MelcoLot Limited

(incorporated in the Cayman Islands with limited liability)

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

2012
Annual Report

新濠環彩
MelcoLot

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

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Ko Chun Fung, Henry
(Chief Executive Officer)
Mr. Chrysafidis, Evangelos
(appointed on 23 April 2012 and resigned on 13 November 2012)
Mr. Moumouris, Christos
(resigned on 23 April 2012)

Non-Executive Directors

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

Independent Non-Executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPLIANCE OFFICER

Mr. Ko Chun Fung, Henry

COMPANY SECRETARY

Mr. Yip Ho Chi

AUTHORISED REPRESENTATIVES

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

REGISTERED OFFICE

Floor 4, Willow House
Cricket Square
P.O. Box 2804
Grand Cayman KY1-1112
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

PRINCIPAL SHARE AND CONVERTIBLE BOND REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

CORPORATE INFORMATION

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

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

AUDITOR

Deloitte Touche Tohmatsu

LEGAL ADVISORS

Michael Li & Co.
Zhong Lun Law Firm

COMPANY WEBSITE

www.melcolot.com

STOCK CODE

8198

CEO'S STATEMENT

TO OUR SHAREHOLDERS

On behalf of the Board of Directors (the "Board") of the Company, I am pleased to present the Company annual report for the year ended 31 December 2012.

The Board's focus in 2012 was on restructuring the Group, improving financial performance and reducing debts. The Group continued on its path of restructuring to ensure that it is in the best possible position to deliver sustainable growth over the coming years. This has been an ongoing process, beginning in 2011 with the amendments of the articles of associations of Beijing Telenet Information Technology Ltd. and the acquisition of the remaining 20% equity interest of PAL Development Limited, as well as certain disposals of assets effectively completed in November 2012. This included the entire interest of Gain Advance Group Limited, 49% equity interest of Precious Success Holdings Limited, and the entire 60% equity interest in Oasis Rich International Ltd. as considerations for the repurchase of the convertible bonds with an aggregate principal amount of HK$452.4 million. These transactions were approved with overwhelming support by the majority of shareholder votes in a general meeting and resulted in a substantial reduction in financial liabilities.

During the year, the Company also arranged an open offer on the basis of three offer shares for every existing share, which presented equitable means for the shareholders to participate in the future development of the Group, and it successfully raised HK$117.6 million. The proceeds allowed the Group to repay the loan amounting to HK$89.3 million, with the remaining balance serving as additional working capital for sustaining the Group's business. The success of the open offer demonstrated the confidence that the shareholders have in our management team.

Above all, the Group has continued to focus on its strategic development in the China lottery market and has made steady progress in expanding the scale of its core business. The China lottery industry is entering into a new stage of stable growth that will see it gain a better development space along with the richer, paperless lottery products and penetration of the third-party mobile payment platform. We will also see an update of lottery types, an increase in lottery buying channels, and strong entertainment platforms that enrich lottery cultural content. The local lottery authorities are formulating the framework and policies to open up the market to more interested participants. A rapidly developing industry trend in China is the selling of lottery tickets online. The concentration of our business resources in paperless channel development for the China lottery market has set the stage for us to reposition the Group from a retail lottery operator to an upstream solutions provider. We believe that significant prospects exist in capitalizing on the growing business opportunities in the China lottery industry.

Under our new structure established in 2012, the Company has become a non wholly-owned subsidiary of Melco International Development Limited ("Melco"), a listed company on the Main Board of the Stock Exchange. We possess a highly-skilled and strong management team from Melco and will leverage on our unrivalled expertise in gaming and entertainment as well as our extensive relationship network to execute our versatile growth strategy in the lottery business.

IN APPRECIATION

On behalf of the Board, I would like to express our sincere gratitude to all our stakeholders. I would also like to give our genuine thankfulness to our shareholders for their continued support and confidence. To my fellow board members, management team and employees, I wish to express my heartfelt appreciation for your hard work and dedicated commitment. To our business partners, we are grateful for your trust and confidence in us and look forward to many more years of support.

Ko Chun Fung, Henry
Executive Director and Chief Executive Officer

Hong Kong, 22 March 2013

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is engaged in the provision of lottery-related technologies, systems and solutions in China. It is a recognized distributor of high quality, versatile lottery terminals for the China Sports Lottery Administration Centre ("CSLA"), which is the exclusive sports lottery operator in the PRC. The Group has also developed a wide presence across mainland China by managing a network of retail outlets for the distribution of scratch cards and lottery tickets and the provision of tele-betting services for the sale of lottery tickets. As the license holder in the PRC for Intralot S.A.'s world leading lottery technologies, the Group is the multimedia content distribution system provider of the high frequency game "Shi Shi Cai" for the China Welfare Lottery Issuance Centre in the Chongqing municipality.

GROUP RESTRUCTURING

As disclosed in the Company's circular, dated 26 September 2012, the following transactions were concluded during the course of the year:

(i) On 26 June 2012, the Group entered into a sale and purchase agreement (the "GCH Agreement") with Global Crossing Holdings Ltd. ("GCH"), the shareholder of approximately 32.86% of the entire issued share capital of Oasis Rich International Ltd. ("Oasis Rich") at that time. Oasis Rich is an investment holding company which, through its wholly-owned subsidiary, Wu Sheng Computer Technology (Shanghai) Co., Ltd. (伍盛計算機科技(上海)有限公司) ("Wu Sheng"), is principally engaged in the manufacturing of lottery terminals for the CSLA. Pursuant to the GCH Agreement, the Company disposed of 60% of the issued capital of Oasis Rich to GCH for a consideration of HK$175,188,566 and repurchased the 0.1% convertible bond from GCH, due on 13 December 2012, in the principal amount of HK$175,188,566 for the same consideration. The considerations payable under the GCH Agreement were set off against each other at completion on 12 November 2012. Upon completion of the GCH Agreement, Oasis Rich ceased to be a non wholly-owned subsidiary of the Company.

(ii) On 26 June 2012, the Group also entered into a sale and purchase agreement (the "Intralot Agreement") with Intralot International Limited ("Intralot"), a substantial shareholder of the Company at that time. Pursuant to the Intralot Agreement, the Group disposed of the entire issued capital of Gain Advance Group Limited ("Gain Advance") and 49% of the issued capital of Precious Success Holdings Limited ("Precious Success") to Intralot for a consideration of HK$277,175,310, and repurchased the 0.1% convertible bond from Intralot, due on 9 December 2013, in the principal amount of HK$277,175,310 for the same consideration. The considerations payable under the Intralot Agreement were set off against each other at completion on 12 November 2012.

Upon completion of the Intralot Agreement, Gain Advance ceased to be a wholly owned subsidiary of the Company. Through its 100% equity interest in KTeMS Co., Ltd., a company incorporated in South Korea, Gain Advance indirectly holds a 14% equity interest in Nanum Lotto Inc., a company incorporated in South Korea. Nanum Lotto Inc.operates the national online lottery game in South Korea under an exclusive lottery licence granted by the Lottery Commission of the Ministry of Strategy and Finance of South Korea.

Precious Success had become an indirect, 51% owned subsidiary of the Company upon completion of the Intralot Agreement. Precious Success is an investment holding company, whose subsidiaries are principally engaged in the provision of management services for the distribution of lottery products in the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

(iii) On 13 August 2012, the Group entered into an unconditional exclusivity undertaking with Wu Sheng for a term of one year, effective from the day of signing, in order to secure the supply of the lottery terminals from Wu Sheng after completion of the GCH Agreement.

(iv) On 13 August 2012, the Group also entered into a conditional exclusivity undertaking with Beijing Intradak System Technology Co., Ltd. (北京英特達系統技術有限公司) ("Intradak") for a term of one year, effective from 16 October 2012, after the extraordinary general meeting to approve such an undertaking in order to secure the procurement of lottery terminals made by Intradak after completion of the GCH Agreement. Intradak is a related company of the Group in which a director of Beijing Telenet Information Technology Ltd. ("BTI"), a non wholly-owned subsidiary of the Company, has a beneficial interest.

(v) In order to repay the loan from Power Way Group Limited ("Power Way"), which is owned by substantial shareholders of the Company, of approximately HK$89,338,196 being the aggregate of the principal amount of HK$80 million and the interest accrued thereon as at 31 May 2012 (the "Power Way Loan"), and provide additional working capital to strengthen the Company's financial position, the Company proposed an open offer (the "Open Offer") of not more than 1,729,046,799 new ordinary shares of the Company (the "Shares") to the existing shareholders of the Company on 19 October 2012 in the ratio of three offer Shares for every existing Share held by the shareholders. The Open Offer was priced at HK$0.078 per Share and underwritten by Melco LottVentures Holdings Limited ("Melco LV"), a wholly-owned subsidiary of Melco International Development Limited ("Melco") and Power Way, up to 128,205,128 Shares and 1,145,361,487 Shares, respectively. Upon completion at 12 November 2012, the Open Offer issued, in aggregate, 1,507,267,099 Shares and successfully raised HK$117.6 million to fully settle the Power Way Loan.

(vi) The Board had proposed to increase the authorized share capital of the Company from HK$20,000,000 to HK$55,000,000 through the creation of an additional 3,500,000,000 unissued Shares, which will rank *pari passu* in all respects, with the existing issued Shares primarily for the issuance of the Open Offer.

All of the resolutions approving the above transactions were duly passed at the extraordinary general meeting of the Company held on 15 October 2012. The prospectus and the results of the Open Offer were published on 24 October 2012 and 13 November 2012 respectively.

CONVERSION OF THE CONVERTIBLE BONDS

On 7 December 2012, the bondholders Melco LV, Intralot and Firich Enterprises Co. Ltd. exercised their rights to convert the outstanding 0.1% convertible bonds of the Company, due on 13 December 2012 (the "2012 Convertible Bonds"), in the principal amounts of HK$119,000,000, HK$14,428,451 and HK$17,677,251 (in aggregate HK$151,105,702) into 170,000,000 Shares, 20,612,072 Shares and 25,253,215 Shares (in aggregate 215,865,287 Shares) respectively, at the adjusted conversion price of HK$0.70 per Share. On 12 December 2012, Melco LV further exercised its rights to convert the 2012 Convertible Bonds in the principal amount of HK$40,000,000 into 57,142,857 Shares at the adjusted conversion price of HK$0.70 per Share.

MANAGEMENT DISCUSSION AND ANALYSIS

DISTRIBUTION-IN-SPECIE OF THE SHARES HELD BY POWER WAY AND DISPOSAL OF THE SHARES HELD BY GCH

On 12 December 2012, Power Way carried out a distribution-in-specie of all the Shares it held to its shareholders, namely Melco LV and GCH in proportion to their respective shareholdings of 67.03% and 32.97% in Power Way. Accordingly, Power Way transferred 767,735,805 Shares to Melco LV on 12 December 2012, while 214,000,000 Shares out of the 377,625,682 Shares, being part of GCH's entitlement, were directly transferred to two third-parties at the direction of GCH on the same date. The remaining 163,625,682 Shares were transferred by Power Way to GCH on the same date. Immediately after the distribution at 12 December 2012, the shareholdings of Melco LV in the Company increased from 16.03% to 51.76% and the Company has become a non wholly-owned subsidiary of Melco.

MATURITY OF THE CONVERTIBLE BONDS

The maturity date of the 2012 Convertible Bonds was 13 December 2012. Given that the Company does not have sufficient immediate funds, no redemption of the outstanding 2012 Convertible Bonds in the principal amount of HK$240,505,732 solely held by Melco LV has taken place, as required under the terms of the 2012 Convertible Bonds.

On 13 March 2013, the Group entered into an agreement with Melco LV to restructure the amount due to immediate holding company of HK$240,505,732 as a shareholder loan. The amount is unsecured, interest bearing at 3% per annum and, subject to Melco LV's right to demand immediate repayment repayable on 30 September 2013 and such repayment date can be automatically further extended to 30 March 2014 unless Melco LV gives a notice objecting such extension.

FINANCIAL REVIEW

The Group continues to be engaged in a single operating segment which is the lottery business. During the year, total revenue of the Group amounted to HK86.9 million (2011: HK$96.6 million), decreased by 10% and comprised:

(1) Sales of lottery terminals

Revenues generated from the sales of lottery terminals for the CSLA amounted to HK$82.6 million for the year 2012 (2011: HK$83.4 million), representing a decrease of 1%. Since the CSLA has not concluded the exercise to evaluate and approve the lottery terminals for the new procurement, the Group continued to adopt a low-pricing strategy in order to maintain the market share.

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

Revenue derived from provision of management services for the distribution of lottery products in 2012 amounted to HK$4.3 million, which was lower compared to HK$13.2 million in 2011. It mainly resulted from the closure of some underperforming retail outlets, which formed part of the cost-cutting measures implemented by the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating results

The Group experienced a significant earnings turnaround in 2012 due to group restructuring and reported a profit after taxation for the year of HK$70.5 million compared to a loss of HK$215.9 million for the year 2011. Gain on group restructuring arising from the GCH Agreement and the Intralot Agreement was HK$226.8 million, which offset expenses mainly comprised of the following non-cash items:

(i) imputed interest on convertible bonds amounting to HK$92 million (2011: HK$88.3 million) due to the liability component of the convertible bonds carried at amortized costs by using the effective interest method; and

(ii) one-off impairment losses of HK$22.2 million (2011: HK$118.5 million).

The Group also incurred a non-cash, net foreign exchange gain of HK$7.5 million (2011: HK$36.3 million), mainly arising from the translation of convertible bonds.

The Group has rationalized the retail operations in the PRC and imposed tight cost control measures on expenses during the year. Employee benefits costs were further reduced to HK$15.2 million, or a decrease of 19.6% compared to HK$18.9 million in 2011.

The Group also shared losses of associates amounting to HK$2.6 million (2011: HK$4 million), which engaged in the development of paperless lottery sale channels.

Pursuant to the relevant tax laws in the PRC, capital gain tax of HK$20.9 million arising from the disposal of subsidiaries under the GCH Agreement and the Intralot Agreement has been provided, based on 10% of the difference between disposal consideration and the Group's share of registered capital.

LIQUIDITY AND FINANCIAL RESOURCES

We are mindful of the significant deterioration in economic and credit conditions that affected the world economies in previous years. The Group continues to manage its balance sheet thoroughly and maintains conservative policies in cash and financial management. Surplus funds were placed in interest-bearing deposits with banks. As at 31 December 2012, bank balances and cash, denominated principally in Hong Kong dollars and Renminbi, amounted to HK$29.1 million (2011: HK$26.7 million), which reflected the receipt of proceeds from the Open Offer.

CAPITAL STRUCTURE

As at 31 December 2012, net current liabilities of the Group were reduced to HK$227.2 million (2011: HK$571.3 million). The year-on-year improvement was mainly due to repurchases of the convertible bonds with the total carrying amount of HK$387.5 million under the GCH Agreement and the Intralot Agreement. During the year, the bondholders partially converted the 2012 Convertible Bonds with the principal amounts of HK$191.1 million and the Company issued, in aggregate, 273,008,144 Shares to them. We further strengthened our balance sheet with the Open Offer, which issued 1,507,267,099 Shares at a price of HK$0.078 per Share and raised HK$117.6 million mainly for the settlement of the Power Way Loan. These had the effect of reducing our deficiency of equity attributable to shareholders of the Company to HK$232.9 million by the year end (2011: deficiency of HK$615.4 million).

As at 31 December 2012, the Group did not maintain any bank borrowings (2011: Nil) or convertible bonds (2011: HK$727.8 million). The Group generally financed its operations and serviced its debts with internal resources and amount due to immediate holding company, Melco LV. Subsequent to the end of the reporting period, the Company entered into a loan agreement with Melco LV in relation to restructure the amount due to immediate holding company of HK$240.5 million and it is unsecured, interest bearing at 3% per annum and, subject to Melco LV's overriding right to demand immediate repayment, repayable on 30 September 2013 and such repayment date can be automatically further extended to 30 March 2014, unless Melco LV gives a notice objecting such extension overriding right to demand immediate repayment.

MANAGEMENT DISCUSSION AND ANALYSIS

OUTLOOK

Data from the China Ministry of Finance ("MOF") shows that the total sales volume of the China lottery industry in 2012 was as high as RMB261.5 billion with a year-on-year growth rate of 18%. Pursuant to the regulations on lottery management issued by the MOF in March 2012, all internet lottery sales by unlicensed organizations are designated as illegal and consequently, several websites selling lottery tickets have suspended operations in the PRC. New regulations have been issued in January 2013, which further substantiated and clarified the relevant policies for execution. The implementation of standardized formal approval and operating requirements should aid in the planned development of the industry as a whole and paperless channels in particular. This presents an opportunity to the Group as the environment is now more supportive of participants determined to comply with government policies and frameworks. The overall China lottery market continues to grow and paperless distribution channels are predicted to be a key growth engine given their ability to effectively penetrate wide geographic areas and reach untapped market segments. Being the PRC license holder for Intralot S.A.'s world leading lottery technologies, the Company will leverage its access to advanced lottery industry expertise and global best practices to capitalize on the opportunities.

Upon completion of the group restructuring in 2012, the Group now consists of, among others, (i) 51% equity interest in BTI, which engaged in the distribution of lottery terminals to more than 20 provinces in the PRC for the CSLA; and (ii) 51% equity interest in Precious Success, which engaged in the provision of management services for the distribution of lottery products in the PRC, including the management of a wide range of retail outlets across mainland China, distribution of scratch cards in Tianjin, being system provider of a high-frequency lottery game system in Chongqing and the operation of a tele-betting system for sale of paperless lottery tickets in Shandong. Although the exercise to evaluate and approve lottery terminals for the new procurement has not been concluded by the CSLA, the Group has already strengthened its position in the terminal distribution business through the added participation of BTI. Further efforts are ongoing to enhance the operating structure and strengthen the financial position of the Group. Subsequent to these strategic changes and following our track record in the lottery industry, the Group continues to build sustainable development through a variety of distribution channels. The Company remains committed to enhancing value for our business partners and to creating long term shareholder value.

