (2011: 90%) of the Group's accounts receivable were due from the Group's largest customer and the five largest customers, respectively.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

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

3.1 Financial risk factors *(Cont'd)*

(c) Liquidity risk

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

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

The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period.

	Group				
	Carrying amount as per consolidated statement of financial position HK$'000	**Total contractual undiscounted cash flows HK$'000**	**On demand or less than 1 month HK$'000**	**Between 1 and 3 months HK$'000**	**Between 3 months and 1 year HK$'000**
2012					
Accounts payable	**46,195**	**46,195**	**46,195**	**–**	**–**
Accruals and other payables	**18,838**	**18,838**	**18,838**	**–**	**–**
Amounts due to jointly-controlled entities	**6,173**	**6,173**	**6,173**	**–**	**–**
Bank borrowings	**612,855**	**622,462**	**522,245**	**62,268**	**37,949**
	684,061	**693,668**	**593,451**	**62,268**	**37,949**

	Group				
	Carrying amount as per consolidated statement of financial position HK$'000	Total contractual undiscounted cash flows HK$'000	On demand or less than 1 month HK$'000	Between 1 and 3 months HK$'000	Between 3 months and 1 year HK$'000
2011					
Accounts payable	12,813	12,813	12,813	–	–
Accruals and other payables	34,329	34,329	34,329	–	–
Amounts due to jointly-controlled entities	4,811	4,811	4,811	–	–
Convertible note	68,308	71,250	–	–	71,250
Bank borrowings	380,602	396,752	330,974	–	65,778
	500,863	519,955	382,927	–	137,028

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

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

3.1 Financial risk factors *(Cont'd)*

(c) Liquidity risk (Cont'd)

	Company			
	Carrying amount as per statement of financial position HK$'000	**Total contractual undiscounted cash flows HK$'000**	**On demand or less than 1 month HK$'000**	**Between 3 months and 1 year HK$'000**
2012				
Accruals and other payables	**344**	**344**	**344**	**–**
Amounts due to subsidiaries	**8**	**8**	**8**	**–**
	352	**352**	**352**	**–**

	Company			
	Carrying amount as per statement of financial position HK$'000	Total contractual undiscounted cash flows HK$'000	On demand or less than 1 month HK$'000	Between 3 months and 1 year HK$'000
2011				
Accruals and other payables	511	511	511	–
Amounts due to subsidiaries	8	8	8	–
Convertible note	68,308	71,250	–	71,250
	68,827	71,769	519	71,250

Bank loans with a repayment on demand clause are included in the "on demand or less than 1 month" time band in the above maturity analysis. At 31 December 2012, the aggregate undiscounted principal amounts of these bank loans amounted to approximately HK$522,245,000. Taking into account the Group's financial position, the directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

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

3.2 Capital risk management

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

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

The Group monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as total debt divided by adjusted capital. Total debt comprises accounts payable, accruals and other payables, amounts due to jointly-controlled entities and bank borrowings as shown in the consolidated statement of financial position. Adjusted capital comprises convertible note and all components of equity (including share capital, reserves, retained profits and non-controlling interests as shown in the consolidated statement of financial position).

The debt-to-adjusted capital ratios at 31 December 2012 and 2011 are as follows:

	2012 HK$'000	2011 HK$'000
Total debt	**688,075**	439,127
Convertible note *(Note 29)*	**–**	68,308
Total equity	**1,254,545**	1,217,538
Adjusted capital	**1,254,545**	1,285,846
Debt-to-adjusted capital ratio	**54.8%**	34.2%

3.3 Fair value estimation

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

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

3.3 Fair value estimation *(Cont'd)*

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2012.

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Assets				
Available-for-sale financial assets				
— Unlisted equity investment	–	31,128	–	31,128
Liabilities				
Financial liabilities at fair value through profit or loss				
— Contingent consideration shares	–	–	1,093	1,093

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2011.

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Assets				
Available-for-sale financial assets				
— Unlisted equity investment	–	28,862	–	28,862
Liabilities				
Financial liabilities at fair value through profit or loss				
— Contingent consideration shares	–	–	9,155	9,155

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

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

3.3 Fair value estimation *(Cont'd)*

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

Note that all the resulting fair value estimates are included in level 2 except for contingent consideration shares as explained below.

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

The following table presents the changes in level 3 instruments for the year ended 31 December 2012.

	Contingent consideration shares HK$'000
Opening balance	**9,155**
Gains recognised in profit or loss	**(3,472)**
Issue of shares	**(4,590)**
Closing balance	**1,093**
Total gains or losses for the year included in profit or loss for liabilities held at the end of the year	**2,822**

The following table presents the changes in level 3 instruments for the year ended 31 December 2011.

	Contingent consideration shares HK$'000
Opening balance	–
Initial fair value at the date of acquisition of subsidiaries	11,515
Gains recognised in profit or loss	(2,360)
Closing balance	9,155
Total gains or losses for the year included in profit or loss for liabilities held at the end of the year	2,360

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For the year ended 31 December 2012

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(a) The Group tests whether intangible assets have suffered any impairment in accordance with the accounting policy stated in Note 2.8. Determining whether intangible assets are impaired requires an estimate of the value-in-use of the asset. Estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from the assets and also choose a suitable discount rate in order to calculate the present value of those cash flows. Where the actual future cash flows are less than expected, a material impairment loss may arise.

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

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

(d) In connection with the business combinations as set out in Note 38, contingent consideration shares are valued at fair value at the acquisition dates with the best estimates of the future outcome of the future events. When the contingent consideration shares meet the definition of a financial liability, it is subsequently re-measured to fair value at the end of each reporting period. The determination of the fair value is based on the expected adjustment on consideration shares to be issued. The key assumptions take into consideration the probability of meeting each profit target. In respect of the business combination transactions as disclosed in Note 38, the Group identified the issue of consideration shares as financial liabilities at fair value through profit or loss with a total fair value of approximately HK$11,515,000 at the acquisition date. The remaining contingent consideration shares as at 31 December 2012 were re-measured to approximately HK$1,093,000 (2011: HK$9,155,000) (Note 27).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

5. TURNOVER AND SEGMENT INFORMATION

The Group is a technology and operation service provider of lottery systems, terminal equipment and game products in the lottery market in China. The principal businesses of the Group cover various lottery products ranging from video lottery, computer ticket game and high frequency lottery, to new media lottery. An analysis of the Group's turnover for the year is as follows:

	2012 HK$'000	2011 HK$'000
Turnover		
Income from provision of lottery terminals and lottery sales channels	**600,034**	494,608
Income from sales of equipment	**6,091**	30,372
Income from provision of consultancy services	**1,130**	3,156
	607,255	528,136

Segment information

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

Geographical information

(a) Revenue from external customers

	2012 HK$'000	2011 HK$'000
People's Republic of China ("PRC") (country of domicile)	**603,567**	523,343
Russia	**57**	4,793
Vietnam	**3,631**	–
	607,255	528,136

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

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

Geographical information *(Cont'd)*

(b) Non-current assets

	2012		2011	
	Total assets HK$'000	**Additions to non-current assets HK$'000**	Total assets HK$'000	Additions to non-current assets HK$'000
PRC	**834,480**	**232,765**	647,542	96,591
Hong Kong	**177,186**	**45,882**	137,268	697
	1,011,666	**278,647**	784,810	97,288

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

Information about major customers

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

	2012 HK$'000	2011 HK$'000
Customer A	**69,236**	64,114
Customer B	**470,613**	411,212

6. OTHER INCOME AND GAINS

	2012 HK$'000	2011 HK$'000
Fair value gain on financial assets at fair value through profit or loss (held for trading)	**–**	404
Fair value adjustment of contingent consideration	**3,472**	2,360
Reclassification adjustment on disposal of available-for-sale financial assets	**–**	7,149
Interest income from bank deposits	**17,587**	4,454
	21,059	14,367

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For the year ended 31 December 2012

7. OPERATING PROFIT

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

	2012 HK$'000	2011 HK$'000
Costs of sales and services		
— Depreciation of lottery terminals	30,543	31,287
— Business tax	30,933	28,130
— Cost of inventories recognised as expense	3,668	14,474
— Repairs and maintenance	7,150	5,990
— Commission	26,377	4,095
— Handling charges	11,231	908
— Other costs of sales and services	14,847	11,576
	124,749	96,460
Loss on disposal of property, plant and equipment	62	358
Operating lease rentals in respect of land and buildings	8,759	7,698
Auditors' remuneration	800	750
Amortisation of intangible assets		
— CLO Contract *(included in general and administrative expenses) (Note 16)*	6,528	6,528
Depreciation of other items of property, plant and equipment	8,266	8,390
Foreign exchange differences, net	658	(14,302)

