新濠環彩
MelcoLot

Annual Report 2013

MelcoLot Limited

(Incorporated in the Cayman Islands with limited liability)
A Hong Kong Listed Company (Stock Code: 8198)

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Ko Chun Fung, Henry
(Chief Executive Officer)
Mr. Tsang Yuen Wai, Samuel
(appointed on 2 July 2013)
Mr. Tam Chi Wai, Dennis
(appointed on 2 July 2013)

Non-executive Directors

Mr. Tsui Che Yin, Frank ***(Chairman)***
(appointed on 2 July 2013)
Mr. Chan Sek Keung, Ringo
(resigned on 2 July 2013)
Mr. Wang, John Peter Ben
(resigned on 2 December 2013)

Independent Non-executive Directors

Mr. Tsoi, David
Mr. Pang Hing Chung, Alfred
Ms. Chan Po Yi, Patsy
(appointed on 13 November 2013)
Mr. So Lie Mo, Raymond
(resigned on 13 November 2013)

AUDIT COMMITTEE

Mr. Tsoi, David ***(Chairman)***
Mr. Tsui Che Yin, Frank
Mr. Pang Hing Chung, Alfred
Ms. Chan Po Yi, Patsy

REMUNERATION COMMITTEE

Mr. Tsoi, David ***(Chairman)***
Mr. Tam Chi Wai, Dennis
Ms. Chan Po Yi, Patsy

NOMINATION COMMITTEE

Ms. Chan Po Yi, Patsy ***(Chairman)***
Mr. Ko Chun Fung, Henry
Mr. Tsoi, David
Mr. Pang Hing Chung, Alfred

COMPLIANCE OFFICER

Mr. Ko Chun Fung, Henry

COMPANY SECRETARY

Ms. Chan Yuen Mei, Claudia

AUTHORISED REPRESENTATIVES

Mr. Ko Chun Fung, Henry
Mr. Tam Chi Wai, Dennis

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

Room 3701, 37th Floor
The Centrium
60 Wyndham Street
Central
Hong Kong

PRINCIPAL SHARE 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

CHAIRMAN'S STATEMENT

TO OUR SHAREHOLDERS

On behalf of the board of directors (the "Board") of MelcoLot Limited (the "Company"), I hereby present the results of the Company and its subsidiaries (collectively referred as the "Group") for the year ended 31 December 2013.

During the year, the loss attributable to shareholders amounted to HK$17.1 million compared with a profit of HK$79.0 million in 2012, of which profit was mainly the result of a one-off gain on restructuring amounting to HK$226.8 million.

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

Following completion of the repurchase of the convertible bonds in November 2012, finance costs for the year under review were significantly reduced. The Group rationalized retail operation in the People's Republic of China (the "PRC") and imposed tight cost control measures on expenses during the year. These strategies improved the Group's financial performance and strengthened its financial position.

The Group is a prominent supplier of high quality lottery terminals for the China Sports Lottery Association (the "CSLA"). During the year, the Company was impacted by the delay of CSLA's new procurement cycle. The CSLA had completed the evaluation process for new terminals in the fourth quarter of 2012. However, terminal upgrade process of the sports lottery was slower than expected and consequently, the Group needed to adopt a low margin strategy to maintain market share, impacting profitability.

During the year, the Group made developmental efforts in the paperless distribution of lottery products and services. In addition, steady progress was made in developing the multimedia content distribution channel for the "Shi Shi Cai" (時時彩) game in Chongqing and in enhancing paperless platforms in Shandong.

As the lottery markets are increasingly being regulated by the government, the Group will focus on actively pursuing projects in the PRC in which it has competitive advantage by virtue of access to industry leading lottery services and solutions.

Since 2012, the Company became a non wholly-owned subsidiary of Melco International Development Limited ("Melco"), a company listed on the Main Board of the Hong Kong Stock Exchange. We will leverage on Melco's expertise in gaming and entertainment fields as well as its extensive relationship network to execute our 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.

Tsui Che Yin, Frank
Chairman and Non-executive Director

Hong Kong, 26 March 2014

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is engaged in the provision of lottery-related technologies, systems and solutions for two state-run lottery operators in the PRC, namely the China Welfare Lottery and the China Sports Lottery. The Group has developed a wide presence by managing a network of retail outlets across the PRC, a telephone betting system in Shandong Province for the distribution of computer-generated lottery tickets and lottery scratch cards, as well as providing the maintenance and upgrade services for the high frequency game, "Shi Shi Cai" (時時彩), in Chongqing Municipality. The Group is also a distributor of high quality, versatile lottery terminals for the Sports Lottery.