CHARGES ON GROUP ASSETS

The convertible bonds of the Company were secured by the shares of certain subsidiaries of the Company until the completion of the Open Offer on 12 November 2012, when all relevant charges were released. The Group had no charges on its assets as at 31 December 2012.

FOREIGN EXCHANGE EXPOSURE

As at 31 December 2012, all assets and liabilities of the Group were denominated in Hong Kong dollars and Renminbi. During the year ended 31 December 2012, the business activities of the Group were mainly denominated in Hong Kong dollars and Renminbi. Since the impact of foreign exchange exposure has been insignificant, no hedging or other alternatives have been implemented.

MANAGEMENT DISCUSSION AND ANALYSIS

STAFF AND REMUNERATION POLICY

As at 31 December 2012, the Group had a total of 79 full-time employees (2011: 83). For the year ended 31 December 2012, the Directors received emoluments of approximately HK$3.1 million (2011: HK$4.3 million) and other staff costs of the Group were approximately HK$12 million (2011: HK$14.6 million). The Group continues to provide remuneration packages to employees that are in line with market practices and past performance. The Group also provides employees with other benefits such as a mandatory provident fund, medical insurance scheme, share option schemes and staff training programs.

CAPITAL COMMITMENT AND CONTINGENT LIABILITIES

At 31 December 2012, the Group had no significant capital commitments contracted but not provided for in the consolidated financial statements and it also did not have any significant contingent liabilities.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTOR

Mr. Ko Chun Fung, Henry, aged 53, is an Executive Director and Chief Executive Officer ("CEO") of the Company and the Group and a member of the Nomination Committee of the Board. He was appointed to the Board in January 2008.

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

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

NON-EXECUTIVE DIRECTORS

Mr. Chan Sek Keung, Ringo, aged 53, was first appointed to the Board in November 1998 and was executive Director and Chairman of the Board between 24 September 2001 and 30 December 2009. He was redesignated as Non-executive Director on 30 December 2009 and re-elected as Non-executive Chairman of the Company on 5 March 2010. He is also a member of the Remuneration Committee of the Board.

Mr. Chan holds a Bachelor of Science degree in Electrical Engineering from the University of Hong Kong. He is a deputy of the Chinese People's Political Consultative Conference (CPPCC) for city of Chengdu, Sichuan Province, China.

Mr. Wang, John Peter Ben, aged 52, is a Non-executive Director of the Company. Mr. Wang is currently chairman and executive director of Summit Ascent Holdings Limited, and holds non-executive directorships in Melco Crown Entertainment Limited and Anxin-China Holdings Limited, all of which are companies listed on the Main Board of the Stock Exchange. Between August 2009 and March 2012, Mr. Wang was a non-executive director of Carnival Group International Holdings Limited (formerly known as "Oriental Ginza Holdings Limited") and between January 2010 and December 2012, Mr. Wang was a non-executive director of China Precious Metal Resources Holdings Co., Ltd., both companies are listed on the Main Board of the Stock Exchange. Between 2005 and 2009, Mr. Wang was the chief financial officer of Melco International Development Limited, a substantial shareholder of the Company. He has over 20 years of experience in the financial and investment banking industry and had previously worked for Deutsche Bank (HK), CLSA Asia-Pacific Markets (HK), Bear Stearns Asia Limited (HK), Barclays Capital (Singapore), S.G. Warburgs & Co. (London), Salomon Brothers (London), the London Stock Exchange, and Deloitte Haskins & Sells (London). Mr. Wang qualified as a chartered accountant with the Institute of Chartered Accountants of England and Wales in 1985.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Tsoi, David, aged 65, is an Independent Non-executive Director and chairman of both the Audit Committee and Remuneration Committee and a member of the Nomination Committee of the Board. Mr. Tsoi was appointed as an Independent Non-executive Director of the Company in October 2001.

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

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

Mr. Pang Hing Chung, **Alfred**, aged 51, is an Independent Non-executive Director and a member of both the Audit Committee and Nomination Committee of the Board. Mr. Pang was appointed as an Independent Non-executive Director of the Company in March 1999.

Mr. Pang is currently chairman, Investment Banking, Asia of Standard Bank Plc, Hong Kong Branch and a director of Standard Bank Asia Limited ("Standard Bank") (also a member of Standard Bank's Asia Executive Committee) and an independent non-executive director of Summit Ascent Holdings Limited, a company listed on the Main Board of the Stock Exchange. Mr. Pang has over 25 years of financial, management and investment banking experience in China, Asia and the United States of America. Before joining Standard Bank, Mr. Pang was managing director and vice chairman, Investment Banking Division, at BOC International Holdings Ltd. ("BOCI") where he was also chairman of BOCI's Commitment Committee. Prior to joining BOCI, he was managing director and president, Asia at Donaldson Lufkin & Jenrette, a United States of America investment banking firm.

Mr. Pang holds dual Bachelor of Arts (in Economics) & Bachelor of Science (in Electrical Engineering) Degrees from Cornell University, and MBA Degree from Stanford University Graduate School of Business in the United States of America.

Mr. So Lie Mo, Raymond, aged 63, is an Independent Non-executive Director, chairman of the Nomination Committee and a member of both the Audit Committee and Remuneration Committee of the Board. Mr. So was appointed as an independent Non-executive Director of the Company in September 2007. Mr. So is an all-round businessman with a wealth of experience and connections in the information technology industry in Asia, and particularly in the greater China region. He has a long and successful track record especially in the information technology services industry. Mr. So has over 30 years of experience in the information technology industry and served in senior executive positions in Asia at various multinational corporations. Mr. So holds a Bachelor of Business Administration degree from The Chinese University of Hong Kong.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Yip Ho Chi, aged 43, is Chief Financial Officer and Company Secretary of the Company. Mr. Yip was appointed as Chief Financial Officer of the Company in June 2009. Prior to joining the Company, Mr. Yip had worked over 9 years with Sandmartin International Holdings Limited which is listed on the Main Board of the Stock Exchange and had been serving as its executive director, finance director and company secretary for the last 4 years. Mr. Yip was also an audit manager of Deloitte Touche Tohmatsu with whom he worked for over 7 years.

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

Ms. Chan Lai Shan, Camily, aged 42, first joined the Group in November 2006. She is currently the Director – Corporate Development of the Group. Ms. Chan possesses a wealth of experience in financial and project management gained from listed conglomerates. She is responsible for strategic and business planning, business development and operations control of the Group. A qualified accountant by profession, she is a member of both the Hong Kong Institute of Certified Public Accountants and a certified practicing accountant of CPA Australia. She also holds an MBA degree from the Hong Kong University of Science and Technology.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining a high standard of corporate governance and has adopted the code provisions (the "Code Provisions") set out in the Code on Corporate Governance Practices (the "Former Code"), which was revised and renamed as the Corporate Governance Code (the "CG Code") on 1 April 2012, contained in Appendix 15 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"). The board of directors of the Company (the "Directors" or "Board") is conscientious of the need for accountability, transparency, fairness and integrity of the operations of the Company for the benefit of its shareholders and the investing public.

During the financial year of 2012, the Company has complied with all the Code Provisions of the Former Code for the period of 1 January 2012 to 31 March 2012 and of the CG Code for the period of 1 April 2012 to 31 December 2012, save for the following:

(i) Due to overseas engagements, two Non-executive Directors and an Independent Non-executive Director were unable to attend the 2012 annual general meeting of the Company (the "2012 AGM") held on 18 May 2012; two Non-executive Directors and two Independent Non-executive Directors were unable to attend the extraordinary general meeting of the Company held on 27 June 2012, and two Non-executive Directors were unable to attend the extraordinary general meeting of the Company held on 15 October 2012; and

(ii) The Chairman of the Board was unable to attend the 2012 AGM due to an overseas engagement. However, an Executive Director of the Company took the chair of that meeting in accordance with the Company's articles of association (the "Articles").

The Board will continue to monitor and review the Company's corporate governance practices to ensure compliance with the CG Code. The key corporate governance principles and practices of the Company are summarized in this report.

DIRECTORS' SECURITIES TRANSACTIONS

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

Specific enquiries have been made to all Directors who have confirmed their compliance with the required standard of dealings and the Company's code of conduct regarding Directors' securities transactions throughout the year ended 31 December 2012.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS

Board Composition

The composition of the Board reflected the necessary balance of skills and experience desirable for the effective leadership of the Company. The Board currently comprises a total of six Directors, being one Executive Director, two Non-executive Directors and three Independent Non-executive Directors. The number of Independent Non-executive Directors represented more than one-third of the Board as required by the GEM Listing Rules throughout the year ended 31 December 2012. All Directors do not have any financial, business, family or other material/relevant relationships with each other, and in particular, none exist between Chairman and Chief Executive Officer. The biographical details of the Directors as at 31 December 2012 are presented on pages 12 to 13 of this annual report.

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

Executive Directors:

Mr. Ko Chun Fung, Henry ***(Chief Executive Officer)***
Mr. Chrysafidis, Evangelos (appointed on 23 April 2012 and resigned on 13 November 2012)
Mr. Moumouris, Christos (resigned on 23 April 2012)

Non-executive Directors:

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

Independent Non-executive Directors:

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

All Directors have entered into formal letters of appointment with the Company, setting out the key terms and conditions of their appointments for specific terms. The Articles state that at each annual general meeting, one-third (or the number nearest to one-third) of the Directors for the time being shall retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. At the forthcoming annual general meeting, Mr. Wang, John Peter Ben and Mr. Pang Hing Chung, Alfred will retire, upon which they are eligible for re-election. Also, any Director appointed by the Board to fill a casual vacancy or become an addition to the Board shall hold office until the next following general meeting after his appointment, and shall be subject to re-election by shareholders pursuant to the Articles.

On 23 April 2012, Mr. Moumouris, Christos resigned as an executive Director and the Board appointed Mr. Chrysafidis, Evangelos as an executive Director on the same date.

On 13 November 2012, Mr. Chrysafidis, Evangelos resigned as an executive Director following the completion of the transactions in relation to, inter alia, the disposal of certain interests in the subsidiaries of the Company to Intralot International Limited.

CORPORATE GOVERNANCE REPORT

Board Meetings and General Meetings

The Board met regularly to discuss and formulate the overall policy and business strategy of the Company and its subsidiaries (the "Group"). The Directors participated in person or through electronic means of communication. At least 14 days formal notice of regular Board meetings was given to all Directors in order to enable them an opportunity to attend. For all other Board meetings, reasonable notice has been given. For committee meetings, notices were given in accordance with the required notice period stated in the relevant terms of reference.

Supply of and Access to Information

Agendas and accompanying Board papers, together with adequate, complete and reliable information, have been sent to all Directors in a timely manner and at least three days before each Board meeting to keep the Directors apprised of the latest developments and financial position of the Company, and in a sufficient form and quality to enable them to make informed decisions. All Directors have an opportunity to include matters in the agenda for regular Board meetings and have access to the advice and services of the company secretary to ensure that the Board procedures, and all applicable rules and regulations are followed. The Board and individual Directors are entitled to have separate and independent access to the senior management of the Company if any Director required additional information. Directors are also entitled to seek independent professional advice in performing their duties at the Company's expense, under appropriate circumstances.

Draft and final versions of minutes of Board meetings have been circulated to all Directors for their respective comments within a reasonable time after the Board meeting was held. The minutes provided detailed records of the matters considered by the Board and the decisions reached, including any concerns or dissenting views raised by Directors. Minutes of board meetings and meetings of Board committees have been kept by the company secretary and are open for inspection at any given time upon reasonable notice by any Directors.

During the year, sixteen Board meetings and three general meetings were held with details of the Directors' attendance presented below:

	Attendance (rate)	
Name of director	**Board Meeting**	**General Meeting**
Executive Directors		
Mr. Ko Chun Fung, Henry	16 (100%)	2 (67%)
Mr. Chrysafidis, Evangelos	10 (83%)*	0 (0%)*
Mr. Moumouris, Christos	0 (0%)*	N/A
Non-executive Directors		
Mr. Chan Sek Keung, Ringo	16 (100%)	0 (0%)
Mr. Wang, John Peter Ben	15 (94%)	0 (0%)
Independent Non-executive Directors		
Mr. Tsoi, David	15 (94%)	2 (67%)
Mr. Pang Hing Chung, Alfred	16 (100%)	1 (33%)
Mr. So Lie Mo, Raymond	16 (100%)	3 (100%)

* These directors did not serve the whole year under review. The number and rate of attendance represented the number of board/general meetings they were entitled to attend during their term of service.

CORPORATE GOVERNANCE REPORT

Responsibilities of Directors

Each newly appointed Director was provided with a comprehensive, formal and tailered induction upon appointment. A briefing and professional development were available subsequently to ensure that the Directors had a proper understanding of the Company's operations and businesses as well as their responsibilities and obligations under the GEM Listing Rules and relevant regulatory requirements.

The Directors are committed to comply with the Code Provision A.6.5 of the CG Code which came into effect on 1 April 2012. All Directors have participated in continuous professional development either by reading materials or by attending seminars on the latest development regarding the GEM Listing Rules and other applicable regulatory requirements to develop and refresh their knowledge and skills and provide a record of training to the Company.

All Directors have been updated on the latest developments and changes in the GEM Listing Rules and other regulatory legal and regulatory requirements regularly to ensure compliance and enhance their awareness of good corporate governance practices. Also, all Directors were provided with monthly updates on the Company's performance, position and prospects with sufficient explanation and information to enable the Board as a whole and each Director to make an informed assessment of financial and other information put before it for approval.

Also, the Company has arranged appropriate directors and officers liability insurance coverage in respect of legal action against the Directors, if any should transpire. The insurance coverage is reviewed on an annual basis. In 2012, no claims under the insurance policy were made.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

During the year, the roles of Chairman and Chief Executive Officer were segregated and not exercised by the same individual in order to maintain independence and a balance of views and judgement. The responsibilities of the Chairman and the Chief Executive Officer are clearly defined and set out in writing.

Mr. Chan Sek Keung, Ringo, Non-executive Director, was Chairman of the Board throughout the year and ensured that all Directors were properly briefed on issues arising at board meetings and received adequate, complete and reliable information in a timely manner. Mr. Chan provided leadership for the Board and took primary responsibility for ensuring that good corporate governance practices and procedures were established. He encouraged all Directors, including non-executive Directors, to actively contribute to the Board's affairs and ensured that the Board acted in the best interests of the Company. The Chairman also ensured that appropriate steps were taken to provide effective communication with shareholders and that their views were communicated to the Board as a whole. To supplement the formal Board meetings, the Chairman had regular gatherings with Directors, and occasionally without the presence of the Chief Executive Officer, to consider issues in an informal setting.

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

CORPORATE GOVERNANCE REPORT

NON-EXECUTIVE AND INDEPENDENT NON-EXECUTIVE DIRECTORS

The term of office of all Non-executive Directors (including Independent Non-executive Directors) has entered into a letter of appointment with the Company for two years, subject to retirement by rotation in accordance with the Articles.

Throughout the year, the Company has complied with the requirements of the GEM Listing Rules with three Independent Non-executive Directors on the Board, one of whom, Mr. Tsoi, David, is a practicing certified public accountant and acts as chairman of the Audit Committee.

The Board considers that each Independent Non-executive Director is independent in character and judgment and that they all meet the specific independence criteria as required by the GEM Listing Rules. The Company has received from each Independent Non-executive Director an annual confirmation of his independence. Each has declared his past or present financial or other interest in the Company or its subsidiaries or his connection with any associated person (as defined in the GEM Listing Rules) of the Company, if any.

BOARD COMMITTEES

The Board currently has three Board committees, namely, Audit Committee, Remuneration Committee and Nomination Committee. All the Board committees are empowered by the Board under their own written terms of reference which have been posted on the GEM website and the Company's website. All the Board committees should report to the Board on their decisions or recommendations.

Audit Committee

The Audit Committee of the Board was established in 2002. In order to comply with the CG Code, the Board adopted a revised terms of reference of the Audit Committee on 26 March 2012. The Audit Committee held regular meetings to consider the appointment, re-appointment and removal of the external auditor, to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process and to discuss with the external auditor about the nature and scope of the audit. It is responsible for reviewing: (i) the quarterly, half-yearly and annual financial statements before submission to the Board and (ii) the Company's financial control, internal control and risk management systems and the internal audit programme (where appropriate). The Audit Committee is also responsible for overseeing the Company's financial reporting system and internal control procedures, discussing problems and reservations arising from the audits and considering the major findings of internal investigations and management's response.

Members of the Audit Committee during the year include all three Independent Non-executive Directors who served on the Audit Committee for the entire year:

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

CORPORATE GOVERNANCE REPORT

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

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

During the year, the Audit Committee reviewed the Group's financial statements for disclosure on a quarterly basis, and reviewed the effectiveness of the internal control system, the continuing connected transactions and the finance and accounting matters in relation to the group restructuring. The Audit Committee also reviewed the external auditor's audit scope, approved the audit fees and monitored the external auditor's independence and engagement to perform non-audit services.

Remuneration Committee

The Remuneration Committee of the Board was established in February 2004. The Board adopted a revised terms of reference of the Remuneration Committee on 26 March 2012 in order to comply with the CG Code. The Remuneration Committee is responsible for formulating and recommending to the Board the remuneration policy, determining the remuneration of the Directors and senior management of the Company, as well as reviewing and making recommendations on the grant of share options under the Company's share option scheme, bonus structure and other compensation-related issues, where applicable. The Remuneration Committee also has the responsibility to make recommendations to the Board on the remuneration of Non-executive Directors. The Remuneration Committee has consulted with the Chairman and/or the Chief Executive Officer on its proposals and recommendations and has access to independent professional research to perform its duties. In determining the remuneration levels and packages of the Directors, the Remuneration Committee accounted for current market practices and trends, the time commitment, duties and responsibilities of the Directors and their contributions as well as the profitability of the Group. Long-term incentives in the form of share options and discretionary performance bonuses were also offered.

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

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

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

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

During the year, the Remuneration Committee reviewed the remuneration package of the Directors and senior management, and the level of remuneration of the Group as a whole with reference to the industry and market conditions. The Remuneration Committee also approved the adoption of the new share option scheme and endorsed the new terms of reference of the Remuneration Committee for publishing.