8. FINANCE COSTS

	2012 HK$'000	2011 HK$'000
Interest expense on bank borrowings wholly repayable within five years	16,883	1,939
Imputed interest expense on convertible note *(Note 29)*	2,942	17,556
	19,825	19,495

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

9. INCOME TAX EXPENSE

Hong Kong Profits Tax has been provided at the rate of 16.5% (2011: 16.5%) on the estimated assessable profits for the year. No provision for Hong Kong Profits Tax has been made for the year ended 31 December 2012 as the Group had no assessable profits arising in or derived from Hong Kong. No provision for Hong Kong Profits Tax has been made for the year ended 31 December 2011 as the Group had tax losses brought forward to set off the estimated assessable profits. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

	2012 HK$'000	2011 HK$'000
Current tax		
— PRC Enterprise Income Tax	**58,650**	51,785
— Adjustments in respect of prior years	**(1,549)**	150
Total current tax	**57,101**	51,935
Deferred tax *(Note 30)*		
— Origination and reversal of temporary differences	**12,095**	(3,232)
Income tax expense	**69,196**	48,703

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the Hong Kong Profits Tax rate as follows:

	2012 HK$'000	2011 HK$'000
Profit before income tax	**271,529**	267,006
Tax calculated at 16.5%	**44,802**	44,056
Income not subject to tax	**(764)**	(17,325)
Expenses not deductible for tax purposes	**7,717**	10,454
Utilisation of previously unrecognised tax losses	**–**	(445)
Tax losses for which no deferred income tax asset recognised	**264**	7,782
Adjustments in respect of prior years	**(1,549)**	150
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	**24,819**	5,168
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(6,093)**	(3,849)
Others	**–**	2,712
Tax charge	**69,196**	48,703

10. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

The loss attributable to owners of the Company is dealt with in the financial statements of the Company to the extent of approximately HK$3,980,000 (2011: HK$34,645,000).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

11. EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	2012	2011
Profit attributable to owners of the Company *(HK$'000)*	67,513	66,485
Weighted average number of ordinary shares in issue	7,452,584,666	7,408,638,795
Basic earnings per share	0.91 HK cents	0.90 HK cents

(b) Diluted

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

	2012	2011
Profit attributable to owners of the Company *(HK$'000)*	67,513	66,485
Weighted average number of ordinary shares in issue	7,452,584,666	7,408,638,795
Effect of dilutive potential ordinary shares:		
— Share options	3,247,022	93,553
— Contingent consideration shares	8,888,154	26,422,317
Weighted average number of ordinary shares for diluted earnings per share	7,464,719,842	7,435,154,665
Diluted earnings per share	0.90 HK cents	0.89 HK cents

The computation of diluted earnings per share does not assume the conversion of the convertible note since its exercise would result in an increase in earnings per share.

12. STAFF COSTS

Staff costs (including directors' emoluments) comprise:

	2012 HK$'000	2011 HK$'000
Wages and salaries	74,542	67,500
Employee share option benefits	730	6,381
Social security costs	4,668	2,903
Pension costs — defined contribution plans	697	577
Other staff welfare	3,196	2,804
	83,833	80,165

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' and chief executive's emoluments

The remuneration of every director and the chief executive of the Company for the year ended 31 December 2012 is set out below:

Name of director	Fees HK$'000	Salaries and allowance HK$'000	Benefits in kind HK$'000	Discretionary bonuses HK$'000	Employee share option benefits HK$'000	Employer's contributions to pension scheme HK$'000	Total HK$'000
Executive directors							
Ms. Lau Ting	–	7,700	–	50	23	355	8,128
Mr. Wu Jingwei	–	4,679	–	30	567	14	5,290
Ms. Chan Tan Na, Donna *(Note (i))*	–	2,312	–	-	133	13	2,458
Mr. Li Zi Kui	–	1,194	–	–	50	11	1,255
Mr. Liao Yuang-whang *(Note (iii))*	–	817	–	2,010	(1,246)	3	1,584
Mr. Chan Shing *(Note (ii))*	–	669	–	37	-	2	708
Non-executive director							
Mr. Hoong Cheong Thard	520	–	–	–	17	–	537
Independent non-executive directors							
Mr. Huang Shenglan	434	–	–	3	17	–	454
Mr. Chan Ming Fai	319	–	–	2	17	–	338
Mr. Cui Shuming	289	–	–	2	17	–	308
	1,562	17,371	–	2,134	(405)	398	21,060

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS *(Cont'd)*

(a) Directors' and chief executive's emoluments *(Cont'd)*

The remuneration of every director and the chief executive of the Company for the year ended 31 December 2011 is set out below:

Name of director	Fees HK$'000	Salaries and allowance HK$'000	Benefits in kind HK$'000	Discretionary bonuses HK$'000	Employee share option benefits HK$'000	Employer's contributions to pension scheme HK$'000	Total HK$'000
Executive directors							
Ms. Lau Ting	–	6,500	2,378	2,600	–	300	11,778
Mr. Wu Jingwei	–	3,949	–	2,365	1,236	12	7,562
Mr. Li Zi Kui *(Note (iv))*	–	570	–	–	220	–	790
Mr. Liao Yuang-whang	–	3,900	–	2,360	1,134	12	7,406
Mr. Chan Shing	–	4,784	–	1,442	–	12	6,238
Non-executive director							
Mr. Hoong Cheong Thard	253	–	–	325	233	–	811
Independent non-executive directors							
Mr. Huang Shenglan	380	–	–	102	68	–	550
Mr. Chan Ming Fai	279	–	–	75	68	–	422
Mr. Cui Shuming	253	–	–	68	68	–	389
	1,165	19,703	2,378	9,337	3,027	336	35,946

Notes:

(i) Appointed on 16 February 2012

(ii) Resigned on 16 February 2012

(iii) Resigned on 16 March 2012

(iv) Appointed on 10 August 2011

Ms. Lau Ting is also the chief executive of the Company and her emoluments disclosed above include those for services rendered by her as the chief executive.

Neither the chief executive nor any of directors of the Company waived or agreed to waive any emoluments in the years ended 31 December 2012 and 2011.

During the year, 130,000,000 (2011: 36,500,000) share options were granted to certain directors of the Company (including the chief executive) under the Company's share option scheme.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS *(Cont'd)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group during the year included four (2011: four) directors of the Company, whose emoluments are set out above. The emoluments payable to the remaining one (2011: one) non-director and non-chief executive highest paid individual during the year are as follows:

	2012 HK$'000	2011 HK$'000
Basic salaries, other allowances and benefits in kind	**4,999**	1,592
Discretionary bonuses	**–**	574
Employee share option benefits	**–**	346
Employer's contributions to pension schemes	**12**	73
	5,011	2,585

(c) No emoluments were paid by the Group to the directors, the chief executive and a non-director and non-chief executive highest paid individual as an inducement to join or upon joining the Group, or as compensation for loss of office during the year (2011: Nil).