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 HK$54.6 million, decreased by 37.2% (2012: HK$86.9 million) and comprising of:

(1) Sales of lottery terminals

Revenues generated from the sales of lottery terminals for the Sports Lottery amounted to HK$49.4 million for the year 2013, representing a decrease of 40.2% (2012: HK$82.6 million). After the new terminal type approval by the Sports Lottery in early 2013, the terminal replacement cycle has been slower than we expected.

(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 2013 amounted to HK$5.2 million, increased by 18.9% compared with HK$4.3 million in 2012. The increase was in line with the overall growth rate of the lottery market in China.

Operating results

The Group recorded a loss of HK$13.0 million for the year ended 31 December 2013 against a profit of HK$70.5 million for the year 2012, which was mainly attributable to the combined effect of:

(i) the absence of a non-operational gain on group restructuring of HK$ 226.8 million as recorded in the year ended 31 December 2012 (details of which were disclosed in the announcement of the Company dated 3 May 2013);

(ii) the decrease in revenue of the Group for the year ended 31 December 2013 and the decrease in gross margin of the Group from 16.8% in 2012 to 15.5% in 2013;

(iii) the significant decrease in other administrative expenses from HK$21.7 million in 2012 to HK$7.9 million in 2013 mainly due to the absence of professional fees for the group restructuring in 2012;

(iv) the significant decrease in finance costs from HK$93.0 million in 2012 to HK$7.2 million in 2013 due to the extinguishment of all outstanding convertible bonds in late 2012; and

(v) the decrease in impairment losses on trade and other receivables and property, plant and equipment in 2012 from HK$22.2 million to HK$0.7 million in 2013.

The Group also shared losses of associates, engaged in development of paperless lottery sale channels, amounting to HK$0.3 million (2012: HK$2.6 million).

In 2012, capital gain tax of HK$20.9 million arising from the disposal of subsidiaries under the group restructuring had been provided pursuant to the relevant tax laws in the PRC.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group continues to manage its balance sheet carefully and maintains conservative policies in cash and financial management. As at 31 December 2013, the Group's bank balances and cash amounted to HK$56.2 million, representing an increase of HK$27.1 million from last year (2012: HK$29.1 million). 87% of cash and cash equivalents at 31 December 2013 was denominated in Hong Kong dollar (2012: 84%), with the remaining balance in Renminbi. The increase was mainly due to net cash of HK$38.1 million generated from financing activities in 2013, which was mainly attributable to the proceeds from exercise of share options during the year. In respect of the share options exercised, the Company issued 119,476,218 new shares during the year and the share capital of the Company has increased to HK$24.1 million (2012: HK$22.9 million). In 2012, net cash generated from financing activities amounted to HK$27.4 million, which was mainly attributable to proceeds from issue of new shares.

The Group did not have any bank borrowings in 2013 (2012: Nil) and generally financed its operations with internal resources and the amount due to immediate holding company, Melco LottVentures Holdings Limited ("Melco LV") which is a wholly-owned subsidiary of Melco International Development Limited, a company listed on the Main Board of the Hong Kong Stock Exchange. The principal amount due to immediate holding company is approximately HK$240,506,000, which amount is unsecured and bearing interest at 3% per annum. Subject to the overriding right to demand immediate repayment by Melco LV, the repayment date has been automatically extended from 30 September 2013 to 30 March 2014.

In March 2014, the Company entered into a supplementary loan agreement with Melco LV to further extend the loan repayment date to 30 March 2015, which is subject to Melco LV's overriding right to demand immediate repayment.

The Group has current liabilities which exceed current assets by HK$204.5 million as at 31 December 2013 (2012: HK$227.2 million). 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 2015, 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. The Company may also consider carrying out possible fund raising exercise to repay the loan.

MANAGEMENT DISCUSSION AND ANALYSIS

OUTLOOK

According to the data from the Ministry of Finance, lottery sales in China amounted to RMB309.3 billion for the year 2013, representing an increase of 18.3%. Regardless of the fact that the lottery industry continues to show strong year-on-year growth as a whole, there is still enormous potential for future growth in China's lottery market. This situation is backed by the rising disposable income in China, together with the low lottery penetration rate and low sales rates compared to other more developed nations in per capita terms. Just a few years ago, China's lottery market consisted largely of traditional paper lotto tickets. Now, single match games, rapid-draw games, video lottery terminals and scratch games are also very common. In particular, paperless lottery sales channels such as mobile and internet are gaining momentum.

Integrity is the most critical foundation in the gaming industry. While the Ministry of Finance has expressed concern about the need to better monitor these new channels and implemented new regulations to govern them in conjunction with the welfare and sports lottery authorities, the operation of online sports lottery sales services has been approved under a pilot phase. It is believed that the authorities want to consolidate the lottery market, to replace thousands of private lottery operators by a handful of licensed and regulated firms, making it easier to control and regulate. These developments are anticipated to aid the planned development of the industry. We believe the China lottery market will continue to grow very quickly and the government regulatory regime will become more open and transparent.