CORPORATE GOVERNANCE REPORT

Details of the remuneration of Directors and senior management for the year ended 31 December 2012 are set out in notes 12 and 39(b) to the consolidated financial statements. Details of the Company's share option scheme are set out in note 31 to the consolidated financial statements.

Nomination Committee

The Nomination Committee of the Board was established in March 2009. In order to comply with the CG Code, the Board adopted a revised terms of reference of the Nomination Committee on 28 March 2012. The Nomination Committee is responsible for formulating nomination policy, making recommendations to the Board on nominations, appointment or re-appointment of Directors and succession planning for Directors. The Nomination Committee has annually reviewed the structure, size and composition (including the skills, knowledge and experience) of the Board to identify individuals suitably qualified to become Board members. It is also responsible for assessing the independence of the Independent Non-executive Directors.

Members of the Nomination Committee during the year included the following members:

Mr. So Lie Mo, Raymond ***(Chairman)***
Mr. Ko Chun Fung, Henry
Mr. Tsoi, David
Mr. Pang Hing Chung, Alfred
Mr. Moumouris, Christos (resigned on 23 April 2012)

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

Nomination Committee Members	Attendance (rate)
Mr. So Lie Mo, Raymond	1 (100%)
Mr. Ko Chun Fung, Henry	1 (100%)
Mr. Tsoi, David	0 (0%)
Mr. Pang Hing Chung, Alfred	1 (100%)
Mr. Moumouris, Christos	0 (0%)*

* Mr. Moumouris did not serve the Committee for the whole year under review. The number and rate of attendance represented the number of committee meetings he was entitled to attend during their term of service.

During the year, the Nomination Committee discussed and reviewed the structure, size and composition of the Board, reviewed the annual confirmation of independence submitted by the Independent Non-executive Directors to assess their independence and made recommendations to the Board with respect to the retirement and re-election of Directors at the 2012 AGM held on 18 May 2012. Consideration was given to the independence of Mr. Tsoi, David and Mr. Pang Hing Chung, Alfred who have served on the Board for more than 9 years. The Nomination Committee affirmed that all Independent Non-executive Directors continued to demonstrate strong independence in judgement and were free from any business or other relationship which could interfere with their ability to discharge their duties effectively, and they therefore all remained independent.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the corporate governance duties set out in the CG Code which include (i) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board; (ii) to review and monitor the training and continuous professional development of Directors and senior management; (iii) to review and monitor the Company's policies and practices in compliance with the legal and regulatory requirements; and (iv) to review the Company's compliance with the Code Provisions in the CG Code.

During the year, the Board reviewed and discussed each of the Code Provisions of the Former Code and of the CG Code to make sure that the Group has complied with the Code Provisions and explained any deviations from the Code Provisions in this annual report.

MANAGEMENT FUNCTIONS

The overall management of the Company's business is vested in the Board, which assumes responsibility for its leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising the Company's affairs.

The Board has delegated the day-to-day operation responsibility to the management under the supervision of the Chief Executive Officer and various Board committees. Whenever appropriate, management is required to report back and obtain prior Board approval before making decisions or entering into any commitments on behalf of the Company. The Board reviews those arrangements periodically to ensure that they remain appropriate to the needs of the Company.

AUDITOR'S REMUNERATION

At the annual general meeting of the Company held on 18 May 2012, Messrs. Deloitte Touche Tohmatsu were re-appointed as the external auditor of the Company and the Group until the conclusion of the next annual general meeting.

On the recommendation of the Audit Committee, the Board has agreed to the fee of HK$1,325,000 for the audit of the Group's accounts for the year ended 31 December 2012 (2011: HK$1,220,000).

The external auditor was refrained from engaging in non-audit services, except for the review of financial information of the Group for inclusion in the Company's circular in relation to the group restructuring amounting to HK$1,395,000 for the year (2011: HK$237,816).

DIRECTORS' AND INDEPENDENT AUDITOR'S RESPONSIBILITIES FOR FINANCIAL REPORTING

The Directors' responsibilities for preparing the consolidated financial statements and the reporting responsibilities of the independent auditor are set out on page 39 of this annual report. In particular, the Board is responsible for presenting a balanced, clear and comprehensible assessment of the Group's performance, position and prospects. It is also the Board's responsibility to oversee the preparation of the annual accounts which provide a reflective and fair view of the Group's state of affairs, results and cash flow for the year. To fulfill this responsibility, the Board regularly reviewed the reports prepared by management on the Group's financial and operational performance as well as the development of major projects during the year.

CORPORATE GOVERNANCE REPORT

INTERNAL CONTROLS

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

COMPANY SECRETARY

The company secretary, Mr. Yip Ho Chi, who is also the chief financial officer of the Group, is responsible for ensuring that the Board procedures are followed, monitoring the training and continuous professional development of Directors, and facilitating communications among Directors as well as with shareholders and management. During 2012, he undertook over 15 hours of professional training to update his skills and knowledge. His biography is set out in the section of "Biographical Details of Directors and Senior Management" on page 14 of this annual report.

SHAREHOLDERS' RIGHTS

Pursuant to the Articles, any one or more shareholders holding not less than one-tenth of the paid up capital of the Company and carrying the right of voting at the general meeting of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such a requisition, specifying the shareholding information of the shareholder who made the requisition, must be signed by the shareholder and deposited at the registered office of the Company or the Company's principal place of business in Hong Kong, the details of which are provided in the "Corporate Information" section of this annual report. Shareholders should follow the requirements and procedures as set out in the Articles for convening an extraordinary general meeting.

To put forth any enquiries to the Board, shareholders may send their enquiries or requests in respect of their rights to the Company's principal place of business in Hong Kong. Shareholders may also put forth proposals at the general meeting of the Company by sending the same to the Company at the principal office of the Company in Hong Kong.

All enquiries shall be collected by the company secretary of the Company who shall report to the Directors periodically on the enquiries collected. The Directors shall review the enquiries and assign different kinds of enquiries to the appropriate division head/manager for answering. After receiving the answers of all enquiries from the relevant division head/manager, the company secretary will collect the answers for the Directors' review and approval. The company secretary shall then be authorized by the Directors to reply to all enquiries in writing.

CORPORATE GOVERNANCE REPORT

INVESTOR RELATIONS

The Company has adopted a shareholders communication policy with the objective of ensuing that the shareholders and potential investors are provided with ready, equal and timely access to balanced and comprehensible information about the Company. The Company welcomes the views of shareholders on matters affecting the Group and has established a number of channels to communicate with the shareholders, including: (i) the holding of annual general meetings and extraordinary general meetings which may be convened for specific purposes and can provide opportunities for the shareholders to communicate directly to the Board; (ii) the publication of annual, interim and quarterly reports, notices, announcements and circulars as required under the GEM Listing Rules; and (iii) the provision of additional information of the Group to shareholders through the Company's website at www.melcolot.com.

The Company has arranged for the notice to shareholders for annual general meetings to be sent at least 20 business days before the meeting and to be sent at least 10 business days for all other general meetings. The Chairpersons of the Board and of the Audit Committee, Remuneration Committee and Nomination Committee, or in their absence, other members of the respective Committees, were invited to attend the annual general meeting to answer questions from shareholders. External auditors were also invited to attend the annual general meeting to answer questions about the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and auditor independence. Separate resolutions were proposed by the chairman of general meetings in respect of each substantial issue, including the election of individual Directors. The poll results were posted on the GEM website and the Company's website on the same business day of the general meeting.

During the year, there was no significant change in the Company's memorandum and articles of association. A copy of the latest consolidated version of the memorandum and articles of association of the Company is posted on the GEM website and the Company's website.

DIRECTORS' REPORT

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of the Company's principal subsidiaries, associates and jointly controlled entity are set out in notes 40, 18 and 19 respectively to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2012 are set out in the consolidated statement of comprehensive income on page 41 of this annual report.

The Directors do not recommend the payment of a dividend.

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 110 of the annual report.

FIXED ASSETS

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

SHARE CAPITAL

Details of the movements during the year in the share capital of the Company are set out in note 30 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2012, no reserve was available for distribution to the owners of the Company (31 December 2011: Nil).

DIRECTORS' REPORT

DIRECTORS

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

Executive Directors:

Mr. Ko Chun Fung, Henry	***(Chief Executive Officer)***
Mr. Chrysafidis, Evangelos	(appointed on 23 April 2012 and resigned on 13 November 2012)
Mr. Moumouris, Christos	(resigned on 23 April 2012)

Non-executive Directors:

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

Independent Non-executive Directors:

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

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

A brief biographical details of directors and senior management are set out in the "Biographical Details of Directors and Senior Management" section on pages 12 to 14 of this annual report.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND SHARE OPTIONS

As at 31 December 2012, the interests of the Directors, the chief executive and their respective associates in the shares and share options of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by the Directors of the Company as referred to in Rule 5.46 of the GEM Listing Rules, were as follows:

DIRECTORS' REPORT

(I) Long position in the shares and share options of the Company

(a) Ordinary shares of HK$0.01 each of the Company ("Share(s)")

Name of Director	Capacity	Number of Shares held	Approximate percentage of the issued share capital of the Company *(Note 1)*
Mr. Chan Sek Keung, Ringo	Beneficial owner	6,504,000	0.29%
	Held by a controlled corporation *(Note 2)*	21,384,000	0.93%
		27,888,000	1.22%
Mr. Tsoi, David	Beneficial owner	1,478,560	0.06%
Mr. Pang Hing Chung, Alfred	Beneficial owner	1,500,000	0.07%
Mr. So Lie Mo, Raymond	Beneficial owner	524,120	0.02%

(b) Share options granted by the Company

Name of Director	Capacity	Number of share options held *(Note 3)*	Number of underlying Shares *(Note 3)*
Mr. Ko Chun Fung, Henry	Beneficial owner	17,497,746	17,497,746
Mr. Chan Sek Keung, Ringo	Beneficial owner	8,123,860	8,123,860
Mr. Wang, John Peter Ben	Beneficial owner	15,521,813	15,521,813
Mr. Tsoi, David	Beneficial owner	262,060	262,060
Mr. Pang Hing Chung, Alfred	Beneficial owner	524,120	524,120
		41,929,599	41,929,599

Notes:

(1) As at 31 December 2012, the total number of the issued Shares was 2,288,565,269.

(2) Mr. Chan Sek Keung, Ringo was deemed to be interested in 21,384,000 Shares beneficially held by Woodstock Management Limited, a company wholly owned by him.

(3) Upon the open offer of the Company becoming unconditional on 12 November 2012 (the "Open Offer"), the exercise price of the share options and the number of shares to be allotted and issued upon exercise of the subscription rights attaching to the outstanding share options were adjusted pursuant to the terms of the share option schemes adopted on 20 April 2002, details of which were set out in the announcement of the Company dated 13 November 2012.

DIRECTORS' REPORT

(II) Long position in the shares and share options of associated corporation of the Company

Melco International Development Limited ("Melco")

(a) Ordinary shares of HK$0.50 each of Melco

Name of Director	Capacity	Number of ordinary shares of Melco held	Approximate percentage of the issued share capital of Melco *(Note 1)*
Mr. Ko Chun Fung, Henry	Beneficial owner	420,000	0.027%

(b) Share options granted by Melco

Name of Director	Capacity	Date of grant	Number of share options granted by Melco held	Number of underlying shares of Melco held	Approximate percentage of the issued share capital of Melco *(Note 1)*
Mr. Ko Chun Fung, Henry	Beneficial owner	13.2.2006 *(Note 2)*	450,000	450,000	0.029%
	Beneficial owner	1.4.2008 *(Note 3)*	24,000	24,000	0.002%
Mr. Wang, John Peter Ben	Beneficial owner	13.2.2006 *(Note 2)*	1,500,000	1,500,000	0.098%
	Beneficial owner	1.4.2008 *(Note 3)*	624,000	624,000	0.041%
	Beneficial owner	3.4.2009 *(Note 4)*	64,000	64,000	0.004%
	Beneficial owner	8.4.2011 *(Note 5)*	1,400,000	1,400,000	0.091%
	Beneficial owner	27.1.2012 *(Note 6)*	500,000	500,000	0.033%

DIRECTORS' REPORT

Notes:

(1) As at 31 December 2012, the total number of the issued shares of Melco was 1,532,966,567.

(2) The personal interests of these directors represent their derivative interests in Melco comprising the share options granted to them by Melco on 13 February 2006 at an exercise price of HK$11.80 per share of Melco.

Among the 450,000 share options granted to Mr. Ko Chun Fung, Henry, 130,000 share options may be exercised during the period from 1 April 2008 to 31 January 2016, 135,000 share options may be exercised during the period from 1 April 2010 to 31 January 2016 and 185,000 share options may be exercised during the period from 1 April 2012 to 31 January 2016.

Among the 1,500,000 share options granted to Mr. Wang, John Peter Ben, 610,000 share options may be exercised during the period from 1 April 2008 to 31 January 2016, 555,000 share options may be exercised during the period from 1 April 2010 to 31 January 2016 and 335,000 share options may be exercised during the period from 1 April 2012 to 31 January 2016.

(3) The personal interests of these directors represent their derivative interests in Melco comprising the share options granted to them by Melco on 1 April 2008 at an exercise price of HK$10.804 per share of Melco.

Among the 24,000 share options granted to Mr. Ko Chun Fung, Henry, 8,000 share options may be exercised during the period from 1 April 2009 to 31 March 2018, 8,000 share options may be exercised during the period from 1 April 2010 to 31 March 2018 and 8,000 share options may be exercised during the period from 1 April 2011 to 31 March 2018.

Among the 624,000 share options granted to Mr. Wang, John Peter Ben, 208,000 share options may be exercised during the period from 1 April 2009 to 31 March 2018, 208,000 share options may be exercised during the period from 1 April 2010 to 31 March 2018 and 208,000 share options may be exercised during the period from 1 April 2011 to 31 March 2018.

(4) The personal interest of Mr. Wang, John Peter Ben represents his derivative interests in Melco comprising the share options granted to him by Melco on 3 April 2009 at an exercise price of HK$2.99 per share of Melco. The 64,000 share options may be exercised during the period from 3 April 2012 to 2 April 2019.

(5) The personal interest of Mr. Wang, John Peter Ben represents his derivative interests in Melco comprising the share options granted to him by Melco on 8 April 2011 at an exercise price of HK$5.75 per share of Melco.

Among the 1,400,000 share options granted to Mr. Wang, 350,000 share options may be exercised during the period from 5 May 2011 to 7 April 2021, 350,000 share options may be exercised during the period from 8 April 2012 to 7 April 2021, 350,000 share options may be exercised during the period from 8 April 2013 to 7 April 2021 and 350,000 share options may be exercised during the period from 8 April 2014 to 7 April 2021.

(6) The personal interest of Mr. Wang, John Peter Ben represents his derivative interests in Melco comprising the share options granted to him by Melco on 27 January 2012 at an exercise price of HK$7.10 per share of Melco.

Among the 500,000 share options granted to Mr. Wang, 125,000 share options may be exercised during the period from 27 January 2012 to 26 January 2022, 125,000 share options may be exercised during the period from 27 January 2013 to 26 January 2022, 125,000 share options may be exercised during the period from 27 January 2014 to 26 January 2022 and 125,000 share options may be exercised during the period from 27 January 2015 to 26 January 2022.

DIRECTORS' REPORT

Save as disclosed above, none of the Directors, the chief executive and their respective associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2012.

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 31 to the consolidated financial statements.

Both of the pre-IPO share option scheme (the "pre-IPO share option scheme") and the post-IPO share option scheme (the "post-IPO share option scheme") adopted at the general meeting of the Company on 20 April 2002 have expired on 20 April 2012. The share options granted thereunder prior to the expiry date will continue to be valid and exercisable in accordance with the terms of the pre-IPO share option scheme and post-IPO share option scheme respectively.

At the annual general meeting of the Company held on 18 May 2012, the shareholders of the Company approved the adoption of a new share option scheme (the "2012 Share Option Scheme") under which the Directors may grant share options to eligible persons to subscribe for the Shares, subject to the terms and conditions as stipulated therein. Unless otherwise cancelled or amended, the 2012 Share Option Scheme will remain valid for a period of 10 years from the date of its adoption. No share options had been granted under the 2012 Share Option Scheme during the year.

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

(a) Pre-IPO share option scheme

				Number of share options		
Type of participant	Date of grant	Exercisable period	Exercise price per share	Outstanding at 1.1.2012	Lapsed during the year	Outstanding at 31.12.2012
			HK$			
Director:						
Mr. Chan Sek Keung, Ringo	30.4.2002	17.11.2002 to 29.4.2012	0.55	3,000,000	(3,000,000)	–

No share options under the pre-IPO share option scheme have been granted, exercised or cancelled during the year ended 31 December 2012.