14. DIVIDENDS

A final dividend in respect of the year ended 31 December 2012 of 0.18 HK cents (2011: Nil) per share, amounting to a total dividend of approximately HK$13,415,000 (2011: Nil) is to be proposed at the Annual General Meeting on 14 May 2013. The consolidated financial statements do not reflect this dividend payable.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

15. PROPERTY, PLANT AND EQUIPMENT

	Group									
	Leasehold land held for own use under finance lease HK$'000	Buildings HK$'000	Lottery terminals leased to third parties under operating leases HK$'000	Lottery terminals under construction HK$'000	Leasehold improvements HK$'000	Plant and equipment HK$'000	Computer equipment and software HK$'000	Office equipment and furniture HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2011										
Cost	131,900	9,046	208,234	23,168	8,881	4,365	12,373	3,832	5,879	407,678
Accumulated depreciation	(1,549)	(189)	(114,472)	–	(5,376)	(2,128)	(8,021)	(2,787)	(2,818)	(137,340)
Net book amount	130,351	8,857	93,762	23,168	3,505	2,237	4,352	1,045	3,061	270,338
Year ended 31 December 2011										
Opening net book amount	130,351	8,857	93,762	23,168	3,505	2,237	4,352	1,045	3,061	270,338
Exchange differences	–	37	3,375	949	43	84	154	27	99	4,768
Additions	–	–	–	37,839	888	6,466	610	114	894	46,811
Transfers	–	–	7,463	(7,546)	–	–	83	–	–	–
Acquisition of subsidiaries	–	–	–	–	–	–	154	–	–	154
Disposals	–	–	–	–	–	–	(225)	(4)	(231)	(460)
Depreciation	(2,656)	(248)	(31,287)	–	(2,168)	(586)	(1,514)	(411)	(1,062)	(39,932)
Closing net book amount	127,695	8,646	73,313	54,410	2,268	8,201	3,614	771	2,761	281,679
At 31 December 2011										
Cost	131,900	9,088	224,694	54,410	9,963	11,019	13,228	3,966	6,487	464,755
Accumulated depreciation	(4,205)	(442)	(151,381)	–	(7,695)	(2,818)	(9,614)	(3,195)	(3,726)	(183,076)
Net book amount	127,695	8,646	73,313	54,410	2,268	8,201	3,614	771	2,761	281,679
Year ended 31 December 2012										
Opening net book amount	127,695	8,646	73,313	54,410	2,268	8,201	3,614	771	2,761	281,679
Additions	40,095	4,258	–	206,008	1,018	540	690	1,408	471	254,488
Transfers	–	–	216,062	(216,062)	–	–	–	–	–	–
Disposals	–	–	–	–	(21)	–	(24)	(13)	(13)	(71)
Depreciation	(3,138)	(338)	(30,543)	–	(1,699)	(1,741)	(1,405)	(358)	(1,010)	(40,232)
Closing net book amount	164,652	12,566	258,832	44,356	1,566	7,000	2,875	1,808	2,209	495,864
At 31 December 2012										
Cost	171,995	13,346	440,756	44,356	10,485	11,559	13,483	5,224	6,688	717,892
Accumulated depreciation	(7,343)	(780)	(181,924)	–	(8,919)	(4,559)	(10,608)	(3,416)	(4,479)	(222,028)
Net book amount	164,652	12,566	258,832	44,356	1,566	7,000	2,875	1,808	2,209	495,864

Notes:

(i) Depreciation of lottery terminals leased to third parties under operating leases of approximately HK$30,543,000 (2011: HK$31,287,000) has been charged in costs of sales and services. Depreciation of other items of property, plant and equipment of approximately HK$1,423,000 (2011: HK$255,000) has been capitalised in lottery terminals under construction and of approximately HK$8,266,000 (2011: HK$8,390,000) has been charged in general and administrative expenses.

(ii) The Group's leasehold land held for own use under finance lease with a carrying amount of approximately HK$164,652,000 (2011: HK$127,695,000) is held on long-term lease in Hong Kong.

(iii) At 31 December 2012, the Group's leasehold land and buildings with a carrying amount of approximately HK$176,398,000 (2011: HK$135,475,000) was pledged to secure bank borrowings granted to the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

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

	Company			
	Leasehold improvements HK$'000	Computer equipment and software HK$'000	Office equipment and furniture HK$'000	Total HK$'000
At 1 January 2011				
Cost	260	120	576	956
Accumulated depreciation	(121)	(111)	(530)	(762)
Net book amount	139	9	46	194
Year ended 31 December 2011				
Opening net book amount	139	9	46	194
Depreciation	(52)	(7)	(37)	(96)
Closing net book amount	87	2	9	98
At 31 December 2011				
Cost	260	120	576	956
Accumulated depreciation	(173)	(118)	(567)	(858)
Net book amount	87	2	9	98
Year ended 31 December 2012				
Opening net book amount	**87**	**2**	**9**	**98**
Depreciation	**(52)**	**(2)**	**(5)**	**(59)**
Closing net book amount	**35**	**–**	**4**	**39**
At 31 December 2012				
Cost	**260**	**120**	**576**	**956**
Accumulated depreciation	**(225)**	**(120)**	**(572)**	**(917)**
Net book amount	**35**	**–**	**4**	**39**

Notes to the Consolidated Financial Statements

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16. INTANGIBLE ASSETS

	Group			
	Goodwill HK$'000	CLO contract HK$'000	Development costs HK$'000	Total HK$'000
At 1 January 2011				
Cost	1,149,447	60,382	27,447	1,237,276
Accumulated amortisation and impairment	(854,725)	(31,007)	–	(885,732)
Net book amount	294,722	29,375	27,447	351,544
Year ended 31 December 2011				
Opening net book amount	294,722	29,375	27,447	351,544
Exchange difference	–	–	793	793
Additions	–	–	22,397	22,397
Acquisition of subsidiaries	27,926	–	–	27,926
Amortisation charge *(Note (i))*	–	(6,528)	–	(6,528)
Closing net book amount	322,648	22,847	50,637	396,132
At 31 December 2011				
Cost	1,177,373	60,382	50,637	1,288,392
Accumulated amortisation and impairment	(854,725)	(37,535)	–	(892,260)
Net book amount	322,648	22,847	50,637	396,132
Year ended 31 December 2012				
Opening net book amount	**322,648**	**22,847**	**50,637**	**396,132**
Additions	**–**	**–**	**24,159**	**24,159**
Amortisation charge *(Note (i))*	**–**	**(6,528)**	**–**	**(6,528)**
Closing net book amount	**322,648**	**16,319**	**74,796**	**413,763**
At 31 December 2012				
Cost	**1,177,373**	**60,382**	**74,796**	**1,312,551**
Accumulated amortisation and impairment	**(854,725)**	**(44,063)**	**–**	**(898,788)**
Net book amount	**322,648**	**16,319**	**74,796**	**413,763**

Notes to the Consolidated Financial Statements

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16. INTANGIBLE ASSETS *(Cont'd)*

Notes:

(i) Amortisation of the CLO Contract of approximately HK$6,528,000 (2011: HK$6,528,000) is included in general and administrative expenses.

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

(iii) Impairment tests for goodwill

Goodwill is allocated to the CGUs as follows:

	2012 HK$'000	2011 HK$'000
Provision of video lottery terminals ("VLT")	**95,319**	95,319
Provision of traditional computer lottery system and equipment	**199,403**	199,403
Provision of sales platform for high frequency lottery games	**15,730**	15,730
Provision of new media sales and marketing platform in telecom value-added business chain	**12,196**	12,196
	322,648	322,648

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

(a) *Provision of VLT*

The Company through its subsidiary, 東莞天意電子有限公司 ("東莞天意") is principally engaged in the provision of VLT. 東莞天意 entered into a contract ("CLO Contract") with Beijing Lottery Online Technology Co., Ltd. ("CLO"), pursuant to which 東莞天意 provides CLO with VLT on an exclusive basis in the PRC. In consideration for the provision of VLT by 東莞天意, CLO has agreed to pay to 東莞天意 a service fee of 2% (inclusive of a maintenance fee of 0.4%) of the total revenue generated from the VLT sales system of CLO in the PRC. On 5 June 2012, 東莞天意 entered into a supplementary agreement with CLO, pursuant to which both parties agreed to revise the service fee from 2% to 1.7% with effect from 1 January 2012.

The value-in-use calculation uses pre-tax cash flow projections based on financial budgets approved by management covering a 5-year period. The key assumptions used for the cash flow projections include the average number of VLT connected and the daily turnover of each VLT during each of the forecasting periods, which are determined by management based on past performance and its expectation of market development. All cash flows are discounted at a discount rate of 14.73% (2011: 13.17%), which reflects the specific risks relating to this CGU.

(b) *Provision of traditional computer lottery system and equipment*

The value-in-use calculation uses pre-tax cash flow projections based on financial budgets approved by management covering a 5-year period. The key assumptions used for the cash flow projections include the budgeted turnover and expenses during each of the forecasting periods, which are determined by management based on past performance and its expectation of market development. All cash flows are discounted at a discount rate of 14.73% (2011: 13.17%), which reflects the specific risks relating to this CGU.

Notes to the Consolidated Financial Statements

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16. INTANGIBLE ASSETS *(Cont'd)*

Notes: (Cont'd)

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

(c) Provision of sales platform for high frequency lottery games

The value-in-use calculation uses pre-tax cash flow projections based on financial budgets approved by management covering a 5-year period. The key assumptions used for the cash flow projections include the budgeted turnover and expenses during each of the forecasting periods, which are determined by management based on past performance and its expectation of market development. All cash flows are discounted at a discount rate of 14.73% (2011: 13.92%), which reflects the specific risks relating to this CGU.