Our Company is carefully monitoring the situation to identify opportunities that could be capitalized upon. The Group aims to leverage its access to the world-class expertise of its strategic shareholders and is increasing its focus on new media technologies and sales platforms in order to capture this growing market development. At the same time, we continue to evaluate other business opportunities for development that could support our goal of maximizing long-term value for shareholders.

CHARGES ON GROUP ASSETS

None of the Group's assets were pledged as of 31 December 2013 and 2012.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

As at 31 December 2013, all assets and liabilities of the Group were denominated in Hong Kong dollar, Renminbi and United States dollar ("USD"). For the year ended 31 December 2013, the business activities of the Group were mainly denominated in Hong Kong dollar and Renminbi. Since the impact of foreign exchange exposure has been insignificant, no hedging or other alternatives have been implemented.

STAFF AND REMUNERATION POLICY

As at 31 December 2013, the Group had a total of 35 full-time employees (2012: 79). For the year ended 31 December 2013, the Directors received emoluments of approximately HK$8.5 million (2012: HK$3.1 million) and other staff costs of the Group were approximately HK$10.4 million (2012: HK$12.0 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 2013, 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

EXECUTIVE DIRECTORS

Mr. Ko Chun Fung, Henry, aged 54, is the Chief Executive Officer ("CEO") and Executive Director of the Company. He is also a member of the nomination committee of the Company and a director of certain subsidiaries of the Company. Mr. Ko was appointed as a Director of the Company 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 chief executive officer 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 chief executive officer 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 degree.

Mr. Tsang Yuen Wai, Samuel, aged 59, has been an Executive Director of the Company since 2 July 2013.

Mr. Tsang is Group Legal Counsel and Company Secretary of Melco International Development Limited ("Melco"), a company listed on the Hong Kong Stock Exchange and the parent company of the Company. In that capacity, Mr. Tsang oversees the legal, corporate and compliance matters of Melco Group. Mr. Tsang has worked as a lawyer with major law firms and listed conglomerates in Hong Kong for over 20 years. He holds a master of laws degree from University of Hong Kong and a master of business administration degree from the Australian Graduate School of Management. Mr. Tsang is currently a director of Entertainment Gaming Asia Inc., a company listed on the NASDAQ Capital Market in the United States, and Alpha Peak Leisure Inc., a company listed on the TSX Venture Exchange of Canada.

Mr. Tam Chi Wai, Dennis, aged 44, has been an Executive Director of the Company since 2 July 2013. He is also a member of the remuneration committee of the Company and a director of certain subsidiaries of the Company. Mr. Tam oversees the strategic investment, financial control, treasury and corporate finance of the Group.

Mr. Tam is currently the Group Finance Director and Head of Human Resources and Administration of Melco, a company listed on the Hong Kong Stock Exchange and the parent company of the Company. He is also a director of Alpha Peak Leisure Inc., a company listed on the TSX Venture Exchange of Canada. Mr. Tam has more than 15 years of experience in accounting, financial control, corporate finance and mergers & acquisitions. Prior to joining Melco, Mr. Tam held senior management positions at various listed local and multinational companies.

BIOGRAPHICAL DETAILS OF DIRECTORS

Mr. Tam obtained his Master degree in Accounting from Monash University in Australia and completed his PhD program at Washington Intercontinental University in the United States. He was also trained at Harvard Business School in Cambridge, the United States. He holds the Honorary Vice Chairman for Greater China of the Institute of Certified Management Accountants, a fellow member of the Financial Services Institute of Australasia, a member of the Institute of Public Accountants, a member of CPA Australia, a member of the Institute of Administrative Management in United Kingdom and Advisor of General Education Development Committee in Peking University Shenzhen Graduate School. Mr. Tam is a former member of Chinese People's Political Consultative Conference, Nan Kang City, Jiang Xi Province. He is also a member of the Standing Committee of "The Economic Observer Weekly", run by the Market Economy Institute of the Development Center of China's State Council.

NON-EXECUTIVE DIRECTOR

Mr. Tsui Che Yin, Frank, aged 56, has been the Chairman and Non-executive Director of the Company since 2 July 2013. He is also a member of the audit committee of the Company and a director of certain subsidiaries of the Company.

Mr. Tsui is currently an executive director of Melco, a company listed on the Hong Kong Stock Exchange and the parent company of the Company. He is also a director of Mountain China Resorts (Holding) Limited, a company listed on the TSX Venture Exchange of Canada, an independent non-executive director of Jinhui Holdings Company Limited, a company listed on the Hong Kong Stock Exchange, and a non-executive director of Jinhui Shipping and Transportation Limited, a company listed on the Oslo Stock Exchange. Mr. Tsui has more than 30 years of experience in investment and banking, having held senior management positions at various international financial institutions. Prior to joining Melco, Mr. Tsui was the President of China Assets Investment Management Limited which is the investment manager of China Assets (Holdings) Limited, a listed investment holding company in Hong Kong.