(b) Post-IPO share option scheme

Type of participants	Date of grant	Exercisable period	Exercise price per share (Note 5) HK$	Number of share options: Outstanding at 1.1.2012	Adjustments (Note 5)	Reclassified during the year	Exercised during the year (Note 6)	Lapsed during the year	Outstanding at 31.12.2012
Directors:									
Mr. Ko Chun Fung, Henry	31.3.2008 *(Note 1)*	1.10.2008 to 31.3.2018	0.679	4,354,000	1,351,046	–	–	–	5,705,046
	10.7.2009 *(Note 2)*	10.7.2010 to 9.7.2019	0.280	4,000,000	1,241,200	–	–	–	5,241,200
	18.11.2010 *(Note 1)*	18.5.2011 to 17.11.2020	0.116	5,000,000	1,551,500	–	–	–	6,551,500
Mr. Chan Sek Keung, Ringo	20.2.2003 *(Note 3)*	20.2.2004 to 19.2.2013	0.105	1,200,000	372,360	–	–	–	1,572,360
	10.7.2009 *(Note 2)*	10.7.2010 to 9.7.2019	0.280	3,000,000	930,900	–	–	–	3,930,900
	18.11.2010 *(Note 1)*	18.5.2011 to 17.11.2020	0.116	2,000,000	620,600	–	–	–	2,620,600
Mr. Wang, John Peter Ben	31.3.2008 *(Note 1)*	1.10.2008 to 31.3.2018	0.679	3,846,000	1,193,413	–	–	–	5,039,413
	10.7.2009 *(Note 2)*	10.7.2010 to 9.7.2019	0.280	3,000,000	930,900	–	–	–	3,930,900
	18.11.2010 *(Note 1)*	18.5.2011 to 17.11.2020	0.116	5,000,000	1,551,500	–	–	–	6,551,500
Mr. Tsoi, David	10.7.2009 *(Note 2)*	10.7.2010 to 9.7.2019	0.280	200,000	62,060	–	–	–	262,060
	18.11.2010 *(Note 1)*	18.5.2011 to 17.11.2020	0.116	200,000	62,060	–	(262,060)	–	–
Mr. Pang Hing Chung, Alfred	10.7.2009 *(Note 2)*	10.7.2010 to 9.7.2019	0.280	200,000	62,060	–	–	–	262,060
	18.11.2010 *(Note 1)*	18.5.2011 to 17.11.2020	0.116	200,000	62,060	–	–	–	262,060
Mr. So Lie Mo, Raymond	10.7.2009 *(Note 2)*	10.7.2010 to 9.7.2019	0.280	200,000	62,060	–	(262,060)	–	–
	18.11.2010 *(Note 1)*	18.5.2011 to 17.11.2020	0.116	200,000	62,060	–	(262,060)	–	–
Mr. Chrysafidis, Evangelos (appointed on 23 April 2012 and resigned on 13 November 2012)	18.11.2010 *(Note 1)*	18.5.2011 to 17.11.2020	0.116	–	310,300	1,000,000	–	–	1,310,300
Mr. Moumouris, Christos (resigned on 23 April 2012)	16.2.2009 *(Note 2)*	16.2.2010 to 15.2.2019	0.229	2,120,000	–	(2,120,000)	–	–	–
	10.7.2009 *(Note 2)*	10.7.2010 to 9.7.2019	0.280	2,500,000	–	(2,500,000)	–	–	–
	18.11.2010 *(Note 1)*	18.5.2011 to 17.11.2020	0.116	1,000,000	–	(1,000,000)	–	–	–
				38,220,000	10,426,079	(4,620,000)	(786,180)	–	43,239,899

DIRECTORS' REPORT

Type of participants	Date of grant	Exercisable period	Exercise price per share	Number of share options					
				Outstanding at 1.1.2012	Adjustments	Reclassified during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2012
			(Note 5) HK$		*(Note 5)*		*(Note 6)*		
Substantial shareholder:	31.3.2008 *(Note 1)*	1.10.2008 to 31.3.2018	0.679	4,354,000	1,351,046	-	-	-	5,705,046
	10.7.2009 *(Note 2)*	10.7.2010 to 9.7.2019	0.280	4,000,000	1,241,200	-	-	-	5,241,200
	18.11.2010 *(Note 1)*	18.5.2011 to 17.11.2020	0.116	5,000,000	1,551,500	-	-	-	6,551,500
				13,354,000	4,143,746	-	-	-	17,497,746
Employees:	31.3.2008 *(Note 1)*	1.10.2008 to 31.3.2018	0.679	6,962,000	1,551,188	(1,350,000)	-	(723,065)	6,440,123
	16.2.2009 *(Note 2)*	16.2.2010 to 15.2.2019	0.229	3,200,000	620,600	(1,200,000)	-	-	2,620,600
	10.7.2009 *(Note 2)*	10.7.2010 to 9.7.2019	0.280	8,998,000	1,900,587	(100,000)	-	(2,799,206)	7,999,381
	18.11.2010 *(Note 1)*	18.5.2011 to 17.11.2020	0.116	13,320,000	3,146,442	(1,300,000)	(3,144,720)	(1,945,515)	10,076,207
				32,480,000	7,218,817	(3,950,000)	(3,144,720)	(5,467,786)	27,136,311
Advisors: *(Note 4)*	12.1.2007 *(Note 3)*	12.1.2008 to 11.1.2017	0.067	1,275,000	395,629	-	(81,893)	-	1,588,736
	31.3.2008 *(Note 1)*	1.10.2008 to 31.3.2018	0.679	6,606,000	2,468,746	1,350,000	-	-	10,424,746
	16.2.2009 *(Note 2)*	16.2.2010 to 15.2.2019	0.229	6,180,000	2,947,850	3,320,000	-	-	12,447,850
	10.7.2009 *(Note 2)*	10.7.2010 to 9.7.2019	0.280	6,630,000	2,864,069	2,600,000	-	-	12,094,069
	18.11.2010 *(Note 1)*	18.5.2011 to 17.11.2020	0.116	7,200,000	2,637,550	1,300,000	(1,310,300)	-	9,827,250
				27,891,000	11,313,844	8,570,000	(1,392,193)	-	46,382,651
				111,945,000	33,102,486	-	(5,323,093)	(5,467,786)	134,256,607

No share options under the post-IPO share option scheme have been granted or cancelled during the year ended 31 December 2012.

DIRECTORS' REPORT

Notes:

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

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

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

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

(5) Upon completion of the Open Offer, the exercise price of the share options and the number of shares to be allotted and issued upon exercise of the subscription rights attaching to the outstanding share option were adjusted pursuant to the terms of the share option schemes adopted on 20 April 2002, details of which were set out in the announcement of the Company dated 13 November 2012.

(6) The weighted average closing price of the Shares immediately before the dates on which the share options were exercised was HK$0.438.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2012, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of certain Directors and the chief executive, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

DIRECTORS' REPORT

Long position in Shares and underlying Shares of the Company

Name of shareholder	Capacity	Number of Shares held	Number of underlying Shares held	Approximate percentage of the issued share capital of the Company *(Note 1)*
Melco LottVentures Holdings Limited ("Melco LV")	Beneficial owner	1,181,758,409	–	51.64%
Melco Leisure and Entertainment Group Limited ("Melco Leisure") (Note 2)	Held by a controlled corporation	1,181,758,409	–	51.64%
Melco International Development Limited ("Melco") (Note 3)	Held by controlled corporations	1,181,758,409	–	51.64%
Mr. Ho, Lawrence Yau Lung ("Mr. Ho") (Note 4)	Held by controlled corporations	1,181,758,409	–	51.64%
	Beneficial owner	–	17,497,746	0.76%
Ms. Lo Sau Yan, Sharen (Note 5)	Held by spouse	1,181,758,409	17,497,746	52.40%
Global Crossing Holdings Ltd. ("GCH")	Beneficial owner	217,412,724	–	9.50%
Universal Rich Holdings Limited ("Universal Rich") (Note 6)	Held by a controlled corporation	217,412,724	–	9.50%
Mr. Chang Tung-Bing ("Mr. Chang") (Note 7)	Held by controlled corporations	217,412,724	–	9.50%
Ms. Kao, Tsai Ling	Beneficial owner	184,000,000	–	8.04%

DIRECTORS' REPORT

Notes:

(1) As at 31 December 2012, the total number of the issued Shares was 2,288,565,269.

(2) Melco Leisure was deemed to be interested in 1,181,758,409 Shares through its controlled corporation, Melco LV.

(3) Melco was deemed to be interested in 1,181,758,409 Shares through its controlled corporations, Melco LV and Melco Leisure.

(4) Mr. Ho was deemed to be interested in 1,181,758,409 Shares through his controlled corporations, Melco LV, Melco Leisure and Melco and 17,497,746 share options of the Company granted to him.

(5) Ms. Lo Sau Yan, Sharen is the spouse of Mr. Ho and was deemed to be interested in 1,199,256,155 Shares through the interest of her spouse, Mr. Ho.

(6) Universal Rich was deemed to be interested in 217,412,724 Shares through its controlled corporation, GCH.

(7) Mr. Chang was deemed to be interested in 217,412,724 Shares through his controlled corporations, GCH and Universal Rich.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the Shares or underlying Shares of the Company as at 31 December 2012.

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

CONNECTED TRANSACTIONS

(a) On 26 June 2012, the Company and Global Crossing Holdings Ltd. ("GCH") entered into the sale and purchase agreement (the "GCH Agreement") in relation to the disposal of the 60% of the issued capital of Oasis Rich International Ltd. ("Oasis Rich") for a consideration of HK$175,188,566 and the repurchase of the 0.1% convertible bond held by GCH due on 13 December 2012 in the principal amount of HK$175,188,566 by the Company for the same consideration. GCH, being the shareholder of approximately 32.86% of the entire issued share capital of Oasis Rich when entering into the GCH Agreement, was a connected person of the Company within the meanings of the GEM Listing Rules and the transactions contemplated under the GCH Agreement constituted connected transactions for the Company.

(b) On 26 June 2012, the Company also entered into the sale and purchase agreement (the "Intralot Agreement") with Intralot International Limited (the "Intralot"), in relation to the disposals of the entire issued capital of Gain Advance Group Limited and the 49% of the issued capital of Precious Success Holdings Limited for a consideration of HK$277,175,310, and the repurchase of the 0.1% convertible bond held by Intralot due on 9 December 2013 in the principal amount of HK$277,175,310 by the Company for the same consideration. Intralot, being a substantial shareholder of the Company when entering into the Intralot Agreement, was a connected person of the Company within the meanings of the GEM Listing Rules and the transactions contemplated under the Intralot Agreement constituted connected transactions for the Company.

Details of these connected transactions were set out in the circular of the Company dated 26 September 2012.

DIRECTORS' REPORT

CONTINUING CONNECTED TRANSACTIONS

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

Wu Sheng was an indirect non wholly-owned subsidiary of the Company and Firich was a substantial shareholder of the Company when entering into the Purchase Agreement and the Supply Agreement; therefore Firich was a connected person of the Company within the meanings of the GEM Listing Rules and the transactions contemplated under the Purchase Agreement and the Supply Agreement constituted continuing connected transactions.

Up to 12 November 2012 when Firich ceased to be a connected person of the Company, the aggregate amounts for the year ended 31 December 2012 attributable to the Purchase Agreement and the Supply Agreement were approximately HK$38.5 million and HK$1.7 million respectively.

(b) On 27 March 2012, Beijing Telenet Information Technology Ltd. (北京電信達信息技術有限公司) ("BTI"), an indirect non wholly-owned subsidiary of the Company, entered into a supply agreement (the "BTI Agreement") with Beijing Intradak System Technology Co., Ltd. (北京英特達系統技術有限公司) ("Intradak"), pursuant to which, BTI agreed to supply to Intradak the lottery terminals for a term of one year commencing from 1 July 2012. The sales caps for each of the two years ending 31 December 2012 and 31 December 2013 are HK$200 million and HK$100 million respectively. Details of the transaction were set out in the circular of the Company dated 11 June 2012.

On 13 August 2012, BTI further entered into a conditional exclusivity undertaking with Intradak for a term of one year effective from 16 October 2012 being the first business day after the extraordinary general meeting of the Company for approving such undertaking in order to secure the procurement of lottery terminals made by Intradak after completion of the GCH Agreement. Details of this were set out in the circular of the Company dated 26 September 2012.

As Mr. Ding Jingge, a director of BTI, together with his spouse were substantial shareholders of both BTI and Intradak when entering into the BTI Agreement and the exclusivity undertaking, Intradak was a connected person of the Company within the meanings of the GEM Listing Rules. The entering into of the conditional exclusivity undertaking constituted a connected transaction for the Company and the entering into of the BTI Agreement constituted a continuing connected transaction for the Company.

The aggregate amount attributable to the BTI Agreement was approximately HK$80.9 million for the year ended 31 December 2012.

DIRECTORS' REPORT

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

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

As at 31 December 2012, none of the Directors or their respective associates had any interests in any business which competes or may compete with the business of the Group.

EMOLUMENT POLICY

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

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

The Company has adopted the share option schemes as an incentive to the Directors, eligible employees and advisors, details of the schemes are set out in note 31 to the consolidated financial statements.

REMUNERATION OF THE DIRECTORS

The remuneration of each Director is approved at general meetings. Other emoluments will be determined by the members of the remuneration committee with reference to the duties, responsibility, performance of the Director and the results of the Group. Details of the remuneration of the Directors are set out in note 12 to the consolidated financial statements.

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

During the financial year of 2012, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

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

DIRECTORS' REPORT

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2012.

CHARITABLE DONATIONS

During the year, the Group made charitable donations amounting to approximately HK$2,467,000 (2011: HK$2,360,000).

MAJOR CUSTOMERS AND SUPPLIERS

In 2012, the Group's largest supplier, Wu Sheng which ceased to be a subsidiary of the Group since 13 November 2012, accounted for 52% of total purchases (2011: 100%). The five largest suppliers in 2012 comprised 100% of the Group's total purchases (2011: 100%) and Firich, being a substantial shareholder of the Company from 1 January 2012 to 12 November 2012 is one of the five largest suppliers.

In 2012, the Group's largest customer, Intradak, an associate of a director of BTI, accounted for 93% (2011: 60%) of the Group's total revenue. The five largest customers of the Group in 2012 comprised 98% (2011: 93%) of the Group's total revenue and Firich is one of the five largest customers.

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

EVENT AFTER THE REPORTING PERIOD

Details of a significant event occurring after the reporting period are set out in note 42 to the consolidated financial statements.

AUDITOR

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

On behalf of the Board

Ko Chun Fung, Henry
Executive Director and Chief Executive Officer

Hong Kong, 22 March 2013

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

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

We have audited the consolidated financial statements of MelcoLot Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 41 to 109, which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

INDEPENDENT AUDITOR'S REPORT

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2012, and of its 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.

Emphasis of Matter

Without qualifying our opinion, we draw attention to note 2 to the consolidated financial statements which indicates that as of 31 December 2012, the Group's current liabilities exceeded its current assets by approximately HK$227,239,000. This condition, along with other matters as set forth in note 2 to the consolidated financial statements, indicates the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
22 March 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	NOTES	2012 HK$'000	2011 HK$'000
Revenue	6	**86,940**	96,622
Changes in inventories of finished goods and work-in-progress		**8,229**	(12,494)
Purchase of inventories and raw materials consumed		**(80,572)**	(71,131)
Other income, gains and losses		**8,166**	37,126
Employee benefits costs		**(15,159)**	(18,852)
Depreciation and amortisation		**(2,967)**	(6,732)
Gain on group restructuring	9	**226,767**	–
Impairment losses on:			
– property, plant and equipment	15	**(3,138)**	–
– intangible assets	17	**–**	(75,035)
– trade and other receivables	22	**(19,064)**	(11,744)
– amount due from an associate	24	**–**	(2,436)
– interest in an associate	18	**–**	(1,393)
– goodwill	16	**–**	(27,903)
Share of results of associates	18	**(2,581)**	(3,976)
Share of results of jointly controlled entities		**–**	(480)
Other expenses		**(21,686)**	(28,293)
Finance costs	8	**(93,023)**	(89,098)
Profit (loss) before taxation		**91,912**	(215,819)
Taxation	10	**(21,371)**	(113)
Profit (loss) for the year	11	**70,541**	(215,932)
Other comprehensive expense			
Exchange differences arising on translation		**(4,328)**	(29,834)
Total comprehensive income (expense) for the year		**66,213**	(245,766)
Profit (loss) for the year attributable to:			
Owners of the Company		**78,981**	(209,219)
Non-controlling interests		**(8,440)**	(6,713)
		70,541	(215,932)
Total comprehensive income (expense) attributable to:			
Owners of the Company		**74,474**	(239,675)
Non-controlling interests		**(8,261)**	(6,091)
		66,213	(245,766)
			(Restated)
Earnings (loss) per share	14		
– Basic		**HK9.21 cents**	(HK31.75 cents)
– Diluted		**(HK2.25 cents)**	(HK31.75 cents)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	NOTES	2012 HK$'000	2011 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**5,975**	12,901
Goodwill	16	**–**	–
Intangible assets	17	**–**	–
Interests in associates	18	**307**	2,888
Interest in a jointly controlled entity	19	**–**	–
Available-for-sale investment	20	**–**	138,102
		6,282	153,891
CURRENT ASSETS			
Inventories	21	**–**	29,551
Trade and other receivables	22	**66,741**	94,403
Amount due from a related company	23	**106**	–
Amount due from an associate	24	**–**	–
Bank balances and cash	25	**29,121**	26,676
		95,968	150,630
CURRENT LIABILITIES			
Trade and other payables	26	**58,358**	71,109
Amount due to immediate holding company	27	**241,277**	–
Amount due to a related company	23	**190**	9,006
Amount due to a shareholder of a jointly controlled entity	23	**2,334**	2,334
Amount due to an associate	24	**190**	3,074
Tax payable		**20,858**	1,735
Loan from a related company	28	**–**	80,000
Convertible bonds	29	**–**	554,714
		323,207	721,972
NET CURRENT LIABILITIES		**(227,239)**	(571,342)
		(220,957)	(417,451)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	NOTES	2012 HK$'000	2011 HK$'000
CAPITAL AND RESERVES			
Share capital	30	**22,886**	5,030
Reserves		**(255,750)**	(620,435)
Deficiency of equity attributable to owners of the Company		**(232,864)**	(615,405)
Non-controlling interests		**11,907**	24,900
TOTAL CAPITAL DEFICIENCY		**(220,957)**	(590,505)
NON-CURRENT LIABILITY			
Convertible bonds	29	**–**	173,054
		(220,957)	(417,451)

The consolidated financial statements on pages 41 to 109 were approved and authorised for issue by the Board of Directors on 22 March 2013 and are signed on its behalf by:

Chan Sek Keung, Ringo
DIRECTOR

Ko Chun Fung, Henry
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Attributable to owners of the Company										
	Share capital HK$'000	Share premium HK$'000	Share-based payment reserve HK$'000	PRC statutory reserves HK$'000 (Note i)	Other reserve HK$'000 (Note ii)	Convertible bonds equity reserve HK$'000	Exchange reserve HK$'000	Accumulated losses HK$'000	Sub-total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2011	5,026	368,923	26,501	3,543	–	645,492	40,790	(1,465,409)	(375,134)	9,853	(365,281)
Exchange differences arising on translation	–	–	–	–	–	–	(30,456)	–	(30,456)	622	(29,834)
Loss for the year	–	–	–	–	–	–	–	(209,219)	(209,219)	(6,713)	(215,932)
Total comprehensive expense for the year	–	–	–	–	–	–	(30,456)	(209,219)	(239,675)	(6,091)	(245,766)
Recognition of equity-settled share-based payments	–	–	4,299	–	–	–	–	–	4,299	–	4,299
Issue of ordinary shares upon exercise of share options	4	40	(17)	–	–	–	–	–	27	–	27
Release on disposal of a jointly controlled entity	–	–	–	–	–	–	(3,464)	3,464	–	–	–
Acquisition of a subsidiary *(note 35)*	–	–	–	–	–	–	–	–	–	13,463	13,463
Acquisition of additional interests in subsidiaries	–	–	–	–	(4,922)	–	–	–	(4,922)	4,672	(250)
Capital contribution by non-controlling interest	–	–	–	–	–	–	–	–	–	3,003	3,003
At 31 December 2011	5,030	368,963	30,783	3,543	(4,922)	645,492	6,870	(1,671,164)	(615,405)	24,900	(590,505)
Exchange differences arising on translation	–	–	–	–	–	–	(4,507)	–	(4,507)	179	(4,328)
Profit (loss) for the year	–	–	–	–	–	–	–	78,981	78,981	(8,440)	70,541
Total comprehensive income (expense) for the year	–	–	–	–	–	–	(4,507)	78,981	74,474	(8,261)	66,213
Recognition of equity-settled share-based payments	–	–	460	–	–	–	–	–	460	–	460
Issue of ordinary shares upon exercise of share options	53	1,015	(411)	–	–	–	–	–	657	–	657
Release on disposal of subsidiaries *(note 9)*	–	–	–	(3,543)	–	–	(42,515)	46,058	–	(4,732)	(4,732)
Release on settlement of loan from a related company	–	–	–	–	–	–	4,663	(4,663)	–	–	–
Repurchase of convertible bonds *(note 29)*	–	–	–	–	–	(210,401)	17,995	192,406	–	–	–
Issue of new shares (note 30)	15,073	102,494	–	–	–	–	–	–	117,567	–	117,567
Transaction costs attributable to issue of new shares	–	(1,505)	–	–	–	–	–	–	(1,505)	–	(1,505)
Conversion of convertible bonds *(note 29)*	2,730	380,804	–	–	–	(192,646)	9,374	(9,374)	190,888	–	190,888
Release on maturity of convertible bonds *(note 29)*	–	–	–	–	–	(242,445)	11,797	230,648	–	–	–
At 31 December 2012	22,886	851,771	30,832	–	(4,922)	–	3,677	(1,137,108)	(232,864)	11,907	(220,957)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

Notes:

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

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	NOTES	2012 HK$'000	2011 HK$'000
OPERATING ACTIVITIES			
Profit (loss) before taxation		**91,912**	(215,819)
Adjustments for:			
Allowance for inventories		**5,593**	8,101
Depreciation and amortisation		**2,967**	6,732
Equity-settled share-based payments		**460**	4,299
Impairment losses on:			
– property, plant and equipment		**3,138**	–
– intangible assets		**–**	75,035
– trade and other receivables		**19,064**	11,744
– amount due from an associate		**–**	2,436
– interest in an associate		**–**	1,393
– goodwill		**–**	27,903
Gain on group restructuring		**(226,767)**	–
Interest expenses		**93,023**	89,098
Interest income		**(38)**	(166)
Loss on disposal and write off of property, plant and equipment		**515**	462
Net foreign exchange gain		**(7,528)**	(36,301)
Share of results of associates		**2,581**	3,976
Share of results of jointly controlled entities		**–**	480
Operating cash flows before movements in working capital		**(15,080)**	(20,627)
(Increase) decrease in inventories		**(16,283)**	5,353
Increase in trade and other receivables		**(17,832)**	(11,421)
Increase in amount due from a related company		**(106)**	–
Decrease in amounts due from jointly controlled entities		**–**	16,903
Increase (decrease) in trade and other payables		**32,909**	(10,557)
Cash used in operations		**(16,392)**	(20,349)
Income taxes refund (paid)		**100**	(699)
NET CASH USED IN OPERATING ACTIVITIES		**(16,292)**	(21,048)
INVESTING ACTIVITIES			
Interest received		**38**	166
Disposal of subsidiaries	9	**(4,755)**	–
Investment in associates		**(2,884)**	(3,065)
Purchase of property, plant and equipment		**(1,069)**	(7,394)
Deferred consideration on disposal of subsidiaries in previous years		**–**	10,503
Acquisition of a subsidiary (net of cash and cash equivalents acquired)	35	**–**	1,535
Proceeds from disposal of property, plant and equipment		**–**	536
Advance to an associate		**–**	(1,436)
NET CASH (USED IN) FROM INVESTING ACTIVITIES		**(8,670)**	845

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	2012	2011
	HK$'000	*HK$'000*
FINANCING ACTIVITIES		
Proceeds from issue of new shares	**28,229**	–
Proceeds from exercise of share options	**657**	27
Share issue expense	**(1,505)**	–
Capital contribution by non-controlling interest	**–**	3,003
Interest paid	**–**	(884)
Acquisition of additional interest in a subsidiary	**–**	(250)
NET CASH FROM FINANCING ACTIVITIES	**27,381**	1,896
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**2,419**	(18,307)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**26,676**	43,978
EFFECTS OF FOREIGN EXCHANGE RATE CHANGES	**26**	1,005
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	**29,121**	26,676

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

1. GENERAL

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

In December 2012, Melco LottVentures Holdings Limited ("Melco LV"), a private company incorporated in the British Virgin Islands, converted partially the outstanding convertible bonds into ordinary shares of the Company (Note 29). In addition, Power Way Group Limited ("Power Way"), an associate of Melco LV, distributed all of its shares of the Company subscribed through an open offer (Note 30) to its shareholders, including Melco LV, in proportion to their respective holdings in Power Way. As a result, Melco LV owns the majority of shareholding of the Company and became the immediate holding company and Melco International Development Limited, a company incorporated in Hong Kong with its shares listed on the Stock Exchange, became the ultimate holding company.

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

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

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The Company and its subsidiaries (the "Group") has current liabilities which exceed current assets by approximately HK$227,239,000 as at 31 December 2012.

In addition, as disclosed in Note 42, the Company entered into a loan agreement with Melco LV in March 2013 to restructure the amount due to it from the Group with a principal amount of approximately HK$240,506,000 as a shareholder's loan plus accrued interest thereon with a final repayment date of 30 March 2014.

The consolidated financial statements have been prepared on a going concern basis because the directors of the Company are of the opinion that Melco LV will not demand immediate repayment of the shareholder's loan before 30 March 2014 unless the Group has adequate financial resources to do so, and taking into account the Group's cash flow projection for the coming year, the Group will have sufficient working capital to meet its liabilities as they fall due in the next twelve months from the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets
Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

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

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009 – 2011 Cycle[2]
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[2]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[4]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[1]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[4]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

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

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

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

Key requirements of these five standards are described below.

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

HKFRS 11 replaces HKAS 31 Interests in Joint Ventures and HK (SIC)-Int 13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

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

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time.

These five standards are effective for annual periods beginning on or after 1 January 2013 with earlier application, together with the amendments relating to the transitional guidance, permitted provided that all of these five standards are applied early at the same time.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

New and revised Standards on consolidation, joint arrangements, associates and disclosures *(Continued)*

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

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 Presentation of Items of Other Comprehensive Income introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a 'statement of comprehensive income' is renamed as a 'statement of profit or loss and other comprehensive income' and an 'income statement' is renamed as a 'statement of profit or loss'. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in future accounting periods.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

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

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

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in existing subsidiaries

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

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

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognise as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to accumulated losses as specified by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 "Financial Instruments: Recognition and Measurement" or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Business combinations

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations *(Continued)*

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

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

Goodwill

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Interests in associates

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Jointly controlled entities

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Jointly controlled entities *(Continued)*

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

Revenue recognition

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

Revenue from provision of services and solutions for distribution of lottery products is recognised when the right to receive the income, which is calculated on a commission basis, has been established upon the sale of the lottery products by the lottery retail and other outlets..

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

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

Property, plant and equipment

Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing

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

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

Foreign currencies

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

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

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the group entities are translated into the presentation currency of the Group (i.e. HK$) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve (attributed to non-controlling interests as appropriate).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowing costs

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

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

Retirement benefit costs

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

Taxation

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of the reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

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

Intangible assets acquired in a business combination

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

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

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

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

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

Inventories

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

Financial instruments

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets

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

Effective interest method

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

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

Loans and receivables

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

Available-for-sale financial assets

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets

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

Objective evidence of impairment could include:

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

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

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments

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

Equity instruments

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Convertible bonds

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments (Continued)

Convertible bonds *(Continued)*

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

Other financial liabilities

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

Derecognition

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

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

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

Share-based payment transactions

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payment transactions *(Continued)*

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

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

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

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

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

Estimated impairment of trade and other receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2012, the carrying amount of trade receivables is HK$62,866,000, net of allowance for doubtful debts of HK$14,633,000 (2011: HK$82,858,000, net of allowance for doubtful debts of HK$1,276,000). As at 31 December 2012, the carrying amount of other receivables is HK$2,792,000, net of allowance for doubtful debts of HK$15,012,000 (2011: HK$9,491,000, net of allowance for doubtful debts of HK$10,468,000).

Estimated impairment of property, plant and equipment

If there is any indication of impairment, determining the extent to which property, plant and equipment are impaired requires an estimation of the value in use of the CGUs to which they have been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value.

As at 31 December 2012, the carrying amount of property, plant and equipment is HK$5,975,000 (2011: HK$12,901,000), net of accumulated impairment losses of HK$3,138,000 (2011: Nil).

Fair value of financial instruments

In determining the gain on group restructuring, the directors of the Company use their judgement in selecting an appropriate valuation technique for the Group's available-for-sale investment and convertible bonds that are not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. The estimation of fair value of the Group's available-for-sale investment includes some assumptions not supported by observable market prices or rates. Convertible bonds are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates. The directors believe that the chosen valuation techniques and assumptions are appropriate in determining the fair value of the available-for-sale investment and convertible bonds. Where the actual outcomes are different from the chosen assumptions, a material difference to the gain on group restructuring may arise. Details of the calculation are disclosed in note 9.

6. REVENUE

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

	2012	2011
	HK$'000	*HK$'000*
Lottery business		
Provision of services and solutions for distribution of lottery products	**4,344**	13,241
Manufacturing and sales and trading of lottery terminals	**82,596**	83,381
	86,940	96,622

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

7. SEGMENT INFORMATION

The Group's revenue and contribution to loss were solely derived from lottery business which comprises provision of services and solutions for distribution of lottery products and manufacturing and sales of lottery terminals. The chief operating decision maker, the Chief Executive Officer, reviews the internally reported information for the lottery business as a whole and the consolidated financial information of the Group for purposes of resource allocation and performance assessment. Accordingly, the Group has only one operating segment, which is the lottery business. No segment analysis is presented other than entity-wide disclosures.

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

Geographical information

The Group's operations are carried out in the PRC and revenue from external customers based on the location of goods and services delivered is derived in the PRC.

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

	2012	2011
	HK$'000	*HK$'000*
Non-current assets		
The PRC	**6,175**	15,594
Hong Kong	**107**	195
	6,282	15,789

Information about major customers

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

	2012	2011
	HK$'000	*HK$'000*
Customer A	**80,858**	57,682
Customer B	**–**	25,648

During the year ended 31 December 2011, Customer B, Beijing Telenet Information Technology Limited 北京電信達信息技術有限公司 ("BTI"), a jointly controlled entity of the Group became a subsidiary of the Group on 27 July 2011.

Immediately after the acquisition of BTI, sales of BTI to Customer A thereafter account for the largest revenue for the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

8. FINANCE COSTS

	2012 HK$'000	2011 HK$'000
Interest on:		
Loan from a related company wholly repayable within five years	695	800
Effective interest expense on convertible bonds	91,972	88,298
Amount due to immediate holding company	356	–
	93,023	89,098

9. GAIN ON GROUP RESTRUCTURING

On 26 June 2012, the Company and Rising Move International Limited ("Rising Move") entered into an agreement with Intralot International Limited ("Intralot"), a substantial shareholder of the Company, in relation to the sale of the entire equity interest of Gain Advance Group Limited ("Gain Advance") and 49% equity interest of Precious Success Holdings Limited ("Precious Success"), and the repurchase of the entire convertible bonds due in 2013 ("Intralot 2013 Convertible Bonds") with outstanding principal of HK$277,175,310 by the Company from Intralot (collectively the "Intralot Disposal"). The consideration payable by Intralot for the purchase of the 100% equity interest of Gain Advance and 49% equity interest of Precious Success and the consideration payable by the Company for the repurchase of the Intralot 2013 Convertible Bonds were set off against each other at the completion of the Intralot Disposal.

On 26 June 2012, the Company and Rising Move entered into an agreement with Global Crossing Holdings Ltd. ("GCH"), a 32.86% non-controlling shareholder of Oasis Rich International Ltd. ("Oasis Rich"), in relation to the sale of the entire 60% equity interest of Oasis Rich, and the repurchase of GCH's portion of convertible bonds due in 2012 ("GCH 2012 Convertible Bonds") with outstanding principal of HK$175,188,566 by the Company from GCH (collectively the "GCH Disposal"). The consideration payable by GCH for the purchase of the 60% equity interest of Oasis Rich and the consideration payable by the Company for the repurchase of the GCH 2012 Convertible Bonds were set off against each other at the completion of the GCH Disposal.

On 14 August 2012, the Company proposed an open offer (the "Open Offer") of not more than 1,729,046,799 new ordinary shares of the Company of HK$0.01 each (the "Offer Shares") at a price of HK$0.078 per Offer Share on the basis of three new Offer Shares for every one existing share, to raise capital of not more than approximately HK$134.9 million, before share issue expenses. In addition, the Company entered into an underwriting agreement (the "Underwriting Agreement") with Melco LV, a substantial shareholder of the Company, and Power Way, a related company and the lender of HK$80 million loan owed by the Company (the "Power Way Loan"), in relation to the Open Offer. Melco LV had agreed to underwrite not more than 128,205,128 underwritten shares in the first place provided that the total subscription price for the Offer Shares to be taken up by Melco LV shall not exceed HK$10 million and Power Way had agreed to underwrite not more than 1,145,361,487 underwritten shares in the second place provided that immediately upon completion of the Open Offer, the underwritten shares to be subscribed by Power Way together with the shares of the Company held or to be held by Melco LV and other non-public shareholders of the Company shall not be more than 75% of the total shareholdings of the Company as enlarged by the Offer Shares. The aggregate subscription price required to be paid by Power Way under the Underwriting Agreement had been settled by way of set off against the outstanding principal and accrued interest of the Power Way Loan.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

9. GAIN ON GROUP RESTRUCTURING *(Continued)*

The GCH Disposal, the Intralot Disposal and the Open Offer were conditional on each other and had been approved by independent shareholders by way of poll at the extraordinary general meeting held on 15 October 2012. On 12 November 2012, the GCH Disposal, the Intralot Disposal and the Open Offer were completed. Details of the Open Offer were further disclosed in Note 30.

Upon completion of the GCH Disposal and the Intralot Disposal, Oasis Rich and Gain Advance ceased to be subsidiaries of the Group and Precious Success became a 51% non wholly-owned subsidiary of the Group.

The gain arising on the GCH Disposal and the Intralot Disposal is determined as follows:

	HK$'000	*HK$'000*
GCH Disposal		
Carrying value of the liability component of GCH 2012 Convertible Bonds	173,868	
Carrying value of net assets of Oasis Rich attributable to the Group's 60% equity interest	(14,847)	
Gain on GCH Disposal recognised in profit or loss *(note a)*		159,021
Intralot Disposal		
Carrying value of the liability component of Intralot 2013 Convertible Bonds	213,613	
Less: Aggregate fair value of Gain Advance and 49% equity interest of Precious Success	(153,166)	
Gain on repurchase of the Intralot 2013 Convertible Bonds	60,447	
Fair value of Gain Advance	148,000	
Less: Carrying value of Gain Advance	(140,701)	
Gain on disposal of Gain Advance	7,299	
Gain on Intralot Disposal recognised in profit or loss *(note b)*		67,746
Gain on group restructuring		226,767

Notes:

(a) For the purpose of determining the gain on the GCH Disposal, the directors of the Company considered that none of the consideration (being the 60% equity interest of Oasis Rich) is allocated to repurchase the conversion option component of the GCH 2012 Convertible Bonds due to the GCH 2012 Convertible Bonds were close to maturity and the conversion options were deeply out of the money, and hence the entire consideration paid by the Group for the repurchase of the GCH 2012 Convertible Bonds is allocated to the liability component of the GCH 2012 Convertible Bonds.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

9. GAIN ON GROUP RESTRUCTURING *(Continued)*

Notes: (Continued)

(b) For the purpose of determining the gain on the Intralot Disposal, the directors of the Company determined that (i) the fair value of Gain Advance was HK$148,000,000 as at 12 November 2012 with reference to a valuation carried out by Vigers Appraisal & Consulting Limited ("Vigers"), independent qualified professional valuers not connected with the Group, taking into account the future cash flows expected to arise from the available-for-sale investment held by Gain Advance (note 20) with a suitable discount rate, and (ii) the fair value of 49% equity interest in Precious Success approximated to the carrying value of HK$5,166,000 as at 12 November 2012, taking into account Precious Success has been incurring losses in prior years and its non-current assets mainly consisting of fixture and equipment used for distribution of lottery products which is realisable in an amount approximate to its carrying value, resulting in no material result on the disposal of Precious Success.