(d) Provision of new media sales and marketing platform in telecom value-added business chain

The value-in-use calculation uses pre-tax cash flow projections based on financial budgets approved by management covering a 5-year period. The key assumptions used for the cash flow projections include the budgeted turnover and expenses during each of the forecasting periods, which are determined by management based on past performance and its expectation of market development. All cash flows are discounted at a discount rate of 14.61% (2011: 14.56%), which reflects the specific risks relating to this CGU.

No impairment loss has been recognised in respect of goodwill for the year ended 31 December 2012 as the recoverable amounts of the CGUs exceeded their carrying amounts (2011: Nil).

(iv) Impairment test for development costs

The recoverable amount of development costs is based on a value-in-use calculation. The value-in-use calculation uses pre-tax cash flow projections approved by management covering a 5-year period. The key assumptions used for the cash flow projections included the budgeted revenue and expenses during each of the forecasting periods, which are determined by management based on its expectation of market development. All cash flows are discounted at a discount rate of 14.73% (2011: 13.17%). No impairment loss has been recognised in respect of development costs for the year ended 31 December 2012 as the recoverable amount exceeded the carrying amount (2011: Nil).

17. INVESTMENTS IN AND AMOUNTS DUE FROM/TO SUBSIDIARIES

	Company	
	2012	2011
	HK$'000	HK$'000
Unlisted shares, at cost	**9**	9

The amounts due from/to subsidiaries as shown on the Company's statement of financial position are unsecured and repayable on demand. Except for an amount due from a subsidiary of approximately HK$69,249,000 (2011: HK$67,232,000) which is interest bearing at 3% (2011: 7%) per annum, the amounts due from/to subsidiaries are interest-free.

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For the year ended 31 December 2012

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

The following is a list of the principal subsidiaries at 31 December 2012:

Name	Place of incorporation/ establishment, kind of legal entity *(Note (xi))*	Particulars of issued share capital/ registered capital	Interest held	Principal activities
Held directly:				
China LotSynergy Limited	British Virgin Islands, Limited liability company	US$100	100%	Investment holding
Flynn Technology Limited	British Virgin Islands, Limited liability company	US$1,000	100%	Investment holding
Onwealth Holdings Limited	British Virgin Islands, Limited liability company	US$1	100%	Investment holding
Held indirectly:				
Champ Mark Investments Limited ("CMIL")	British Virgin Islands, Limited liability company	3,600 issued shares of no par value	100%	Investment holding
Champ Technology Limited ("CTL")	Hong Kong, Limited liability company	HK$1	100%	Investment holding
China LotSynergy Limited	Hong Kong, Limited liability company	US$500,000	100%	Investment holding and provision of management service
China LotSynergy Asset Management Limited	Hong Kong, Limited liability company	US$2	100%	Treasury management
China LotSynergy Development Limited	Hong Kong, Limited liability company	HK$1	100%	Investment holding
China LotSynergy Group Limited ("CLG")	Hong Kong, Limited liability company	HK$1	100%	Investment holding
Corich International Limited ("Corich")	British Virgin Islands, Limited liability company	US$2,000,000	50% *(Note (xii))*	Investment holding
East Grand Enterprises Limited	Hong Kong, Limited liability company	HK$1	50% *(Note (xii))*	Investment holding
Goldwide Limited	Hong Kong, Limited liability company	HK$1	100%	Investment holding

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

Name	Place of incorporation/ establishment, kind of legal entity *(Note (xi))*	Particulars of issued share capital/ registered capital	Interest held	Principal activities
Held indirectly: (Cont'd)				
Lottnal Holdings Limited ("LHL")	Hong Kong, Limited liability company	US$350,000	80%	Investment holding
Upmax Investments Limited	British Virgin Islands, Limited liability company	US$1	100%	Investment holding
Willstrong Investments Limited	British Virgin Islands, Limited liability company	US$1	80%	Provision of lottery system and equipment
東莞天意 *(Note (i))*	PRC, Wholly foreign owned enterprise	HK$8,000,000	50% *(Note (xii))*	Provision of VLT
北京靈彩科技有限公司 ("北京靈彩") *(Note (ii))*	PRC, Wholly foreign owned enterprise	HK$1,200,000	50% *(Note (xii))*	Research and development of lottery system and equipment in the PRC
廣州洛圖終瑞技術有限公司 (Guangzhou Lottnal Terminal Company Limited) ("GZL") *(Note (iii))*	PRC, Wholly foreign owned enterprise	RMB10,168,550	80%	Research and development and manufacturing of lottery ticket scanners and terminal equipment in the PRC and overseas
廣州市三環永新科技有限公司 (Guangzhou San Huan Yong Xin Technology Company Limited) ("GZSH") *(Note (iv))*	PRC, Sino-foreign equity joint venture enterprise	RMB10,000,000	80%	Provision of lottery system and equipment in the PRC
華彩之家科技發展(北京)有限公司 ("華彩之家") *(Note (v))*	PRC, Wholly foreign owned enterprise	HK$10,000,000	75%	Research and development of lottery system and equipment in the PRC
華彩世紀科技發展(北京)有限公司 ("華彩世紀") *(Note (vi))*	PRC, Wholly foreign owned enterprise	HK$10,000,000	75%	Research and development of lottery system and equipment in the PRC
北京網人互聯科技有限公司 ("網人互聯") *(Note (vii))*	PRC, Limited liability company	RMB50,000,000	75%	Provision of internet information services

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

Name	Place of incorporation/ establishment, kind of legal entity *(Note (xi))*	Particulars of issued share capital/ registered capital	Interest held	Principal activities
Held indirectly: (Cont'd)				
北京華彩贏通科技有限公司 ("華彩贏通") *(Note (viii))*	PRC, Limited liability company	RMB50,000,000	75%	Research and development of lottery system and equipment in the PRC
北京贏彩通科技有限公司 ("贏彩通") *(Note (ix))*	PRC, Limited liability company	RMB5,000,000	75%	Research and development of lottery system and equipment in the PRC
重慶拓扣網絡科技有限公司 ("重慶拓扣") *(Note (x))*	PRC, Limited liability company	RMB1,665,000	52.5%	Research and development and operation of sales platform for high frequency lottery in the PRC
廣州頂尚信息科技有限公司 ("廣州頂尚") *(Note (x))*	PRC, Limited liability company	RMB10,000,000	52.5%	Provision of new media sales and marketing platform in telecom value-added business chain in the PRC
廣州市射頻通信諮詢有限公司 ("廣州射頻") *(Note (x))*	PRC, Limited liability company	RMB1,000,000	52.5%	Provision of new media sales and marketing platform in telecom value-added business chain in the PRC
廣州千訊信息科技有限公司 ("廣州千訊") *(Note (x))*	PRC, Limited liability company	RMB1,000,000	52.5%	Provision of new media sales and marketing platform in telecom value-added business chain in the PRC
廣州市天轅信息科技有限公司 ("廣州天轅") *(Note (x)*	PRC, Limited liability company	RMB3,000,000	52.5%	Provision of new media sales and marketing platform in telecom value-added business chain in the PRC
廣州博富電子科技有限公司 ("廣州博富") *(Note (x))*	PRC, Limited liability company	RMB1,000,000	52.5%	Provision of new media sales and marketing platform in telecom value-added business chain in the PRC

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

Notes:

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

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

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

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

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

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

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

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

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

(x) These companies are limited liability companies established in the PRC to be operated for an infinite period. The equity interests are held by individual nominees on behalf of the Group.

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

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

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

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

	Group	
	2012	2011
	HK$'000	HK$'000
At 1 January	**103,739**	108,154
Share of losses	**(4,121)**	(9,126)
Exchange differences	**164**	4,711
At 31 December	**99,782**	103,739

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For the year ended 31 December 2012

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

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

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

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

The following table illustrates the summarised financial information of the Group's jointly-controlled entities.