Mr. Tsui graduated with a bachelor's and a master's degree in business administration from the Chinese University of Hong Kong and with a law degree from the University of London. He is a member of the Certified General Accountants Association of Canada and the Hong Kong Securities Institute.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Tsoi, David, aged 66, has been an Independent Non-executive Director of the Company since October 2001. He is also the chairman of both the audit committee and the remuneration committee and a member of the nomination committee of the Company.

Being 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 an independent non-executive director of CSR Corporation Limited, Enviro Energy International Holdings Limited and Universal Technologies Holdings Limited, all of which are companies listed on the Hong Kong Stock Exchange.

BIOGRAPHICAL DETAILS OF DIRECTORS

Mr. Pang Hing Chung, Alfred, aged 52, has been an Independent Non-executive Director of the Company since March 1999. He is also a member of both the audit committee and the nomination committee of the Company.

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

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

Ms. Chan Po Yi, Patsy, aged 49, has been an Independent Non-executive Director of the Company since 13 November 2013. She is also the chairman of the nomination committee and a member of the audit committee and the remuneration committee of the Company.

Ms. Chan is currently the chief operating officer of Richemont Asia Pacific Limited, Hong Kong and Macau. She has been working with Richemont Luxury Group, one of the world leading luxury goods groups, for over 10 years. With more than 20 years of experience in several prestigious multinational corporations, Ms. Chan leads the company in maximizing operational efficiency and cost effectiveness with knowledge in risk management and corporate governance as well as in-depth perception in strategic planning and performance measurement development. Prior to joining Richemont Luxury Group, she held various management positions in Piaget, Marsh & McLennan and other multinational companies.

Ms. Chan holds a Bachelor's degree of Commerce in Accounting from University of New South Wales in Sydney, Australia and participated in the Luxury Brand Management Executive Program at ESSEC Business School. She is a member of CPA Australia, a member of Institute of Certified Management Accountants and a member of the Institute of Public Accountants, Australia.

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 Corporate Governance Code (the "CG Code") contained in Appendix 15 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"). 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 year of 2013, the Company has complied with all the Code Provisions of the CG Code. 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.

SECURITIES TRANSACTIONS OF DIRECTORS AND RELEVANT EMPLOYEES

The Company has adopted a code of conduct regarding Directors' securities transactions on terms set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry, all Directors have confirmed that they have complied with the required standard of dealings and the Company's code of conduct regarding Directors' securities transactions throughout the year ended 31 December 2013.

The Board has also established written guidelines for the relevant employees of the Company to regulate their dealings in the securities of the Company.

BOARD OF DIRECTORS

Board Composition

The composition of the Board reflects the necessary balance of skills and experience desirable for the effective leadership of the Company. The Board currently comprises a total of seven Directors, being three Executive Directors, one Non-executive Director and three Independent Non-executive Directors. The number of Independent Non-executive Directors represents more than one-third of the Board and at least one of whom has appropriate professional qualifications, or accounting or related financial management expertise as required by the GEM Listing Rules.

The biographical details of the Directors are set out on pages 9 to 11 of this annual report.

The Board members were 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. Tsang Yuen Wai, Samuel (appointed on 2 July 2013)
Mr. Tam Chi Wai, Dennis (appointed on 2 July 2013)

Non-executive Directors:

Mr. Tsui Che Yin, Frank ***(Chairman)*** (appointed on 2 July 2013)
Mr. Chan Sek Keung, Ringo (resigned on 2 July 2013)
Mr. Wang, John Peter Ben (resigned on 2 December 2013)

Independent Non-executive Directors:

Mr. Tsoi, David
Mr. Pang Hing Chung, Alfred
Ms. Chan Po Yi, Patsy (appointed on 13 November 2013)
Mr. So Lie Mo, Raymond (resigned on 13 November 2013)

The Company has received from each of the Independent Non-executive Director an annual confirmation of his independence. 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.

All Directors entered into formal letters of appointment with the Company which set out the key terms and conditions of their appointments. Each Non-executive Director and Independent Non-executive Director was appointed for a term of two years. The Company's Articles of Association (the "Articles") provides 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 by rotation at least once every three years. This year, Mr. Tsoi, David will retire and he has offered himself for re-election at the forthcoming annual general meeting.

In addition, 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 (in the case of filling a casual vacancy) or until the next following annual general meeting (in the case of an addition to the Board) after their appointment, and shall be subject to re-election by shareholders of the Company pursuant to the Articles. During the year, the Board approved the appointment of Mr. Tsui Che Yin, Frank, Mr. Tsang Yuen Wai, Samuel and Mr. Tam Chi Wai, Dennis as Directors with effect from 2 July 2013 and the appointment of Ms. Chan Po Yi, Patsy as Director with effect from 13 November 2013. In accordance with the Articles, such directors will retire at the forthcoming general meeting, and they are eligible to offer themselves for re-election.