As the aggregate fair value of Gain Advance and Precious Success of HK$153,166,000 was lower than the fair value of the liability component of the Intralot 2013 Convertible Bonds amounting to HK$257,433,000 as at 12 November 2012, none of the consideration is allocated to repurchase the conversion option component of the Intralot 2013 Convertible Bonds, and hence the entire consideration paid by the Group for the repurchase of the Intralot 2013 Convertible Bonds was allocated to the liability component of the Intralot 2013 Convertible Bonds.

The assets and liabilities of Gain Advance and Oasis Rich derecognised as at 12 November 2012 were as follows:

	Gain Advance	Oasis Rich	Total
	HK$'000	*HK$'000*	*HK$'000*
Property, plant and equipment	–	1,409	1,409
Available-for-sale investment	140,902	–	140,902
Inventories	–	40,425	40,425
Trade and other receivables	3	1,345	1,348
Amounts due from a fellow subsidiary	–	25,794	25,794
Bank balances and cash	51	4,704	4,755
Trade and other payables	(255)	(36,340)	(36,595)
Amount due to a related company	–	(10,244)	(10,244)
Tax payable	–	(2,348)	(2,348)
	140,701	24,745	165,446
Less: Non-controlling interests	–	(9,898)	(9,898)
Net assets attributable to the Group	140,701	14,847	155,548
Cash outflow arising on disposals			
Bank balances and cash disposed of	(51)	(4,704)	(4,755)

Oasis Rich contributed a loss of HK$4,649,000 and net cash inflow of HK$3,121,000 to the Group's results and cash flows for the period from 1 January 2012 to 12 November 2012, respectively.

The impact of the disposal of Gain Advance on the Group's results and cash flows in 2012 was insignificant.

Subsequent to the GCH Disposal and the Intralot Disposal, the Group is engaged in the business of provision of services and solutions for distribution of lottery products and trading of lottery terminals.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

10. TAXATION

	2012	2011
	HK$'000	*HK$'000*
PRC Enterprise Income Tax		
– Current year	**513**	113
– Capital gain tax on disposal of the PRC subsidiaries	**20,858**	–
	21,371	113

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. No Hong Kong Profits Tax was provided for since the Hong Kong subsidiaries have incurred losses from operations for both years.

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

On 12 November 2012, the Group disposed of certain subsidiaries established in the PRC as a result of the GCH Disposal and the Intralot Disposal as detailed in note 9. Pursuant to the relevant tax laws in the PRC, capital gain tax of HK$20,858,000 arising from the disposal of these subsidiaries has been provided, based on 10% of the difference between disposal consideration and the Group's share of registered capital.

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

	2012	2011
	HK$'000	*HK$'000*
Profit (loss) before taxation	**91,912**	(215,819)
Tax at the domestic income tax at the rate of 25% *(Note)*	**22,978**	(53,955)
Tax effect of income not taxable for tax purposes	**(3,024)**	(9,256)
Tax effect of expenses not deductible for tax purposes	**31,657**	56,823
Tax effect of tax losses not recognised	**4,823**	5,630
Utilisation of tax losses previously not recognised	**(28)**	(243)
Tax effect of different tax rates and bases applied on disposal of the PRC subsidiaries	**(35,680)**	–
Tax effect of share of results of associates	**645**	994
Tax effect of share of results of jointly controlled entities	**–**	120
Taxation for the year	**21,371**	113

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

At 31 December 2012, the Group had unused tax losses of HK$116,384,000 (2011: HK$97,206,000) available to offset against future profits. No deferred tax asset has been recognised in respect of unused tax losses due to the unpredictability of future profit streams.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

10. TAXATION *(Continued)*

Included in unrecognised tax losses are losses of HK$49,114,000 (2011: HK$62,744,000) that are allowed to be carried forward and utilised against the income of subsequent years. The loss carry forward period shall not exceed 5 years which is up to 2017. Other losses may be carried forward indefinitely.

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to HK$952,000 (2011: HK$38,072,000) 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.

11. PROFIT (LOSS) FOR THE YEAR

Profit (loss) for the year has been arrived at after charging:

	2012	2011
	HK$'000	*HK$'000*
Amortisation of intangible assets	**–**	2,265
Depreciation of property, plant and equipment	**2,967**	4,467
Total depreciation and amortisation	**2,967**	6,732
Directors' emoluments	**3,115**	4,298
Other staff costs:		
Salaries and other benefits	**10,259**	10,280
Retirement benefit scheme contributions	**1,490**	1,535
Share-based payments	**295**	2,739
Total employee benefit expenses	**15,159**	18,852
Auditor's remuneration	**1,325**	1,220
Allowance for inventories (included in purchase of inventories and raw materials consumed)	**5,593**	8,101
Loss on disposal and written off of property, plant and equipment	**515**	462
Operating lease rentals in respect of land and buildings	**3,955**	4,476
Charity donation	**2,467**	2,360
Management fee paid to lottery operator (included in other expenses)	**2,288**	6,205
Transaction costs in relation to group restructuring (included in other expenses)	**4,091**	–
and after crediting:		
Net foreign exchange gain	**7,528**	36,301
Bank interest income	**38**	44
Other interest income	**–**	122

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For the year ended 31 December 2012

12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

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

	Chan Sek Keung, Ringo *HK$'000*	Ko Chun Fung, Henry *HK$'000*	Moumouris, Christos *HK$'000* *(Note a)*	Chrysafidis, Evangelos *HK$'000* *(Note b)*	Wang, John Peter Ben *HK$'000*	Tsoi, David *HK$'000*	Pang Hing Chung, Alfred *HK$'000*	So Lie Mo, Raymond *HK$'000*	Total *HK$'000*
2012									
Fees	120	-	-	-	120	144	120	132	636
Other emoluments									
Salaries and other benefits	-	2,130	-	-	-	-	-	-	2,130
Bonus *(Note c)*	-	170	-	-	-	-	-	-	170
Contributions to retirement benefit schemes	-	14	-	-	-	-	-	-	14
Share-based payments	37	49	37	-	36	2	2	2	165
Total emoluments	157	2,363	37	-	156	146	122	134	3,115

Notes:

(a) Resigned on 23 April 2012.

(b) Appointed on 23 April 2012 and resigned on 13 November 2012.

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

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

Mr. Ko Chun Fung, Henry is also the Chief Executive Officer of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive Officer.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(Continued)*

During both years ended 31 December 2012 and 2011, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during both years.

Of the five individuals with the highest emoluments in the Group, one (2011: one) was director of the Company whose emolument is included in the disclosures as above. The emoluments of the remaining four (2011: four) individuals were as follows:

	2012	2011
	HK$'000	*HK$'000*
Salaries and other benefits	**2,719**	3,587
Bonus	**165**	170
Contributions to retirement benefit schemes	**48**	48
Share-based payments	**28**	200
	2,960	4,005

Their emoluments were within the following bands:

	2012	2011
	No. of employees	No. of employees
Nil to HK$1,000,000	**3**	2
HK$1,000,001 to HK$1,500,000	**1**	2

13. DIVIDENDS

No dividend was declared or proposed during 2012, nor has any dividend been proposed since the end of the reporting period (2011: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

14. EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted earnings (loss) per share attributable to the owners of the Company is based on the following data:

	2012	2011
	HK$'000	*HK$'000*
Earnings		
Profit (loss) attributable to owners of the Company for the purpose of basic earnings (loss) per share	**78,981**	(209,219)
Effect of dilutive potential ordinary shares:		
Convertible bonds (Note)	**(120,771)**	–
Loss for the purpose of diluted loss per share	**(41,790)**	(209,219)

Note: The adjustments for the purpose of diluted loss per share due to the assumed conversion of outstanding convertible bonds consist of effective interest expense, exchange gain arising on translation of convertible bonds, gain on group restructuring and capital gain tax on group restructuring.

	2012	2011
	'000	*'000*
		(Restated)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	**857,193**	658,987
Effect of dilutive potential ordinary shares:		
Convertible bonds	**1,003,327**	–
Weighted average number of ordinary shares for the purpose of diluted loss per share	**1,860,520**	658,987

The weighted average numbers of ordinary shares for the purposes of basic and diluted earnings (loss) per share have been adjusted for the bonus element of the open offer as detailed in note 30.

The computation of diluted loss per share in 2012 did not include the Company's outstanding share options since their assumed exercise would result in a decrease in diluted loss per share.

The computation of diluted loss per share in 2011 did not include the Company's outstanding convertible bonds and share options since their assumed conversion and exercise would result in a decrease in diluted loss per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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15. PROPERTY, PLANT AND EQUIPMENT

	Lottery terminals HK$'000	Machinery and equipment HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
COST					
At 1 January 2011	4,152	7,017	7,295	413	18,877
Additions	–	7,384	10	–	7,394
Acquired on acquisition of a subsidiary	–	608	191	–	799
Disposals	(1,111)	(2,221)	(1,604)	–	(4,936)
Exchange realignment	209	464	227	19	919
At 31 December 2011 and 1 January 2012	3,250	13,252	6,119	432	23,053
Additions	–	330	34	705	1,069
Disposals and write off	(3,269)	(2,433)	(3,921)	–	(9,623)
Eliminated on disposal of a subsidiary	–	(2,974)	(1,043)	(8)	(4,025)
Exchange realignment	19	66	15	19	119
At 31 December 2012	–	8,241	1,204	1,148	10,593
DEPRECIATION AND IMPAIRMENT					
At 1 January 2011	2,409	4,431	2,136	70	9,046
Provided for the year	998	2,164	1,229	76	4,467
Eliminated on disposals	(921)	(1,772)	(1,245)	–	(3,938)
Exchange realignment	160	257	154	6	577
At 31 December 2011 and 1 January 2012	2,646	5,080	2,274	152	10,152
Provided for the year	347	1,749	843	28	2,967
Eliminated on disposals and write off	(3,269)	(2,423)	(3,416)	–	(9,108)
Eliminated on disposals of subsidiaries	–	(2,462)	(146)	(8)	(2,616)
Impairment loss recognised	259	859	1,430	590	3,138
Exchange realignment	17	45	13	10	85
At 31 December 2012	–	2,848	998	772	4,618
CARRYING VALUES					
At 31 December 2012	–	5,393	206	376	5,975
At 31 December 2011	604	8,172	3,845	280	12,901

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

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

Lottery terminals	20%
Machinery and equipment	20% – 33 1/3%
Furniture, fixtures and equipment	20% – 33 1/3%
Motor vehicles	20% – 33 1/3%

During the year ended 31 December 2012, the directors of the Group determined that there would be an expected decrease in revenue from provision of services and solutions for distribution of certain lottery products in some cities in the PRC due to keen market competition, which was an indicator of the impairment of the related property, plant and equipment. Accordingly, a full impairment loss in respect of the property, plant and equipment held by two PRC subsidiaries amounting to HK$3,138,000 was recognised in profit or loss.

16. GOODWILL

	2012	2011
	HK$'000	*HK$'000*
COST		
Balance at beginning of year	**1,050,715**	1,050,715
Disposal of a subsidiary	**(1,050,715)**	–
Balance at end of year	**–**	1,050,715
IMPAIRMENT		
Balance at beginning of year	**1,050,715**	1,022,812
Impairment loss recognised in the year	**–**	27,903
Eliminated on disposal of a subsidiary	**(1,050,715)**	–
Balance at end of year	**–**	1,050,715
CARRYING AMOUNTS AT 31 DECEMBER	**–**	–

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

During the year ended 31 December 2011, the directors of the Company performed an impairment review for goodwill with reference to the valuation carried out by Vigers, independent qualified professional valuers not connected with the Group. The impairment review took into account the operating results of subsidiaries of the Group, which were wholly attributable to the operation of manufacturing and sales of lottery terminals. The valuation was based on value-in-use calculations. These calculations used cash flow projections based on most recent financial budgets approved by management of the Group for the coming year and extrapolated the cash flows projection for the following 7 years with 5% growth rate and discount rate of 12.5%. The cash flows beyond 7 years were extrapolated using a steady growth rate of 3%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

16. GOODWILL *(Continued)*

The management of the Group determined the budgeted gross margin based on past performance. The weighted average growth rate used was consistent with the forecasts in the relevant industry. The discount rate used reflected specific risks relating to the relevant segment. However, in view of the delay and uncertainty in the launching of new models of lottery terminals and continuing net operating cash outflow was incurred during the year, the recoverable amount of the CGU was significantly lower than its carrying amount, and accordingly, full impairment loss of HK$27,903,000 was recognised in 2011.

17. INTANGIBLE ASSETS

	Lottery software licences HK$'000 (note a)	License rights HK$'000 (note b)	Technology know-how HK$'000 (note c)	Total HK$'000
COST				
At 1 January 2011	75,035	162,547	25,252	262,834
Exchange realignment	–	513	–	513
At 31 December 2011 and 1 January 2012	75,035	163,060	25,252	263,347
Disposal of a subsidiary	–	(50,062)	–	(50,062)
Exchange realignment	584	1,269	196	2,049
At 31 December 2012	75,619	114,267	25,448	215,334
AMORTISATION AND IMPAIRMENT				
At 1 January 2011	–	160,305	25,252	185,557
Provided for the year	–	2,265	–	2,265
Impairment loss recognised	75,035	–	–	75,035
Exchange realignment	–	490	–	490
At 31 December 2011 and 1 January 2012	75,035	163,060	25,252	263,347
Disposal of a subsidiary	–	(50,062)	–	(50,062)
Exchange realignment	584	1,269	196	2,049
At 31 December 2012	75,619	114,267	25,448	215,334
CARRYING AMOUNTS				
At 31 December 2012	–	–	–	–
At 31 December 2011	–	–	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

17. INTANGIBLE ASSETS *(Continued)*

Notes:

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

In 2010, the Group was in the process of negotiating with CSLA and CWLI on providing services for system support and upgrade of their games by using the Software. The license right in connection with CSLA projects was operated under the exclusivity period and the Group expected to obtain the projects from CSLA and CWLI successfully.

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

(b) The Group's license rights included certain rights of operating lottery games, sales of gaming products and the right to manufacture lottery machines in the PRC. The license rights are amortised on a straight-line basis over their estimated useful life of 5 years. The carrying amount of the license rights, net of accumulated impairment, had been fully amortised during the year ended 31 December 2011. The amortisation charge for that year was included in depreciation and amortisation in the consolidated statement of comprehensive income.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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18. INTERESTS IN ASSOCIATES

	2012	2011
	HK$'000	*HK$'000*
Costs of unlisted investments in associates	**13,000**	13,000
Share of post-acquisition losses	**(11,300)**	(8,719)
Accumulated impairment loss recognised *(note b)*	**(1,393)**	(1,393)
	307	2,888

As at 31 December 2012 and 2011, the Group had interests in the following associates:

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

Notes:

(a) On 21 June 2010, Rising Move, a wholly-owned subsidiary of the Company, entered into an agreement with an independent third party, Calo Investments Limited ("Calo"), for the formation of ChariLot. ChariLot is set up primarily to be a vehicle for the investment in and provision of services for distribution of lottery products in the PRC. ChariLot is beneficially owned as to 60% by Calo and 40% by Rising Move. The capital injection by Rising Move for the 40% shareholding in ChariLot is HK$10,000,000, all of which shares were issued to Rising Move in 2010. During the year ended 31 December 2012, an amount of HK$2,884,000 (2011: HK$3,065,000) had been paid. The unpaid amount of HK$190,000 (2011: HK$3,074,000) represents the amount due to an associate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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18. INTERESTS IN ASSOCIATES *(Continued)*

Notes: (Continued)

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

The Group had paid HK$3,000,000 for the consideration in 2010. The remaining HK$4,000,000 will be paid subject to conditions, including to obtain a license (the "Mobile Lottery License") for the welfare mobile lottery business in the PRC from Shanghai Welfare Lottery Issuing Centre (the "Shanghai WLIC"). As at 31 December 2012, the Group has not paid for the remaining consideration as the conditions have not been satisfied.

In 2011, China Excellent was unable to obtain the Mobile Lottery License and net liabilities position was noted at end of the reporting period. The directors of the Company expected minimal cash flows would be generated from the investment. Therefore, the Group had recognised an impairment loss of HK$1,393,000 in the profit or loss in respect of the investment in China Excellent.

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

	2012	2011
	HK$'000	*HK$'000*
Total assets	**3,128**	4,075
Total liabilities	**(4,841)**	(2,793)
Net (liabilities) assets	**(1,713)**	1,282
Revenue	**–**	64
Loss for the year	**2,988**	5,269

The Group has discontinued the recognition of its share of loss of an associate. The amount of unrecognised share of loss of the associate for the year and cumulatively, is as follows:

	2012	2011
	HK$'000	*HK$'000*
Unrecognised share of losses of an associate for the year	**142**	–
Accumulated unrecognised share of losses of an associate	**142**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

19. INTEREST IN A JOINTLY CONTROLLED ENTITY

	2012	2011
	HK$'000	*HK$'000*
Cost of unlisted investment in a jointly controlled entity	**15,560**	15,560
Share of post-acquisition losses	**(15,560)**	(15,560)
	–	–

As at 31 December 2012 and 2011, the Group had interest in the following jointly controlled entity:

Name of jointly controlled entity	Place of incorporation and operations	Class of shares held	**Proportion** of nominal value of issued capital held by the Group 2012	2011	Proportion of voting power held 2012	2011	Principal activities
PALTECH Company Limited ("PALTECH")	Hong Kong	Ordinary	60% *(Note)*	60%	60%	60%	Inactive

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

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

	2012	2011
	HK$'000	*HK$'000*
Current assets	**–**	–
Non-current assets	**–**	–
Current liabilities	**1,897**	1,896
Revenue recognised in profit or loss	**–**	14,686
Expenses recognised in profit or loss	**1**	15,166

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19. INTEREST IN A JOINTLY CONTROLLED ENTITY *(Continued)*

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

	2012	2011
	HK$'000	*HK$'000*
Unrecognised share of losses of a jointly controlled entity for the year	**1**	1
Accumulated unrecognised share of losses of a jointly controlled entity	**195**	194

20. AVAILABLE-FOR-SALE INVESTMENT

The available-for-sale investment represented a 14% equity interest in Nanum Lotto, Inc., a limited liability company incorporated in South Korea and engaged in the operation of national online lotto games in South Korea with an exclusive lottery license. It was measured at cost less impairment at the end of 2011. The Group had disposed of the available-for-sale investment as a result of the disposal of Gain Advance in November 2012 (Note 9).