	2012 HK$'000	2011 HK$'000
Share of the jointly-controlled entities' assets and liabilities:		
Non-current assets	**25,568**	27,991
Current assets	**74,580**	77,611
Current liabilities	**(13,733)**	(15,230)
Net assets	**86,415**	90,372
Share of the jointly-controlled entities' results:		
Income	**2,876**	2,935
Expense	**(6,997)**	(12,061)
Results	**(4,121)**	(9,126)

Notes:

(i) At 31 December 2012, the Group was committed to contribute to the capital of IGT Synergy Holding Limited in the amount of approximately US$7,070,000, equivalent to approximately HK$55,146,000 (2011: US$7,070,000, equivalent to approximately HK$55,146,000).

(ii) At 31 December 2012, the Group was committed to contribute to the capital of Asiatic Group Limited in the amount of approximately US$1,343,000, equivalent to approximately HK$10,472,000 (2011: US$1,343,000, equivalent to approximately HK$10,472,000).

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19. FINANCIAL INSTRUMENTS BY CATEGORY

	Group		
	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
2012			
Financial assets as per consolidated statement of financial position			
Available-for-sale financial assets	–	31,128	31,128
Accounts receivable	65,867	–	65,867
Deposits and other receivables	76,007	–	76,007
Amounts due from jointly-controlled entities	401	–	401
Amount due from a related company	21,564	–	21,564
Cash and bank balances	713,606	–	713,606
	877,445	31,128	908,573

	Group		
	Financial liabilities at fair value through profit or loss HK$'000	Financial liabilities at amortised cost HK$'000	Total HK$'000
2012			
Financial liabilities as per consolidated statement of financial position			
Accounts payable	–	46,195	46,195
Accruals and other payables	–	18,838	18,838
Amounts due to jointly-controlled entities	–	6,173	6,173
Financial liabilities at fair value through profit or loss	1,093	–	1,093
Bank borrowings	–	612,855	612,855
	1,093	684,061	685,154

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

	Group		
	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
2011			
Financial assets as per consolidated statement of financial position			
Available-for-sale financial assets	–	28,862	28,862
Accounts receivable	177,160	–	177,160
Deposits and other receivables	42,441	–	42,441
Amounts due from jointly-controlled entities	457	–	457
Amount due from a related company	21,564	–	21,564
Cash and bank balances	648,867	–	648,867
	890,489	28,862	919,351

	Group		
	Financial liabilities at fair value through profit or loss HK$'000	Financial liabilities at amortised cost HK$'000	Total HK$'000
2011			
Financial liabilities as per consolidated statement of financial position			
Accounts payable	–	12,813	12,813
Accruals and other payables	–	34,329	34,329
Amounts due to jointly-controlled entities	–	4,811	4,811
Financial liabilities at fair value through profit or loss	9,155	–	9,155
Convertible note	–	68,308	68,308
Bank borrowings	–	380,602	380,602
	9,155	500,863	510,018

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For the year ended 31 December 2012

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

	Company Loans and receivables	
	2012	2011
	HK$'000	HK$'000
Financial assets as per statement of financial position		
Deposits and other receivables	**1,075**	1,075
Amounts due from subsidiaries	**831,966**	899,249
Cash and bank balances	**1,149**	1,143
	834,190	901,467

	Company Financial liabilities at amortised cost	
	2012	2011
	HK$'000	HK$'000
Financial liabilities as per statement of financial position		
Accruals and other payables	**344**	511
Amounts due to subsidiaries	**8**	8
Convertible note	**–**	68,308
	352	68,827

20. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group	
	2012	2011
	HK$'000	HK$'000
At 1 January	**28,862**	68,910
Net gain/(loss) transferred to equity *(Note 33)*	**2,266**	(9,499)
Disposal	**–**	(30,549)
At 31 December	**31,128**	28,862

Available-for-sale financial assets including the following:

	Group	
	2012	2011
	HK$'000	HK$'000
Unlisted equity investment, at fair value	**31,128**	28,862

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

Available-for-sale financial asset is denominated in US$.

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21. INVENTORIES

	Group 2012 HK$'000	Group 2011 HK$'000
Raw materials	**19,053**	17,466
Work in progress	**1,469**	103
Finished goods	**9,635**	13,813
	30,157	31,382
Provision	**(1,475)**	(1,475)
	28,682	29,907

22. ACCOUNTS RECEIVABLE

Income from provision of lottery terminals and lottery sales channels is billed on a monthly basis and is due 15 to 30 days after month-end. Income from sales of equipment is billed upon the delivery of products and with credit periods ranging from 30 to 180 days. Income from provision of consultancy services is billed on a monthly or yearly basis and is due 30 days after the invoice date. The ageing analysis of the accounts receivable at the end of the reporting period, based on invoice date, is as follows:

	Group 2012 HK$'000	Group 2011 HK$'000
Less than 3 months	**62,595**	78,208
Over 3 months but less than 1 year	**3,235**	69,866
Over 1 year	**37**	29,086
	65,867	177,160

At 31 December 2012, accounts receivables of approximately HK$7,098,000 (2011: HK$126,439,000) were past due but not impaired. These relate to a number of independent customers for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered. The ageing analysis of these accounts receivables is as follows:

	Group 2012 HK$'000	Group 2011 HK$'000
Less than 3 months	**5,618**	34,880
Over 3 months but less than 1 year	**1,443**	56,421
Over 1 year	**37**	35,138
	7,098	126,439

At 31 December 2012, accounts receivable of approximately HK$29,789,000 (2011: Nil), all of which were aged over one year, were individually impaired and written off during the year as uncollectible.

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22. ACCOUNTS RECEIVABLE *(Cont'd)*

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

	Group	
	2012 **HK$'000**	2011 HK$'000
RMB	**65,867**	177,160

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Included in the Group's prepayments, deposits and other receivables at 31 December 2012 are loan receivables of approximately HK$37,472,000 (2011: HK$21,923,000), which are unsecured and repayment on demand. Except for an amount of approximately HK$9,261,000 (2011: HK$9,261,000) which bears interest at 2% to 5% (2011: 2% to 5%) per annum, the remaining loan receivables are interest-free.

24. AMOUNT DUE FROM A RELATED COMPANY

The balance represents an amount due from a subsidiary of Burwill Holdings Limited, a company in which Ms. Lau Ting, the director of the Company and Mr. Chan Shing, the former director of the Company have beneficial interests. The amounts due are unsecured, interest-free and repayable on demand. The maximum amount outstanding during the year was approximately HK$21,564,000 (2011: HK$21,564,000).

25. CASH AND BANK BALANCE

	Group		Company	
	2012 **HK$'000**	2011 HK$'000	**2012** **HK$'000**	2011 HK$'000
Cash and bank balances	**205,518**	263,571	**1,149**	1,143
Time deposits	**508,088**	385,296	**–**	–
	713,606	648,867	**1,149**	1,143
Less: Pledged time deposits with maturity of more than 3 months	**(446,914)**	(244,444)	**–**	–
Less: Restricted bank deposits	**–**	(49,383)	**–**	–
Cash and cash equivalents	**266,692**	355,040	**1,149**	1,143

At 31 December 2012, the Group had cash and bank balances of approximately HK$627,644,000 (2011: HK$498,830,000) which are denominated in RMB. The remittance of these funds out of the PRC is subject to the exchange control restrictions imposed by the PRC government.

At 31 December 2012, pledged time deposits of approximately HK$446,914,000 (2011: HK$244,444,000) were pledged to secure bank borrowings and banking facilities granted to the Group.

At 31 December 2011, restricted bank deposits of approximately HK$49,383,000 represents deposit placed in bank as collateral for entering into a secured bank borrowing granted to the Group.

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

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26. ACCOUNTS PAYABLE

The ageing analysis of the accounts payable at the end of the reporting period, based on invoice date, is as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Less than 3 months	**45,869**	12,004
Over 3 months but less than 1 year	**245**	649
Over 1 year	**81**	160
	46,195	12,813

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

27. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2012	2011
	HK$'000	HK$'000
Purchase consideration payables for acquisition of subsidiaries — contingent consideration shares	**1,093**	9,155

The movement in purchase consideration payables during the year is as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
At 1 January	**9,155**	–
Initial fair value of contingent consideration shares at the date of acquisition of subsidiaries	**–**	11,515
Fair value adjustment	**(3,472)**	(2,360)
Issue of shares	**(4,590)**	–
At 31 December	**1,093**	9,155

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28. BANK BORROWINGS

	Group 2012 HK$'000	Group 2011 HK$'000
Current		
Portion of term loans from bank due for repayment within one year	**285,518**	298,949
Portion of term loans from bank due for repayment after one year which contain a repayment on demand clause	**327,337**	81,653
	612,855	380,602

At 31 December 2012, the Group's bank borrowings were due for repayment as follows:

	Group 2012 HK$'000	Group 2011 HK$'000
Portion of term loans due for repayment within one year	**285,518**	298,949
Term loans due for repayment after one year *(Note)*		
After 1 year but within 2 years	**254,924**	11,800
After 2 years but within 5 years	**24,329**	28,099
After 5 years	**48,084**	41,754
	327,337	81,653
	612,855	380,602

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

The bank borrowings carry interest at rates ranging from 0.98% to 6.56% (2011: 0.99% to 6.56%) per annum.