Among the retiring Directors, Mr. David Tsoi, Independent Non-executive Director, has served the Board for 13 years. The Board has received written confirmation from Mr. Tsoi regarding his independence in accordance with the GEM Listing Rules. In view of this and in view of the fact that Mr. Tsoi is a very seasoned and experienced director and professional, the Board considers Mr. Tsoi has the necessary character, integrity and experience to remain independent notwithstanding his long length of service and will continue to bring invaluable independent advice and perspectives to the Company and its business. The Board therefore recommends Mr. Tsoi be re-elected as Independent Non-executive Director of the Company at the AGM.

The biographical details of the retiring directors have been set out in a circular to assist shareholders to make an informed decision on their re-elections.

CORPORATE GOVERNANCE REPORT

Board 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 either participated in person or through electronic means of communication. At least 14 days' notice of all board meetings was given to all Directors, who were given an opportunity to include matters in the agenda for discussion. The Chairman meets at least annually with the Non-executive Directors without the presence of the Executive Directors.

Supply of and Access to Information

Agenda and accompanying board papers were circulated with sufficient time to allow Directors to prepare before meetings and keep the Directors apprised of the latest developments and financial position of the Company. All Directors 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.

Draft and final versions of minutes of Board meetings have been circulated to all Directors for comment 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, nine Board meetings and an annual general meeting were held with details of the Directors' attendance presented below:

	Attendance (rate)	
Name of director	**Board Meeting**	**Annual General Meeting**
Executive Directors		
Mr. Ko Chun Fung, Henry	9 (100%)	1 (100%)
Mr. Tsang Yuen Wai, Samuel	6 (100%)*	N/A
Mr. Tam Chi Wai, Dennis	6 (100%)*	N/A
Non-executive Directors		
Mr. Tsui Che Yin, Frank	6 (100%)*	N/A
Mr. Chan Sek Keung, Ringo	3 (100%)*	1 (100%)
Mr. Wang, John Peter Ben	8 (89%)*	0 (0%)
Independent Non-executive Directors		
Mr. Tsoi, David	9 (100%)	1 (100%)
Mr. Pang Hing Chung, Alfred	9 (100%)	1 (100%)
Ms. Chan Po Yi, Patsy	1 (100%)*	N/A
Mr. So Lie Mo, Raymond	8 (100%)*	0 (0%)

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

Responsibilities of Directors

Each newly appointed Director was provided with necessary induction and information to ensure that he/she has a proper understanding of the Company's operations and businesses as well as his/her responsibilities and obligations under relevant statues, laws, rules and regulations.

The Directors are committed to comply with the Code Provision A.6.5 of the CG Code. All Directors have participated in continuous professional development either by reading materials or by attending seminars to develop and refresh their knowledge and skills. There are also arrangements in place for providing continuing professional development to Directors at the Company's expense whenever necessary. All Directors have provided 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. The insurance coverage is reviewed on an annual basis. In 2013, no claims under the insurance policy were made.

Board Diversity Policy

The Board adopted a board diversity policy on 8 August 2013. The Company seeks to achieve board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of services. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

The Nomination Committee will review this policy on a regular basis to ensure its continued effectiveness.

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. Tsui Che Yin, Frank, Non-executive Director, is the Chairman of the Board. He ensures that all Directors were properly briefed on issues arising at board meetings and received adequate, complete and reliable information in a timely manner. Mr. Tsui provides leadership for the Board and ensures that good corporate governance practices and procedures are established. He encourages all Directors, including Independent Non-executive Directors, to actively contribute to the Board's affairs and ensures that the Board acts in the best interests of the Company. The Chairman also ensures that appropriate steps are taken to provide effective communication with shareholders and that their views are communicated to the Board as a whole.

Mr. Ko Chun Fung, Henry, Executive Director and Chief Executive Officer, is responsible for managing the Group's business, including implementation of major strategies set by the Board, making day-to-day decisions and coordinating overall business operations.

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 was established in 2002. 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 included the following members:

Mr. Tsoi, David ***(Chairman)***
Mr. Tsui Che Yin, Frank (appointed on 2 July 2013)
Mr. Pang Hing Chung, Alfred
Ms. Chan Po Yi, Patsy (appointed on 13 November 2013)
Mr. So Lie Mo, Raymond (resigned on 13 November 2013)

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. Tsui Che Yin, Frank	2 (100%)*
Mr. Pang Hing Chung, Alfred	4 (100%)
Ms. Chan Po Yi, Patsy	N/A
Mr. So Lie Mo, Raymond	4 (100%)

* Mr. Tsui Che Yin, Frank 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 his term of service.