21. INVENTORIES

	2012	2011
	HK$'000	*HK$'000*
Raw materials	**–**	10,240
Work-in-progress	**–**	11,605
Finished goods	**–**	7,706
	–	29,551

The Group had disposed of its entire equity interest in Oasis Rich as detailed in note 9, accordingly no inventories were held by the Group as at 31 December 2012.

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22. TRADE AND OTHER RECEIVABLES

	2012 HK$'000	2011 HK$'000
Trade receivables	77,499	84,134
Less: allowance for doubtful debts	(14,633)	(1,276)
	62,866	82,858
Other receivables	17,804	19,959
Less: allowance for doubtful debts	(15,012)	(10,468)
	2,792	9,491
Prepayments and deposits	1,083	2,054
	66,741	94,403

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

	2012 HK$'000	2011 HK$'000
Within 30 days	32,706	24,752
31 – 90 days	18,435	33,515
91 – 180 days	11,525	14,927
181 – 365 days	200	2,944
Over 365 days	–	6,720
	62,866	82,858

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

Included in the Group's trade receivable balance were debtors with aggregate carrying amount of HK$11,725,000 (2011: HK$24,591,000) which were past due at the end of the reporting period for which the Group has not provided for impairment loss as the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

22. TRADE AND OTHER RECEIVABLES *(Continued)*

Aging of trade receivables which are past due but not impaired

	2012 *HK$'000*	2011 *HK$'000*
91 – 180 days	**11,525**	14,927
181 – 365 days	**200**	2,944
Over 365 days	**–**	6,720
	11,725	24,591

As at 31 December 2012, the Group has provided fully for all receivables over 180 days because historical experience is such that receivables that are past due beyond 180 days are generally not recoverable.

Movement in the allowance for trade receivables

	2012 *HK$'000*	2011 *HK$'000*
Balance at beginning of the year	**1,276**	–
Impairment losses recognised	**14,434**	1,276
Impairment losses reversed	**(95)**	–
Eliminated on disposal of a subsidiary	**(777)**	–
Exchange realignment	**(205)**	–
Balance at end of the year	**14,633**	1,276

Included in trade receivables are amounts net of individually impaired receivables amounting to HK$14,633,000 (2011: HK$1,276,000). The directors of the Company take into consideration about the current financial position of the counterparties and their repayment history and consider that the chances of collection of the outstanding amounts are remote.

Movement in the allowance for other receivables

	2012 *HK$'000*	2011 *HK$'000*
Balance at beginning of the year	**10,468**	–
Impairment losses recognised	**4,725**	10,468
Exchange realignment	**(181)**	–
Balance at end of the year	**15,012**	10,468

Included in other receivables are amounts of individually impaired receivables amounting to HK$15,012,000 (2011: HK$10,468,000). The amount represents the advances granted to an operator in respect of the lottery retail outlets in which some of them have been closed down during the year. As at 31 December 2012, the directors of the Company considered that advances to the same operator of HK$20,000 (2011: HK$4,549,000) in respect of the remaining lottery retail outlets were still recoverable after considering that the lottery retail outlets were still operating in the PRC with gross margin.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

23. AMOUNTS DUE FROM (TO) A RELATED COMPANY/A SHAREHOLDER OF A JOINTLY CONTROLLED ENTITY

			Maximum balance outstanding during the year ended 31 December	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amount due from a company controlled by a substantial shareholder of the Company *(Note)*	**106**	–	**117**	–

Note: The amount was unsecured, interest-free and repayable on demand.

The amount due to a related company represents balances due to a company beneficially owned by a substantial shareholder of the Company, which are unsecured, interest-free and repayable on demand.

The amount due to a shareholder of a jointly controlled entity is unsecured, interest-free and repayable on demand.

The amounts due from (to) a related company/a shareholder of a jointly controlled entity are denominated in currency other than the functional currency of the relevant group entity.

24. AMOUNT DUE FROM (TO) AN ASSOCIATE

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

As at 31 December 2012 and 2011, the directors of the Company took into consideration of the net liabilities position of China Excellent and considered that the chance of collection of the outstanding amount was remote. Accordingly, an impairment loss of HK$2,436,000 was recognised during the year ended 31 December 2011 on the entire outstanding balance due from that associate.

25. BANK BALANCES AND CASH

Bank balances and cash comprised of bank deposits with maturity of less than three months at prevailing market interest rate of 0.35% (2011: 0.43%) per annum and cash on hand.

As at 31 December 2012, an amount of HK$24,739,000 (2011: HK$18,660,000) was denominated in currency other than the functional currency of the relevant group entity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

26. TRADE AND OTHER PAYABLES

	2012 HK$'000	2011 HK$'000
Trade payables *(Note)*	**44,805**	56,241
Other payables	**13,417**	10,575
Accruals	**136**	4,293
	58,358	71,109

Note: Included in trade payables are amounts of nil (2011: HK$45,903,000) due to a subsidiary of a substantial shareholder of the Company. As the Group had disposed of Oasis Rich as detailed in note 9, there was no such amount due to the subsidiary of the substantial shareholder of the Company as at 31 December 2012. The amounts as at 31 December 2011 were unsecured, interest-free and repayable according to credit terms granted by the subsidiary of the substantial shareholder.

The average credit period on purchases of goods is 30 days.

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

	2012 HK$'000	2011 HK$'000
Within 30 days	**28,419**	56,241
31 – 90 days	**11,084**	–
91 – 180 days	**–**	–
181 – 365 days	**5,302**	–
	44,805	56,241

As at 31 December 2012, an amount of HK$9,719,000 (2011: HK$5,944,000) included in other payables, was denominated in currency other than the functional currency of the relevant group entity.

27. AMOUNT DUE TO IMMEDIATE HOLDING COMPANY

As at 31 December 2012, the amount due to immediate holding company represents the outstanding principal of approximately HK$240,506,000 payable to Melco LV upon maturity of convertible bonds in December 2012 (Note 29) and accrued interest of HK$771,000. The principal amount of approximately HK$240,506,000 is unsecured, interest bearing at 3% per annum and repayable on demand.

The amount is denominated in HK$, a currency other than the functional currency of the relevant group entity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

28. LOAN FROM A RELATED COMPANY

As at 31 December 2011, the loan from a related company represented the Power Way Loan which was unsecured, carried interest at 5% from drawdown date on 14 July 2008 up to 14 July 2010 and changed to 1% when extended the repayment date from 14 July 2010 up to 14 July 2011 and was repayable on 14 July 2012 together with all interests accrued. The entire amount of loan was therefore presented as current liabilities at the end of the reporting period. In February 2012, the loan was further extended one year to 14 July 2013 with other terms remained unchanged. In November 2012, the loan had been fully settled by the issue of new shares of the Company upon completion of the Open Offer.

Relevant accrued interest of HK$9,006,000 had been included in amount due to a related company as at 31 December 2011.

This loan was denominated in HK$, a currency other than the functional currency of the relevant group entity.

29. CONVERTIBLE BONDS

(i) On 13 December 2007, the Company issued convertible bonds with principal amount of HK$606,800,000 (the "2012 Convertible Bonds") as part of the consideration for the acquisition of subsidiaries. The 2012 Convertible Bonds were recognised in these consolidated financial statements at fair value of HK$989,794,000 at the date of completion of the acquisition of subsidiaries in accordance with HKFRS 3 "Business Combinations". The 2012 Convertible Bonds were denominated in Hong Kong dollars and entitled the holders to convert them into ordinary shares of the Company within 5 years from the date of issue of the 2012 Convertible Bonds at a conversion price of HK$0.85 per share subject to anti-dilutive adjustments in accordance with the agreement. The 2012 Convertible Bonds bore interest at 0.1% per annum payable semi-annually in arrears. The 2012 Convertible Bonds contained two components, liability and equity elements. The equity element was presented in equity heading "convertible bonds equity reserve". The effective interest rate of the liability component of the 2012 Convertible Bonds was 10.06% per annum.

On 12 November 2012, part of the 2012 Convertible Bonds with outstanding principal of HK$175,188,566 had been repurchased upon the completion of the GCH Disposal as detailed in Note 9. In addition, the conversion price of the 2012 Convertible Bonds had been adjusted to HK$0.70 per share upon the completion of the Open Offer of the Company as detailed in Note 30.

On 7 December 2012 and 12 December 2012, part of the 2012 Convertible Bonds with aggregate outstanding principal of HK$191,105,702 had been converted into 273,008,144 ordinary shares of the Company at the conversion price of HK$0.70 per share. All of the remaining 2012 Convertible Bonds with outstanding principal of HK$240,505,732 were due on 13 December 2012 but no redemption had been taken place as required under the terms of the 2012 Convertible Bonds and the conversion right attached to the 2012 Convertible Bonds was lapsed on 13 December 2012. As at 31 December 2012, such amount remained unpaid and was included in amount due to immediate holding company (Note 27).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

29. CONVERTIBLE BONDS *(Continued)*

(ii) On 9 December 2008, the Company issued the Intralot 2013 Convertible Bonds with principal amount of HK$277,175,310 as part of the consideration for the acquisition of certain intangible assets. The Intralot 2013 Convertible Bonds were denominated in Hong Kong dollars and entitled the holders to convert them into ordinary shares of the Company within 5 years from the date of issue of the Intralot 2013 Convertible Bonds at a conversion price of HK$0.991 per share subject to anti-dilutive adjustments in accordance with the agreement. The Intralot 2013 Convertible Bonds bore interest at 0.1% per annum payable semi-annually in arrears. The Intralot 2013 Convertible Bonds contained two components, liability and equity elements. The equity element was presented in equity heading "convertible bonds equity reserve". The effective interest rate of the liability component of the Intralot 2013 Convertible Bonds was 26% per annum.

On 12 November 2012, all of the Intralot 2013 Convertible Bonds had been repurchased upon the completion of the Intralot Disposal as detailed in Note 9.

The 2012 Convertible Bonds and the Intralot 2013 Convertible Bonds were secured by the shares of certain subsidiaries of the Company.

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

	2012	2011
	HK$'000	*HK$'000*
Carrying amount at the beginning of the year	**727,768**	640,354
Interest charged *(note 8)*	**91,972**	88,298
Interest payable/paid	**(865)**	(884)
Repurchase during the year	**(387,481)**	–
Conversion into ordinary shares	**(190,888)**	–
Reclassified to amount due to immediate holding company upon maturity	**(240,506)**	–
Carrying amount at the end of the year	**–**	727,768

	2012	2011
	HK$'000	*HK$'000*
Analysed for reporting purposes as:		
Current	**–**	554,714
Non-current	**–**	173,054
	–	727,768

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

30. SHARE CAPITAL

	Number of ordinary shares	Amount
		HK$'000
Ordinary shares of HK$0.01 each:		
Authorised:		
At 1 January 2011 and 31 December 2011	2,000,000,000	20,000
Increase during the year	3,500,000,000	35,000
At 31 December 2012	5,500,000,000	55,000
Issued and fully paid:		
At 1 January 2011	502,621,933	5,026
Exercise of share options	345,000	4
At 31 December 2011	502,966,933	5,030
Exercise of share options	5,323,093	53
Issue of new shares	1,507,267,099	15,073
Conversion of convertible bonds *(note 29)*	273,008,144	2,730
At 31 December 2012	2,288,565,269	22,886

On 12 November 2012, the Company issued 1,507,267,099 new ordinary shares as a result of the Open Offer at the price of HK$0.078 per share on the basis of three new shares for every existing share, out of which 128,205,128 shares and 1,145,361,487 shares were taken up by Melco LV and Power Way, respectively pursuant to the Underwriting Agreement as detailed in Note 9. The aggregate subscription price paid by Power Way had been set off against the outstanding principal of HK$80,000,000 and accrued interest of HK$9,338,000 up to 31 May 2012 in relation to the Power Way Loan.

The net proceeds of approximately HK$26,724,000 arising from the Open Offer have been used as additional working capital to strengthen the Company's financial position and to develop its lottery business.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

31. SHARE-BASED PAYMENT TRANSACTIONS

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

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

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

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

				Number of share options		
Type of participant	**Date of grant**	**Exercisable period**	**Exercise price per share**	**Outstanding at 1/1/2011 and 31/12/2011**	**Lapsed during the year**	**Outstanding at 31/12/2012**
			HK$			
Director	30/4/2002 *(note)*	17/11/2002 to 29/4/2012	0.55	3,000,000	(3,000,000)	–
Exercisable at the end of the year				3,000,000		–

Note: The Group had not applied HKFRS 2 "Share-based Payment" to share options granted on or before 7 November 2002 in accordance with the relevant transitional provisions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(b) Post-IPO Share Option Scheme

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2012

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

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

The post-IPO share option scheme has expired on 20 April 2012. The share options granted prior to the expiry date will continue to be valid and exercisable in accordance with the terms of the post-IPO share option scheme.

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

					Number of share options					
Type of participant	Date of grant	Exercisable period	Exercise price per share	Adjusted exercise price per share	Outstanding at 1/1/2012	Adjusted during the year	Reclassified during the year	Exercised during the year	Forfeited during the year	Outstanding at 31/12/2012
			HK$	HK$ *(note 6)*		*(note 6)*	*(note 7)*			
Directors	20/2/2003 *(note 3)*	20/2/2004 to 19/2/2013	0.138	0.105	1,200,000	372,360	–	–	–	1,572,360
	31/3/2008 *(note 4)*	1/10/2008 to 31/3/2018	0.890	0.679	8,200,000	2,544,459	–	–	–	10,744,459
	16/2/2009 *(note 5)*	16/2/2010 to 15/2/2019	0.300	0.229	2,120,000	–	(2,120,000)	–	–	–
	10/7/2009 *(note 5)*	10/7/2010 to 9/7/2019	0.367	0.280	13,100,000	3,289,180	(2,500,000)	(262,060)	–	13,627,120
	18/11/2010 *(note 4)*	18/5/2011 to 17/11/2020	0.152	0.116	13,600,000	4,220,080	–	(524,120)	–	17,295,960
Substantial shareholder	31/3/2008 *(note 4)*	1/10/2008 to 31/3/2018	0.890	0.679	4,354,000	1,351,046	–	–	–	5,705,046
	10/7/2009 *(note 5)*	10/7/2010 to 9/7/2019	0.367	0.280	4,000,000	1,241,200	–	–	–	5,241,200
	18/11/2010 *(note 4)*	18/5/2011 to 17/11/2020	0.152	0.116	5,000,000	1,551,500	–	–	–	6,551,500
Employees	31/3/2008 *(note 4)*	1/10/2008 to 31/3/2018	0.890	0.679	6,962,000	1,551,188	(1,350,000)	–	(723,065)	6,440,123
	16/2/2009 *(note 5)*	16/2/2010 to 15/2/2019	0.300	0.229	3,200,000	620,600	(1,200,000)	–	–	2,620,600
	10/7/2009 *(note 5)*	10/7/2010 to 9/7/2019	0.367	0.280	8,998,000	1,900,587	(100,000)	–	(2,799,206)	7,999,381
	18/11/2010 *(note 4)*	18/5/2011 to 17/11/2020	0.152	0.116	13,320,000	3,146,442	(1,300,000)	(3,144,720)	(1,945,515)	10,076,207

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For the year ended 31 December 2012

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

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

Type of participant	Date of grant	Exercisable period	Exercise price per share	Adjusted exercise price per share	Number of share options: Outstanding at 1/1/2012	Adjusted during the year	Reclassified during the year	Exercised during the year	Forfeited during the year	Outstanding at 31/12/2012
			HK$	HK$ *(note 6)*		*(note 6)*	*(note 7)*			
Advisors *(note 2)*	12/1/2007 *(note 3)*	12/1/2008 to 11/1/2017	0.088	0.067	1,275,000	395,629	–	(81,893)	–	1,588,736
	31/3/2008 *(note 4)*	1/10/2008 to 31/3/2018	0.890	0.679	6,606,000	2,468,746	1,350,000	–	–	10,424,746
	16/2/2009 *(note 5)*	16/2/2010 to 15/2/2019	0.300	0.229	6,180,000	2,947,850	3,320,000	–	–	12,447,850
	10/7/2009 *(note 5)*	10/7/2010 to 9/7/2019	0.367	0.280	6,630,000	2,864,069	2,600,000	–	–	12,094,069
	18/11/2010 *(note 4)*	18/5/2011 to 17/11/2020	0.152	0.116	7,200,000	2,637,550	1,300,000	(1,310,300)	–	9,827,250
					111,945,000	33,102,486	–	(5,323,093)	(5,467,786)	134,256,607
Exercisable at the end of the year					96,907,480					134,256,607

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

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For the year ended 31 December 2012

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

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

				Number of share options			
Type of participant	Date of grant	Exercisable period	Exercise price per share	Outstanding at 1/1/2011	Exercised during the year	Forfeited during the year	Outstanding at 31/12/2011
			HK$				
Substantial shareholder	31/3/2008 *(note 4)*	1/10/2008 to 31/3/2018	0.890	4,354,000	–	–	4,354,000
	10/7/2009 *(note 5)*	10/7/2010 to 9/7/2019	0.367	4,000,000	–	–	4,000,000
	18/11/2010 *(note 4)*	18/5/2011 to 17/11/2020	0.152	5,000,000	–	–	5,000,000
Employees	12/1/2007 *(note 3)*	12/1/2008 to 11/1/2017	0.088	45,000	(45,000)	–	–
	31/3/2008 *(note 4)*	1/10/2008 to 31/3/2018	0.890	7,214,000	–	(252,000)	6,962,000
	16/2/2009 *(note 5)*	16/2/2010 to 15/2/2019	0.300	3,200,000	–	–	3,200,000
	10/7/2009 *(note 5)*	10/7/2010 to 9/7/2019	0.367	9,128,000	–	(130,000)	8,998,000
	18/11/2010 *(note 4)*	18/5/2011 to 17/11/2020	0.152	13,390,000	–	(70,000)	13,320,000
Advisors *(note 2)*	12/1/2007 *(note 3)*	12/1/2008 to 11/1/2017	0.088	1,387,500	(112,500)	–	1,275,000
	31/3/2008 *(note 4)*	1/10/2008 to 31/3/2018	0.890	6,606,000	–	–	6,606,000
	16/2/2009 *(note 5)*	16/2/2010 to 15/2/2019	0.300	6,180,000	–	–	6,180,000
	10/7/2009 *(note 5)*	10/7/2010 to 9/7/2019	0.367	6,630,000	–	–	6,630,000
	18/11/2010 *(note 4)*	18/5/2011 to 17/11/2020	0.152	7,200,000	–	–	7,200,000
				112,742,000	(345,000)	(452,000)	111,945,000
Exercisable at the end of the year				42,274,640			96,907,480

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

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

Notes:

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

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

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

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

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

(6) The number and exercise price of the share options have been adjusted upon completion of the Open Offer in November 2012.