The carrying amounts of the Group's bank borrowings are denominated in the following currencies:

	Group 2012 HK$'000	Group 2011 HK$'000
HK$	**97,960**	93,407
US$	**416,130**	225,467
RMB	**98,765**	61,728
	612,855	380,602

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28. BANK BORROWINGS *(Cont'd)*

At 31 December 2012, the Group's bank borrowings and banking facilities were secured by:

(i) the Group's leasehold land and buildings with a carrying amount of approximately HK$176,398,000 (2011: HK$135,475,000);

(ii) standby letters of credit issued by bank for an aggregate amount of US$55,000,000 (2011: US$29,800,000);

(iii) the Group's accounts receivable of approximately HK$47,368,000 (2011: HK$152,367,000); and

(iv) the Group's bank deposits amounting to approximately HK$446,914,000 (2011: HK$293,827,000).

29. CONVERTIBLE NOTE

	Group and Company	
	2012	2011
	HK$'000	HK$'000
Principal amount of convertible note issued (net of issue costs)	–	71,250
Equity component (net of issue costs)	–	(13,977)
Liability component on initial recognition (net of issue costs)	–	57,273
Imputed interest	–	11,035
Liability component	–	68,308
Analysis for reporting purpose as:		
Current liabilities	–	68,308

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

	2012	2011
	HK$'000	HK$'000
At 1 January	**68,308**	145,752
Interest charge	**2,942**	17,556
Redeemed during the year	**(71,250)**	(95,000)
At 31 December	–	68,308

Note:

On 27 September 2010, the Company issued a zero coupon convertible note with a principal amount of HK$166,250,000. The convertible note is convertible into ordinary shares of HK$0.0025 each of the Company at an initial conversion price of HK$0.955 per ordinary share (subject to adjustment) on any business day during the period commencing on the date of issue of the convertible note until the close of business on the 15th day prior to 12 May 2012 ("Maturity Date"). If the convertible note has not been converted, the Company shall redeem the convertible note on the first business day falling on or after the first anniversary of the date of the convertible note at HK$95,000,000 and on Maturity Date at HK$71,250,000.

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

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30. DEFERRED INCOME TAX

The movement in deferred income tax assets and liabilities during the year is as follows:

Deferred tax liabilities:

	Group					Company
	Intangible assets HK$'000	Convertible note HK$'000	Accelerated tax depreciation HK$'000	Withholding tax on dividend income HK$'000	Total HK$'000	Convertible note HK$'000
At 1 January 2011	7,548	3,382	2,338	–	13,268	3,382
(Credited)/charged to the income statement	(1,020)	(2,896)	(48)	5,168	1,204	(2,896)
At 31 December 2011	6,528	486	2,290	5,168	14,472	486
(Credited)/charged to the income statement	(816)	(486)	1,132	24,819	24,649	(486)
At 31 December 2012	5,712	–	3,422	29,987	39,121	–

Deferred tax assets:

	Group		
	Decelerated tax depreciation HK$'000	Tax losses HK$'000	Total HK$'000
At 1 January 2011	180	–	180
(Charged)/credited to the income statement	(86)	4,522	4,436
Exchange difference	6	–	6
At 31 December 2011	100	4,522	4,622
(Charged)/credited to the income statement	(100)	12,654	12,554
At 31 December 2012	–	17,176	17,176

Deferred tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. At 31 December 2012, the Group did not recognise deferred income tax asset in respect of tax losses amounting to approximately HK$104,407,000 (2011: HK$87,391,000) that can be carried forward to offset against future taxable profits. Tax losses amounting to approximately HK$39,994,000 (2011: HK$66,014,000) will expire from 2013 to 2017 (2011: 2012 to 2016).

At 31 December 2012, deferred tax liabilities 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 approximately HK$176,258,000 (2011: HK$462,290,000) 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.

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31. SHARE CAPITAL

Ordinary shares of HK$0.0025 each	Authorised Number of shares	HK$'000
At 1 January 2011, 31 December 2011 and 31 December 2012	**16,000,000,000**	**40,000**

Ordinary shares of HK$0.0025 each	Issued and fully paid Number of shares	HK$'000
At 1 January 2011	7,402,164,000	18,505
Share options exercised *(Note (i))*	9,800,000	25
At 31 December 2011	7,411,964,000	18,530
Issue of consideration shares *(Note (ii))*	**40,620,666**	**101**
At 31 December 2012	**7,452,584,666**	**18,631**

Notes:

(i) Share options were exercised by optionholders during the year ended 31 December 2011 to subscribe for a total of 9,800,000 shares of HK$0.0025 each by payment of subscription monies of approximately HK$2,278,000, of which approximately HK$25,000 was credited to share capital and the balance of approximately HK$2,253,000 was credited to the share premium account.

(ii) Pursuant to the two equity interests transfer agreements, the Company allotted and issued 27,612,666 consideration shares of HK$0.0025 each at HK$0.113 and 13,008,000 consideration shares of HK$0.0025 each at HK$0.113 to the vendors on 3 April 2012 as payment of part of the consideration for the acquisition of 70% equity interests in 重慶拓扣 and 廣州頂尚 respectively.

32. SHARE OPTION SCHEME

(a) Share option scheme adopted on 30 July 2002 (the "2002 Option Scheme")

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

Under the 2002 Option Scheme, the Company may grant options to employees (including executive and non-executive directors) of the Group and other participants to subscribe for shares in the Company, subject to a maximum of 30% of the issued share capital of the Company from time to time excluding for this purpose shares issued on exercise of options. The subscription price will be determined by the Board and will not be less than the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheets on the date of the grant of the option, which must be a business day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of the grant of the option; and (iii) the nominal value of the shares. A nominal consideration at HK$1 is payable for each grant. Share options can be exercised within a period of not exceeding 10 years commencing on the date of grant or such later date as the Board may determine and expiring on the last day of the period.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

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

(b) Share option scheme adopted on 18 May 2012 (the "2012 Option Scheme")

At the annual general meeting of the Company held on 18 May 2012, the shareholders of the Company approved the termination of the 2002 Option Scheme and the adoption of the 2012 Option Scheme.

Under the 2012 Option Scheme, the Company may grant options to employees (including executive and non-executive directors) of the Group and other participants to subscribe for shares in the Company. The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2012 Option Scheme and any other share option schemes of the Company must not in aggregate exceed 30% of issued shares from time to time.

The subscription price will be determined by the Board and will not be less than the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheets on the date of the grant of the option, which must be a business day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of the grant of the option; and (iii) the nominal value of the shares. A nominal consideration at HK$1 is payable for each grant. Share options can be exercised within a period of not exceeding 10 years commencing on the date of grant or such later date as the Board may determine and expiring on the last day of the period.

The purpose of the share option schemes is to provide incentives to employees (including executive and non-executive directors) and other eligible participants to contribute to the Group and to enable the Group to recruit high-calibre employees and attract resources that are valuable to the Group.

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

	2002 Option Scheme		2012 Option Scheme		Total
	Average exercise price (HK$ per share)	Options (thousands)	Average exercise price (HK$ per share)	Options (thousands)	Options (thousands)
At 1 January 2011	0.53	371,800	–	–	371,800
Granted	0.24	487,700	–	–	487,700
Cancelled	0.82	(81,700)	–	–	(81,700)
Exercised	0.23	(9,800)	–	–	(9,800)
Expired	0.30	(61,300)	–	–	(61,300)
At 31 December 2011	0.32	706,700	–	–	706,700
Exercisable at 31 December 2011	0.31	678,850	–	–	678,850
At 1 January 2012	**0.32**	**706,700**	**–**	**–**	**706,700**
Granted	**–**	**–**	**0.11**	**417,000**	**417,000**
Forfeited	**0.28**	**(67,500)**	**–**	**–**	**(67,500)**
Expired	**0.57**	**(38,800)**	**–**	**–**	**(38,800)**
At 31 December 2012	**0.31**	**600,400**	**0.11**	**417,000**	**1,017,400**
Exercisable at 31 December 2012	**0.30**	**592,550**	**–**	**–**	**592,550**

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

Options exercised in 2011 resulted in 9,800,000 shares being issued at a weighted average price of HK$0.23 each. The related weighted average share price at the time of exercise was HK$0.265 per share.