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 and the continuing connected transactions. 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 was established in February 2004. 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 included the following members:

Mr. Tsoi, David ***(Chairman)***
Mr. Tam Chi Wai, Dennis (appointed on 2 July 2013)
Ms. Chan Po Yi, Patsy (appointed on 13 November 2013)
Mr. Chan Sek Keung, Ringo (resigned on 2 July 2013)
Mr. So Lie Mo, Raymond (resigned on 13 November 2013)

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

Remuneration Committee Members	Attendance (rate)
Mr. Tsoi, David	3 (100%)
Mr. Tam Chi Wai, Dennis	1 (100%)*
Ms. Chan Po Yi, Patsy	N/A
Mr. Chan Sek Keung, Ringo	2 (100%)*
Mr. So Lie Mo, Raymond	3 (100%)

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

During the year, the Remuneration Committee reviewed the remuneration package for 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 considered and approved the refreshment of the limit of the share options and the granting of the share options to the directors and a substantial shareholder under the Company's share option scheme and recommended it to the Board for approval.

Details of the remuneration of Directors and senior management for the year ended 31 December 2013 are set out in notes 12 and 33(b) to the consolidated financial statements. Details of the Company's share option scheme are set out in note 26 to the consolidated financial statements.

Nomination Committee

The Nomination Committee was established in March 2009. The terms of reference of the Nomination Committee which have been revised on 8 August 2013 to adopt the board diversity policy. 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, monitors the implementation of the board diversity policy, identifies the 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:

Ms. Chan Po Yi, Patsy ***(Chairman)*** (appointed on 13 November 2013)
Mr. Ko Chun Fung, Henry
Mr. Tsoi, David
Mr. Pang Hing Chung, Alfred
Mr. So Lie Mo, Raymond (resigned on 13 November 2013)

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

Nomination Committee Members	Attendance (rate)
Ms. Chan Po Yi, Patsy	1 (100%)*
Mr. Ko Chun Fung, Henry	4 (100%)
Mr. Tsoi, David	4 (100%)
Mr. Pang Hing Chung, Alfred	4 (100%)
Mr. So Lie Mo, Raymond	3 (100%)*

* These directors did not serve the Committee for the whole year under review. The number and rate of attendance represented the number of committee meetings they were 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 and recommended to the Board for approval, reviewed the annual confirmation of independence submitted by the Independent Non-executive Directors to assess their independence (including the review of independence of Mr. Pang Hing Chung, Alfred who has served the Board for more than nine years) and made recommendations to the Board with respect to the appointment, retirement and re-election of Directors.

CORPORATE GOVERNANCE FUNCTIONS

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

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. To ensure effective discharge of the Board's responsibilities, the management submits reports on the Company's operations to the Board on a regular basis. Directors have access to management and are welcome to request for explanations, briefings or discussions on the Company's operations or business issues.

AUDITOR'S REMUNERATION

At the annual general meeting of the Company held on 7 May 2013, 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$1,000,000 for the audit of the Group's accounts for the year ended 31 December 2013 (2012: HK$1,325,000).

The external auditor was refrained from engaging in non-audit services, except for the taxation services amounting to HK$143,000 for the year (2012: HK$1,395,000).

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 36 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.

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. The Board, through the Audit Committee, has conducted a review of the effectiveness of the Group's system of internal control for the year ended 31 December 2013. The review covered all material controls, including financial, operational and compliance controls and risk management system and consideration of adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function and their training programmes and budget.

COMPANY SECRETARY

The Company Secretary supports the Chairman, the Board and the Board Committees by ensuring good information flow and that Board policy and procedures are followed. All Directors have access to the advice and services of the Company Secretary. Ms. Claudia Chan was appointed as the Company Secretary of the Company on 18 October 2013. She reports to the Chief Executive Officer of the Company. During 2013, Ms. Chan has complied with the training requirement provided in Rule 5.15 of the GEM Listing Rules.

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.

INVESTOR RELATIONS

The Company has adopted a shareholders communication policy with the objective of ensuring 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.

CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2013, there was no change in the Company's constitutional documents.

DIRECTORS' REPORT

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2013.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of the Company's principal subsidiaries, associates and a joint venture are set out in notes 34, 17 and 18 respectively to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2013 are set out in the consolidated statement of profit or loss and other comprehensive income on page 38 of this annual report.

The Directors do not recommend the payment of a dividend.

FIVE-YEAR 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 114 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 25 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2013, no reserve was available for distribution to the owners of the Company (31 December 2012: Nil).