(7) The directors and employees that have resigned from their position have been appointed as advisors and the outstanding share options entitled to them remain valid until the end of exercisable period.

In respect of the share options exercised during the year ended 31 December 2012, the weighted average share price at the date(s) of exercise is HK$0.45 (2011: HK$0.14) and the weighted average closing price at the date(s) immediately before exercise was HK$0.44 (2011: HK$0.15).

No share options were granted during both current and prior years.

The Group recognised total expense of HK$460,000 (2011: HK$4,299,000) for the year ended 31 December 2012 in relation to share options granted by the Company.

(c) 2012 Share Option Scheme

Pursuant to the share option scheme adopted by the Company on 18 May 2012 (the "2012 Share Option Scheme"), the Company may grant share options to any directors, employee, advisor or business consultant of the Company or its subsidiaries to subscribe for the Company's shares, for the primary purpose of providing incentives to them, to subscribe for shares in the Company with the payment of HK$1 per offer. The exercise price of the share option will be determined at the highest of: (i) the average of the closing prices of the Company's shares quoted on the Stock Exchange on the five trading days immediately preceding the date of grant of the options; (ii) the closing price of the shares on the Stock Exchange on the date of grant; and (iii) the nominal value of the shares of the Company.

No share options were granted by the Company under the 2012 Share Option Scheme during the year ended 31 December 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

32. COMPANY'S FINANCIAL INFORMATION

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

	2012	2011
	HK$'000	*HK$'000*
NON-CURRENT ASSETS		
Property, plant and equipment	**107**	195
Investments in subsidiaries	**1**	28,688
	108	28,883
CURRENT ASSETS		
Deposits and prepayments	**788**	951
Amounts due from subsidiaries	**–**	237,669
Amount due from a related company	**106**	–
Bank balances and cash	**24,492**	10,657
	25,386	249,277
CURRENT LIABILITIES		
Other payables and accruals	**9,319**	7,868
Amount due to immediate holding company	**241,277**	–
Amount due to a related company	**190**	9,006
Loan from a related company	**–**	80,000
Convertible bonds	**–**	554,714
	250,786	651,588
NET CURRENT LIABILITIES	**(225,400)**	(402,311)
	(225,292)	(373,428)
CAPITAL AND RESERVES		
Share capital	**22,886**	5,030
Reserves (Note)	**(248,178)**	(551,512)
TOTAL CAPITAL DEFICIENCY	**(225,292)**	(546,482)
NON-CURRENT LIABILITY		
Convertible bonds	**–**	173,054
	(225,292)	(373,428)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

32. COMPANY'S FINANCIAL INFORMATION *(Continued)*

Note:

	Share premium HK$'000	Share-based payment reserve HK$'000	Convertible bonds equity reserve HK$'000	Exchange reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2011	368,923	26,501	645,492	–	(1,419,645)	(378,729)
Loss for the year	–	–	–	–	(140,804)	(140,804)
Exchange differences arising on translation	–	–	–	(36,301)	–	(36,301)
Recognition of equity-settled share-based payments	–	4,299	–	–	–	4,299
Issue of ordinary shares upon exercise of share options	40	(17)	–	–	–	23
At 31 December 2011 and 1 January 2012	368,963	30,783	645,492	(36,301)	(1,560,449)	(551,512)
Profit for the year	–	–	–	–	20,651	20,651
Exchange differences arising on translation	–	–	–	(7,528)	–	(7,528)
Recognition of equity-settled share-based payments	–	460	–	–	–	460
Issue of ordinary shares upon exercise of share options	1,015	(411)	–	–	–	604
Release on settlement of loan from a related company	–	–	–	4,663	(4,663)	–
Repurchase of convertible bonds	–	–	(210,401)	17,995	192,406	–
Issue of new shares	102,494	–	–	–	–	102,494
Transactions costs attributable to issue of new shares	(1,505)	–	–	–	–	(1,505)
Conversion of convertible bonds	380,804	–	(192,646)	9,374	(9,374)	188,158
Release on maturity of convertible bonds	–	–	(242,445)	11,797	230,648	–
At 31 December 2012	851,771	30,832	–	–	(1,130,781)	(248,178)

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

In the opinion of the directors, the Company had no reserves available for distribution as at 31 December 2012 and 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

33. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of amount due to immediate holding company, loan from a related company and convertible bonds disclosed in notes 27, 28 and 29, respectively, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital and reserves.

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

34. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2012	2011
	HK$'000	*HK$'000*
Financial assets		
Loans and receivables (including cash and cash equivalents)	**94,865**	114,476
Available-for-sale financial asset	**–**	138,102
Financial liabilities		
Amortised cost	**302,213**	888,998

(b) Financial risk management objectives and policies

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

34. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to amount due to immediate holding company (note 27), loan from a related company (note 28) and convertible bonds issued by the Company (note 29). The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances (note 25). The directors of the Company consider the Group's bank balances to cash flow interest rate risk is not significant as interest bearing bank balances are within short periods.

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

No sensitivity analysis is presented as the level of exposure to cash flow interest rate risk is not significant.

Foreign currency risk

The Group's exposure to foreign currency risk related primarily to cash and cash equivalents, amounts due from (to) related companies, amount due from (to) an associate, amount due to immediate holding company, amount due to a shareholder of a jointly controlled entity, other payables, convertible bonds and loan from a related company that are denominated in currencies other than the functional currency of the relevant group entities.

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

	Assets		**Liabilities**	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
HK$	**24,904**	18,026	**247,766**	822,182
USD	**–**	634	**5,944**	5,944

Sensitivity analysis

If RMB had strengthened by 5% against HK$, profit for the year ended 31 December 2012 would have been increased by HK$9,553,000 (2011: loss for the year decreased by HK$40,203,000). If RMB had strengthened by 5% against USD, profit for the year ended 31 December 2012 would have been increased by HK$297,000 (2011: loss for the year decreased by HK$266,000). For a 5% weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit or loss for both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

34. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk

At 31 December 2012, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to perform an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has concentration of credit risk as 100% (2011: 93%) of the Group's trade receivables are due from the Group's five largest customers which operate in the PRC. The principal activities of which are mainly including trading of lottery terminals and distribution of lottery products. In respect of one of these customers, the Group has recognised an allowance during the year (see note 22). In respect of the remaining four of the five largest customers, given the close business relationship between the Group and these customers and their good repayment history, the directors consider that the credit risk associated with the balances of the customers are low.

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

Other than concentration of credit risk on trade receivables and liquid funds which are deposits with several banks with good reputation, the Group does not have any other significant concentration of credit risk.

Liquidity risk

The Group is exposed to liquidity risk of being unable to finance its future working capital and financial requirements when they fall due. The net liabilities and net current liabilities of the Group as at 31 December 2012 was HK$220,957,000 (2011: HK$590,505,000) and HK$227,239,000 (2011: HK$571,342,000), respectively. In view of this, the directors of the Company have given careful consideration to the future liquidity of the Group and details of which are set out in note 2.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

34. FINANCIAL INSTRUMENTS *(Continued)*

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

Liquidity risk (Continued)

	Weighted average interest rate %	Less than 3 months or on demand HK$'000	3 months to 1 year HK$'000	1 – 5 years HK$'000	Total undiscounted cash flow HK$'000	Carrying amount at 31.12.2012 HK$'000
2012						
Non-derivative financial liabilities						
Trade and other payables	–	58,222	–	–	58,222	58,222
Amount due to immediate holding company	–	241,277	–	–	241,277	241,277
Amount due to a related company	–	190	–	–	190	190
Amount due to a shareholder of a jointly controlled entity	–	2,334	–	–	2,334	2,334
Amount due to an associate	–	190	–	–	190	190
Total		302,213	–	–	302,213	302,213

	Weighted average interest rate %	Less than 3 months or on demand HK$'000	3 months to 1 year HK$'000	1 – 5 years HK$'000	Total undiscounted cash flow HK$'000	Carrying amount at 31.12.2011 HK$'000
2011						
Non-derivative financial liabilities						
Trade and other payables	–	66,816	–	–	66,816	66,816
Amount due to a related company	–	9,006	–	–	9,006	9,006
Amount due to a shareholder of a jointly controlled entity	–	2,334	–	–	2,334	2,334
Amount due to an associate	–	3,074	–	–	3,074	3,074
Convertible bonds	0.10	–	607,380	277,452	884,832	727,768
Loan from a related company	1.00	–	80,400	–	80,400	80,000
Total		81,230	687,780	277,452	1,046,462	888,998

As disclosed in note 28, loan from a related company had been further extended the repayment date to 14 July 2013 in February 2012 and the amount had been fully settled by the issue of new shares of the Company upon completion of the Open Offer in November 2012.

(c) Fair value

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

35. ACQUISITION OF A SUBSIDIARY

BTI passed a board resolution for Articles Amendments on 27 July 2011. Prior to this Articles Amendments, the Group, through two indirectly non-wholly owned subsidiaries, owned 51% equity interests in BTI, which was jointly controlled with other significant shareholders. Upon the implementation of the Articles Amendments, the Group is able to control and govern the financial and operating policies of BTI and BTI became a subsidiary of the Company. However, the Group's equity interest in BTI remains to be 51%. In the opinion of the directors, the carrying amounts of the net assets of BTI on the date of acquisition approximated to the fair values of the respective assets and liabilities and accordingly, no re-measurement of their fair values was performed on the acquisition date. In addition, the carrying value of 51% of BTI as a jointly controlled entity of the Group at the date of obtaining control amounted to HK$14,882,000, which approximated the fair value of the 51% equity interest of BTI as at that date.

BTI is principally engaged in distribution of lottery terminals.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

35. ACQUISITION OF A SUBSIDIARY *(Continued)*

Non-controlling interest

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

Cash inflow arising on acquisition of BTI

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

36. RETIREMENT BENEFITS PLAN

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

In addition, the Group operates a MPF Scheme for its qualifying employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes at the lower of HK$1,000 (increase to HK$1,250 since 1 June 2012) or 5% of relevant payroll costs monthly to the MPF Scheme, which contribution is matched by employees.

The total cost charged to the profit or loss of HK$1,504,000 (2011: HK$1,547,000) represents contributions paid and payable to the above schemes by the Group in respect of the current accounting period. As at 31 December 2012, all contributions in respect of the reporting period had been paid to the above schemes.

37. PLEDGE OF ASSETS

As at 31 December 2011, the Company had pledged some of the shares of its subsidiaries to secure the convertible bonds issued by the Company. The pledge has been released upon repurchase, conversion and maturity of the convertible bonds in 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

38. OPERATING LEASES

The Group as lessee

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

	2012 HK$'000	2011 HK$'000
Within one year	**1,112**	3,822
In the second to fifth year inclusive	**–**	4,191
	1,112	8,013

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

39. RELATED PARTY DISCLOSURES

(a) Other than as disclosed in notes 9, 29 and 30, the Group had the following transactions with related parties during the year:

Class of related parties	Nature of transactions	2012 HK$'000	2011 HK$'000
Substantial shareholders of the Company	Purchase of property, plant and equipment	**–**	6,912
	Interest expense paid for convertible bonds	**–**	884
Jointly controlled entity (Note)	Sales of lottery terminals	**–**	25,648
Associate	Consultancy fee income	**600**	600
Non-controlling shareholder of a group entity	Service fee expense	**–**	3,003
Subsidiary of a 37.5% non-controlling shareholder of a group company (Note)	Sales of lottery terminals	**80,858**	57,682
Subsidiaries of substantial shareholders of the Company	Service fee expense	**64**	607
	Sales of lottery terminals	**1,738**	102
	Purchases of inventories	**38,471**	59,295
A company beneficially owned by substantial shareholders	Interest expense	**695**	800
Immediate holding company	Interest expense	**356**	–
A company in which a director of the Company as controlling interest	Interest income	**–**	122

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

39. RELATED PARTY DISCLOSURES *(Continued)*

(a) *(Continued)*

Note: Sales to the jointly controlled entity in 2011 represented sales to BTI. Upon obtaining the control of BTI during 2011 as disclosed in note 35, BTI became a subsidiary of the Group and accordingly, the revenue of the Group after obtaining the control was generated from customers of BTI, which included a subsidiary of a 37.5% non-controlling shareholder of BTI.

(b) Compensation of key management personnel

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

	2012	2011
	HK$'000	*HK$'000*
Short-term benefits	**5,820**	6,483
Post-employment benefits	**62**	60
Share-based payments	**193**	1,760
	6,075	8,303

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

(c) Details of the share options granted to the directors are set out in note 31.

(d) The Group's outstanding balances with related parties are set out in the consolidated statement of financial position and in notes 23, 24, 27, 28 and 29.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

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

Name of the company	Place of incorporation or establishment and operations	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company 2012 Directly	2012 Indirectly	2011 Directly	2011 Indirectly	Principal activities
Rising Move	British Virgin Islands	USD100	**100%**	-	100%	-	Investment holding
Precious Success^	British Virgin Islands	USD200	-	**51%**	-	100%	Investment holding
PAL Development^	Hong Kong	HK$250,000,000	-	**51%**	-	100%	Investment holding
Global Score Asia Limited	British Virgin Islands	USD20,000	-	**100%**	-	100%	Investment holding
Trade Express Services Inc.	British Virgin Islands	USD20,000	-	**80%**	-	80%	Investment holding
寶加(北京)信息技術有限公司^	PRC#	HK$150,000,000	-	**51%**	-	100%	Provision of management services for distribution of lottery products
北京華盈風彩科技有限公司^	PRC##	RMB18,000,000	-	**51%**	-	100%	Provision of management services for distribution of lottery products
開創紀元^	PRC##	RMB10,000,000	-	**33%**	-	65%	Provision of management services for distribution of lottery products
Oasis RichΔ	Republic of Mauritius	USD700,000	-	-	-	60%	Investment holding
伍盛計算機科技(上海)有限公司Δ	PRC#	USD700,000	-	-	-	100%	Manufacturing and sales of lottery terminals and POS machines
KTeMS Co. LimitedΔ	South Korea	KRW50,000,000	-	-	-	100%	Management of lottery business
BTI	PRC#	RMB10,000,000	-	**51%**	-	51%	Distribution of lottery terminals

\# These are wholly foreign owned enterprises established in the PRC.
\## These are private limited liability companies established in the PRC.
Δ Subsidiaries disposed of during the year (note 9).
^ Partial interest of the subsidiaries were disposed of during the year (note 9). Subsequent to the Intralot Disposal, the Group owns 51% equity interest of Precious Success which in turn owns 65% equity interest of 開創紀元.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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41. MAJOR NON-CASH TRANSACTIONS

On 26 June 2012, the Group entered into agreements with Intralot and GCH, a substantial shareholder of the Company and a non-controlling shareholder of Oasis Rich respectively, in relation to the disposals of the entire 100% equity interest of Gain Advance, 49% equity interest of Precious Success and entire 60% equity interest of Oasis Rich to set off the consideration in repurchase of the Intralot 2013 Convertible Bonds and GCH 2012 Convertible Bonds. The transactions were completed on 13 November 2012.

On 12 November 2012, the Group issued 1,507,267,099 new ordinary shares as a result of the Open Offer at the price of HK$0.078 per share on the basis of three new shares for every existing share, out of which 1,145,361,487 shares were taken up by Power Way and the subscription price paid by Power Way had been set off against the outstanding principal and accrued interest of the Power Way Loan.

On 13 December 2012, all of the outstanding 2012 Convertible Bonds with principal of HK$240,505,732 were matured and such amount together with relevant interest payable remained unpaid to Melco LV and was transferred to amount due to immediate holding company.

42. EVENT AFTER THE REPORTING PERIOD

On 13 March 2013, the Company entered into an agreement with Melco LV to restructure the amount due to immediate holding company with a principal amount of HK$240,505,732 as a shareholder loan. The amount is restructured to become unsecured, interest bearing at 3% per annum, and subject to Melco LV's overriding right to demand immediate repayment, repayable on 30 September 2013 and such repayment date can be automatically further extended to 30 March 2014 unless Melco LV gives a notice objecting such extension.

FINANCIAL SUMMARY

	Year ended 31 December				
	2008	2009	2010	2011	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
RESULTS					
Revenue					
– Continuing operations	180,716	86,110	80,608	96,622	**86,940**
– Discontinued operations	426,300	240,319	–	–	**–**
	607,016	326,429	80,608	96,622	**86,940**
(Loss)/profit for the year attributable to owners of the Company					
– Continuing operations	(434,656)	(346,562)	(160,908)	(209,219)	**78,981**
– Discontinued operations	(7,485)	(41,457)	–	–	**–**
	(442,141)	(388,019)	(160,908)	(209,219)	**78,981**

	As at 31 December				
	2008	2009	2010	2011	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
ASSETS AND LIABILITIES					
Total assets	1,045,825	508,769	442,281	304,521	**102,250**
Total liabilities	(856,086)	(709,951)	(807,562)	(895,026)	**(323,207)**
	189,739	(201,182)	(365,281)	(590,505)	**(220,957)**
Equity (deficiency of equity) attributable to owners of the Company	159,515	(222,065)	(375,134)	(615,405)	**(232,864)**
Non-controlling interests	30,224	20,883	9,853	24,900	**11,907**
	189,739	(201,182)	(365,281)	(590,505)	**(220,957)**