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

Expiry date	Exercise price (HK$ per share)	Options (thousands) 2012	2011
2002 Option Scheme			
31 December 2011	0.920	–	3,000
31 December 2011	0.960	–	2,000
3 July 2012	0.975	–	800
11 September 2012	0.500	–	18,000
3 December 2012	0.500	–	15,000
10 March 2013	0.500	**2,400**	2,400
12 May 2013	0.216	**130,200**	183,200
29 May 2013	0.250	**296,000**	296,000
16 August 2013	0.500	**1,600**	1,600
24 August 2013	0.500	**14,200**	18,200
31 December 2013	0.975	**800**	800
1 May 2014	0.775	**12,000**	12,000
16 August 2014	0.500	**82,000**	82,000
31 August 2014	0.500	**16,000**	26,500
14 June 2015	0.500	**10,000**	10,000
29 June 2016	0.285	**35,200**	35,200
		600,400	706,700
2012 Option Scheme			
12 May 2015	0.109	**182,000**	–
19 May 2015	0.109	**26,500**	–
12 May 2016	0.109	**182,000**	–
19 May 2016	0.109	**26,500**	–
		417,000	–
		1,017,400	706,700

The fair value of the options granted during the year was approximately HK$9,644,000 (2011: HK$16,838,000) of which the Group recognised a share option expense of approximately HK$1,337,000 (2011: HK$16,838,000) during the year.

Notes to the Consolidated Financial Statements

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

The fair value of the options granted during the year was estimated as at the date of grant using the Binominal Options pricing model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

Grant date	20 November 2012	20 November 2012	13 November 2012	13 November 2012	30 May 2011	13 May 2011
Expiry date	19 May 2015	19 May 2016	12 May 2015	12 May 2016	29 May 2013	12 May 2013
Risk-free interest rate	0.13	0.15	0.13	0.19	0.16	0.15
Expected volatility (%)	48	57	48	58	59	56
Expected life of options (year)	1	2	1	2	0.5	0.5
Dividend yield (%)	2	2	2	2	2	2
Share price (HK$ per share)	0.106	0.106	0.109	0.109	0.248	0.216

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

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

At the end of the reporting period, the Company had a total of 1,017,400,000 (2011: 706,700,000) share options outstanding under the 2002 Option Scheme and 2012 Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 1,017,400,000 (2011: 706,700,000) additional ordinary shares of the Company and additional share capital of approximately HK$2,544,000 (2011: HK$1,767,000) and share premium of approximately HK$228,245,000 (2011: HK$224,226,000) (before issue expenses).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

33. RESERVES

	Group							
	Share premium HK$'000	Convertible note HK$'000	Capital reserve HK$'000 *(Note (b))*	Currency translation reserve HK$'000	Share-based compensation reserve HK$'000	Revaluation reserve HK$'000	Available-for-sale investments HK$'000	Total HK$'000
Balance at 1 January 2011	1,546,166	21,388	15,158	41,566	56,184	11,834	22,110	1,714,406
Reduction of share premium *(Note (d))*	(813,537)	–	–	–	–	–	–	(813,537)
Share option scheme:								
— value of employee services	–	–	–	–	6,381	–	–	6,381
— value of other participants' services	–	–	–	–	13,369	–	–	13,369
— share options exercised	2,855	–	–	–	(602)	–	–	2,253
— vested share options cancelled and expired	–	–	–	–	(28,872)	–	–	(28,872)
Release of convertible note equity reserve upon redemption of convertible note at maturity	–	(9,718)	–	–	–	–	–	(9,718)
Release of revaluation reserve upon depreciation of leasehold land and building	–	–	–	–	–	(181)	–	(181)
Fair value loss on available-for-sale financial assets *(Note 20)*	–	–	–	–	–	–	(9,499)	(9,499)
Reclassification adjustment on disposal of available-for-sale financial assets	–	–	–	–	–	–	(7,149)	(7,149)
Currency translation differences								
— overseas subsidiaries	–	–	–	5,314	–	–	–	5,314
— overseas jointly-controlled entities	–	–	–	4,711	–	–	–	4,711
Balance at 31 December 2011	735,484	11,670	15,158	51,591	46,460	11,653	5,462	877,478
Issue of consideration shares	4,489	–	–	–	–	–	–	4,489
Share option scheme:								
— value of employee services	–	–	–	–	730	–	–	730
— value of other participants' services	–	–	–	–	285	–	–	285
— vested share options forfeited and expired	–	–	–	–	(6,963)	–	–	(6,963)
Release of convertible note equity reserve upon redemption of convertible note at maturity	–	(11,670)	–	–	–	–	–	(11,670)
Release of revaluation reserve upon depreciation of leasehold land and building	–	–	–	–	–	(302)	–	(302)
Fair value gain on available-for-sale financial assets *(Note 20)*	–	–	–	–	–	–	2,266	2,266
Currency translation differences								
— overseas jointly-controlled entities	–	–	–	164	–	–	–	164
Balance at 31 December 2012	739,973	–	15,158	51,755	40,512	11,351	7,728	866,477

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For the year ended 31 December 2012

33. RESERVES *(Cont'd)*

	Company				
	Share premium HK$'000	Convertible note HK$'000	Contributed surplus HK$'000 *(Note (c))*	Share-based compensation reserve HK$'000	Total HK$'000
Balance at 1 January 2011	1,546,166	21,388	16,209	56,184	1,639,947
Reduction of share premium *(Note (d))*	(813,537)	–	–	–	(813,537)
Share option scheme:					
— value of employee services	–	–	–	6,381	6,381
— value of other participants' services	–	–	–	13,369	13,369
— share options exercised	2,855	–	–	(602)	2,253
— vested share options cancelled and expired	–	–	–	(28,872)	(28,872)
Release of convertible note equity reserve upon redemption of convertible note at maturity	–	(9,718)	–	–	(9,718)
Balance at 31 December 2011	735,484	11,670	16,209	46,460	809,823
Issue of consideration shares	4,489	–	–	–	4,489
Share option scheme:					
— value of employee services	–	–	–	730	730
— value of other participants' services	–	–	–	285	285
— vested share options forfeited and expired	–	–	–	(6,963)	(6,963)
Release of convertible note equity reserve upon redemption of convertible note	–	(11,670)	–	–	(11,670)
Balance at 31 December 2012	739,973	–	16,209	40,512	796,694

Notes:

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

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

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

(d) At the annual general meeting of the Company held on 26 May 2011, a special resolution approving the reduction of share premium account of the Company by approximately HK$813,537,000 from approximately HK$1,546,166,000 to approximately HK$732,629,000, and the application of such sum to eliminate the accumulated losses of the Company of approximately HK$813,537,000 at 31 December 2010, was passed by the shareholders and the reduction of share premium took effect on 26 May 2011 accordingly.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

34. RETAINED PROFITS

	Company	
	2012	2011
	HK$'000	HK$'000
At 1 January	**3,945**	(813,537)
Reduction of share premium	**–**	813,537
Release of convertible note equity reserve upon redemption of convertible note at maturity	**11,670**	9,718
Vested share options forfeited/cancelled and expired	**6,963**	28,872
Loss for the year	**(3,980)**	(34,645)
At 31 December	**18,598**	3,945

35. CASH GENERATED FROM OPERATIONS

	2012	2011
	HK$'000	HK$'000
Cash flows from operating activities		
Profit before income tax	**271,529**	267,006
Adjustments for:		
Depreciation	**38,809**	39,677
Amortisation of intangible assets	**6,528**	6,528
Loss on disposal of property, plant and equipment	**62**	358
Share option expenses	**1,015**	19,750
Fair value gain on financial assets at fair value through profit or loss	**-**	(404)
Fair value adjustment of contingent consideration	**(3,472)**	(2,360)
Reclassification adjustment on disposal of available-for-sale financial assets	**-**	(7,149)
Interest income from bank deposits	**(17,587)**	(4,454)
Finance costs	**19,825**	19,495
Share of losses of jointly-controlled entities	**4,121**	9,126
Impairment of accounts receivable	**29,789**	–
Operating cash flows before changes in working capital	**350,619**	347,573
Changes in working capital:		
— Prepaid rentals	**1,003**	827
— Inventories	**1,225**	(9,617)
— Accounts receivable	**81,504**	(55,426)
— Prepayments, deposits and other receivables	**(30,063)**	(34,881)
— Financial assets at fair value through profit or loss	**-**	92,662
— Accounts payable	**33,382**	9,830
— Accruals and other payables	**(19,028)**	7,387
— Amounts due to jointly-controlled entities	**1,362**	(19,783)
	69,385	(9,001)
Cash generated from operation	**420,004**	338,572

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36. OPERATING LEASE COMMITMENTS

At 31 December 2012, the Group had aggregate future minimum lease payments under non-cancellable operating leases in respect of rented premises as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Within one year	**9,095**	9,765
In the second to fifth years inclusive	**4,439**	11,006
	13,534	20,771

At 31 December 2012, the Company had no significant operating lease commitments (2011: Nil).