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. Tsang Yuen Wai, Samuel	(appointed on 2 July 2013)
Mr. Tam Chi Wai, Dennis	(appointed on 2 July 2013)

Non-executive Directors:

Mr. Tsui Che Yin, Frank	***(Chairman)*** (appointed on 2 July 2013)
Mr. Chan Sek Keung, Ringo	(resigned on 2 July 2013)
Mr. Wang, John Peter Ben	(resigned on 2 December 2013)

Independent Non-executive Directors:

Mr. Tsoi, David	
Mr. Pang Hing Chung, Alfred	
Ms. Chan Po Yi, Patsy	(appointed on 13 November 2013)
Mr. So Lie Mo, Raymond	(resigned on 13 November 2013)

In accordance with Article 86(3) of the Company's Articles of Association (the "Articles") and code provision A.4.2 of the Corporate Governance Code (the "CG Code") as set out in Appendix 15 of the GEM Listing Rules, Mr. Tsui Che Yin, Frank, Mr. Tsang Yuen Wai, Samuel, Mr. Tam Chi Wai, Dennis and Ms. Chan Po Yi, Patsy will retire at the forthcoming annual general meeting ("AGM") and, being eligible, offer themselves for re-election.

In accordance with Article 87 of the Articles and code provision A.4.2 of the CG Code as set out in Appendix 15 of the GEM Listing Rules, Mr. Tsoi, David will retire by rotation at the forthcoming AGM and, being eligible, offer himself for re-election.

A brief biographical details of directors are set out in the "Biographical Details of Directors" section on pages 9 to 11 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 2013, 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:

(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)
Mr. Tsoi, David	Beneficial owner	100,620	0.00%
Mr. Pang Hing Chung, Alfred	Beneficial owner	1,500,000	0.06%

(b) Share options granted by the Company

Name of Director	Capacity	Number of share options held	Number of underlying Shares	Approximate percentage of the issued share capital of the Company
				(Note)
Mr. Tsui Che Yin, Frank	Beneficial owner	6,000,000	6,000,000	0.25%
Mr. Ko Chun Fung, Henry	Beneficial owner	3,000,000	3,000,000	0.12%
Mr. Tsang Yuen Wai, Samuel	Beneficial owner	6,000,000	6,000,000	0.25%
Mr. Tam Chi Wai, Dennis	Beneficial owner	6,000,000	6,000,000	0.25%
Mr. Pang Hing Chung, Alfred	Beneficial owner	524,120	524,120	0.02%

Note:

As at 31 December 2013, the total number of the issued Shares was 2,408,041,487.

(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	Number of ordinary shares held	Approximate percentage of the issued share capital of Melco
	(Note 2)	*(Note 1)*
Mr. Tsui Che Yin, Frank	181,660	0.01%
Mr. Ko Chun Fung, Henry	420,000	0.03%
Mr. Tsang Yuen Wai, Samuel	259,162	0.02%
Mr. Tam Chi Wai, Dennis	35,554	0.00%
Ms. Chan Po Yi, Patsy	20,000	0.00%

(b) Share options granted by Melco

Name of Director	Number of underlying shares held pursuant to share options	Approximate percentage of the issued share capital of Melco
	(Notes 2 & 3)	*(Note 1)*
Mr. Tsui Che Yin, Frank	6,736,000	0.44%
Mr. Ko Chun Fung, Henry	474,000	0.03%
Mr. Tsang Yuen Wai, Samuel	4,241,000	0.28%
Mr. Tam Chi Wai, Dennis	5,378,668	0.35%

Notes:

(1) As at 31 December 2013, the total number of the issued shares of Melco was 1,536,380,567.

(2) This represents interests held by the relevant director as beneficial owner.

(3) Details of the 6,736,000 share options are as follows:

- 312,000 share options granted on 1 April 2008 at exercise price of HK$10.804 are divided into 3 tranches exercisable from 1 April 2009, 1 April 2010 and 1 April 2011 respectively to 31 March 2018

- 546,000 share options granted on 17 December 2008 at exercise price of HK$2.02 are divided into 6 tranches exercisable from 1 February 2009, 1 May 2009, 1 August 2009, 1 November 2009, 1 February 2010 and 1 May 2010 respectively to 16 December 2018

- 160,000 share options granted on 3 April 2009 at exercise price of HK$2.99 are divided into 3 tranches exercisable from 3 April 2010, 3 April 2011 and 3 April 2012 respectively to 2 April 2019

- 1,198,000 share options granted on 7 April 2010 at exercise price of HK$3.76 are divided into 6 tranches exercisable from 7 April 2010, 7 April 2011, 7 April 2012, 7 April 2013, 7 April 2014 and 7 April 2015 respectively to 6 April 2020

- 2,200,000 share options granted on 8 April 2011 at exercise price of HK$5.75 are divided into 4 tranches exercisable from 5 May 2011, 8 April 2012, 8 April 2013 and 8 April 2014 respectively to 7 April 2021