37. EMPLOYEE RETIREMENT BENEFITS

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

For the Group's Hong Kong employees employed after 1 December 2000, the Group has arranged for these employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, each of the Group and its employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation, subject to a maximum contribution, which has been adjusted from HK$1,000 to HK$1,250 per month per employee with effect from 1 June 2012.

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

During the year, the aggregate amount of the Group's contributions to the aforementioned schemes was approximately HK$697,000 (2011: HK$577,000), with no (2011: Nil) deduction of forfeited contributions. At 31 December 2012, there was no material forfeited contribution available to reduce the Group's employer contribution payable in future periods.

The Group's contribution payable at 31 December 2012 amounted to approximately HK$104,000 (2011: Nil).

Notes to the Consolidated Financial Statements

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38. BUSINESS COMBINATIONS

(a) On 13 April 2011, the Group acquired 70% of the equity interests in 重慶拓扣 for a consideration of RMB21,000,000 (subject to adjustments). 重慶拓扣 is a lottery sales service provider engaged in the research and development and operation of a sales platform for high frequency lottery games in China. As a result of the acquisition, the Group is expected to strengthen its status in the space of lottery sales via new channels. The goodwill of HK$15,730,000 arising from the acquisition is attributable to the anticipated profitability and future development of 重慶拓扣 in the operation of a sales platform for high frequency lottery games and the anticipated future operating synergy from the business combination.

The following table summarises the consideration paid for 重慶拓扣, the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date.

	HK$'000
Consideration	
At 13 April 2011	
— Cash	13,079
— Contingent consideration shares	7,179
Total consideration transferred	20,258
Recognised amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment *(Note 15)*	154
Accounts receivables	1,145
Prepayments, deposits and other receivables	2,137
Cash and bank balances	4,259
Accruals and other payables	(743)
Income tax payable	(484)
Total identifiable net assets	6,468
Non-controlling interest	(1,940)
Goodwill *(Note 16)*	15,730
	20,258
Net cash outflow on acquisition of 重慶拓扣	
Cash consideration paid	(13,079)
Cash and cash equivalents acquired	4,259
	(8,820)

Notes to the Consolidated Financial Statements

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38. BUSINESS COMBINATIONS *(Cont'd)*

(a) *(Cont'd)*

Acquisition-related costs of HK$25,000 have been charged to general and administrative expenses in the consolidated income statement for the year ended 31 December 2011.

As part of the equity interests transfer agreement, contingent consideration is payable, which is dependent on the amount of profit after tax of 重慶拓扣 for the year ended 31 December 2011. The consideration is to be satisfied by the allotment and issue of up to 27,612,666 ordinary shares of the Company with par value of HK$0.0025 each in total at an issue price of HK$0.45 each.

The fair value of the contingent consideration shares was based on the published price available at the date of acquisition amounted to HK$0.26.

The fair value and gross contractual amounts of accounts receivable and other receivables as at the date of acquisition amounted to HK$1,145,000 and HK$2,043,000, respectively.

The revenue included in the consolidated income statement since 13 April 2011 contributed by 重慶拓扣 was approximately HK$9,827,000. 重慶拓扣 also contributed profit of approximately HK$5,162,000 over the same period.

Had 重慶拓扣 been consolidated from 1 January 2011, the consolidated income statement would show revenue of approximately HK$530,373,000 and profit of approximately HK$219,501,000.

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38. BUSINESS COMBINATIONS *(Cont'd)*

(b) On 7 December 2011, the Group acquired 70% of the equity interests in 廣州頂尚 and its subsidiaries ("Guangzhou Dingshang Group") for a consideration of RMB28,000,000 (subject to adjustments). Guangzhou Dingshang Group is a group of innovative technology companies engaged in mobile internet value-added business and dedicated to provide premium services to their customers. It offers a wide variety of content and services covering new, entertainment, finance, streaming media and online games through its own products and platform. As a result of the acquisition, the Group is expected to strengthen its capabilities in technical service provision and product marketing. The goodwill of HK$12,196,000 arising from the acquisition is attributable to the anticipated profitability and future development of Guangzhou Dingshang Group in the operation of sales and marketing platform in the telecom value-added business chain and the anticipated future operating synergy form the business combination.

The following table summarises the consideration paid for Guangzhou Dingshang Group, the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date.

	HK$'000
Consideration	
At 7 December 2011	
— Cash	14,868
— Contingent consideration shares	4,336
Total consideration transferred	19,204
Recognised amounts of identifiable assets acquired and liabilities assumed	
Accounts receivables	11,630
Prepayments, deposits and other receivables	1,946
Cash and bank balances	1,857
Accruals and other payables	(5,195)
Income tax payable	(226)
Total identifiable net assets	10,012
Non-controlling interest	(3,004)
Goodwill *(Note 16)*	12,196
	19,204
Net cash inflow on acquisition of Guangzhou Dingshang Group	
Cash consideration paid	–
Cash and cash equivalents acquired	1,857
	1,857

Acquisition-related costs of HK$25,000 have been charged to general and administrative expenses in the consolidated income statement for the year ended 31 December 2011.

As part of the equity interests transfer agreement, contingent consideration is payable, which is dependent on the amount of profit before tax of Guangzhou Dingshang Group for the years ended 31 December 2011 and 2012. The consideration is to be satisfied by the allotment and issue of up to 43,360,000 ordinary shares of the Company with par value of HK$0.0025 each in total at an issue price of HK$0.45 each.

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38. BUSINESS COMBINATIONS *(Cont'd)*

(b) *(Cont'd)*

The fair value of the contingent consideration shares was based on the published price available at the date of acquisition amounted to HK$0.1.

The fair value and gross contractual amounts of accounts receivable and other receivables as at the date of acquisition amounted to HK$11,630,000 and HK$1,920,000, respectively.

The revenue included in the consolidated income statement since 7 December 2011 contributed by Guangzhou Dingshang Group was approximately HK$5,705,000. Guangzhou Dingshang Group also contributed profit of approximately HK$635,000 over the same period.

Had Guangzhou Dingshang Group been consolidated from 1 January 2011, the consolidated income statement would show revenue of approximately HK$565,118,000 and profit of approximately HK$225,952,000.

39. CONTINGENT LIABILITIES

At 31 December 2012, the Company provided an unlimited (2011: unlimited) guarantee and a guarantee limited to approximately HK$16,986,000 (2011: Nil) to secure bank borrowings granted to subsidiaries. The fair value of the guarantees is not significant and therefore no provision has been made in the financial statements for the guarantees.

40. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in these financial statements, the Group had the following significant related party transactions during the year:

	2012 HK$'000	2011 HK$'000
Sales of equipment to a jointly-controlled entity	**–**	15,627
Consultancy service income from a jointly-controlled entity	**329**	–

Note: The above transactions were carried out in the normal course of business and in accordance with terms as agreed with related parties.

Compensation of key management personnel

Key management includes directors and certain senior management who have important roles in making operational and financial decisions. The compensation paid or payable to key management is shown below:

	2012 HK$'000	2011 HK$'000
Short-term employee benefits	**26,066**	32,583
Post-employment benefits	**410**	336
Employee share option benefits	**(405)**	3,027
	26,071	35,946