- 1,320,000 share options granted on 27 January 2012 at exercise price of HK$7.10 are divided into 4 tranches exercisable from 27 January 2012, 27 January 2013, 27 January 2014 and 27 January 2015 respectively to 26 January 2022

- 1,000,000 share options granted on 2 April 2013 at exercise price of HK$13.40 are divided into 4 tranches exercisable from 2 April 2013, 2 April 2014, 2 April 2015 and 2 April 2016 respectively to 1 April 2023

Details of the 474,000 share options are as follows:

- 450,000 share options granted on 13 February 2006 at exercise price of HK$11.80 are divided into 3 tranches exercisable from 1 April 2008, 1 April 2010 and 1 April 2012 respectively to 31 January 2016

- 24,000 share options granted on 1 April 2008 at exercise price of HK$10.804 are divided into 3 tranches exercisable from 1 April 2009, 1 April 2010 and 1 April 2011 respectively to 31 March 2018

Details of the 4,241,000 share options are as follows:

- 21,000 share options granted on 1 April 2008 at exercise price of HK$10.804 are exercisable from 1 April 2011 to 31 March 2018

- 250,000 share options granted on 7 April 2010 at exercise price of HK$3.76 are divided into 2 tranches exercisable from 7 April 2014 and 7 April 2015 respectively to 6 April 2020

- 1,650,000 share options granted on 8 April 2011 at exercise price of HK$5.75 are divided into 3 tranches exercisable from 8 April 2012, 8 April 2013 and 8 April 2014 respectively to 7 April 2021

- 1,320,000 share options granted on 27 January 2012 at exercise price of HK$7.10 are divided into 4 tranches exercisable from 27 January 2012, 27 January 2013, 27 January 2014 and 27 January 2015 respectively to 26 January 2022

- 1,000,000 share options granted on 2 April 2013 at exercise price of HK$13.40 are divided into 4 tranches exercisable from 2 April 2013, 2 April 2014, 2 April 2015 and 2 April 2016 respectively to 1 April 2023

Details of the 5,378,668 share options are as follows:

- 30,000 share options granted on 1 April 2008 at exercise price of HK$10.804 are divided into 3 tranches exercisable from 1 April 2009, 1 April 2010 and 1 April 2011 respectively to 31 March 2018

- 106,668 share options granted on 17 December 2008 at exercise price of HK$2.02 are divided into 4 tranches exercisable from 1 August 2009, 1 November 2009, 1 February 2010 and 1 May 2010 respectively to 16 December 2018

- 93,000 share options granted on 3 April 2009 at exercise price of HK$2.99 are divided into 3 tranches exercisable from 3 April 2010, 3 April 2011 and 3 April 2012 respectively to 2 April 2019

- 629,000 share options granted on 7 April 2010 at exercise price of HK$3.76 are divided into 6 tranches exercisable from 7 April 2010, 7 April 2011, 7 April 2012, 7 April 2013, 7 April 2014 and 7 April 2015 respectively to 6 April 2020

- 2,200,000 share options granted on 8 April 2011 at exercise price of HK$5.75 are divided into 4 tranches exercisable from 5 May 2011, 8 April 2012, 8 April 2013 and 8 April 2014 respectively to 7 April 2021

- 1,320,000 share options granted on 27 January 2012 at exercise price of HK$7.10 are divided into 4 tranches exercisable from 27 January 2012, 27 January 2013, 27 January 2014 and 27 January 2015 respectively to 26 January 2022

- 1,000,000 share options granted on 2 April 2013 at exercise price of HK$13.40 are divided into 4 tranches exercisable from 2 April 2013, 2 April 2014, 2 April 2015 and 2 April 2016 respectively to 1 April 2023

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 2013.

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 26 to the consolidated financial statements.

The share option scheme adopted at the general meeting of the Company on 20 April 2002 (the "Old Share Option Scheme") has expired on 20 April 2012. The share options granted thereunder prior to the expiry date of the Old Share Option Scheme will continue to be valid and exercisable in accordance with the terms of the Old Share Option Scheme.

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.

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

(a) Old Share Option Scheme

Type of participants	Date of grant	Exercisable period	Exercise price per share	Number of share options: Outstanding at 1.1.2013	Reclassified during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2013
			HK$					
Directors:								
Mr. Tsui Che Yin, Frank (appointed on 2 July 2013)	31.3.2008 *(Note 1)*	1.10.2008 to 31.3.2018	0.679	–	917,210	(917,210)	–	–
Mr. Ko Chun Fung, Henry	31.3.2008 *(Note 1)*	1.10.2008 to 31.3.2018	0.679	5,705,046	–	(5,705,046)	–	–
	10.7.2009 *(Note 2)*	10.7.2010 to 9.7.2019	0.280	5,241,200	–	(5,241,200)	–	–
	18.11.2010 *(Note 1)*	18.5.2011 to 17.11.2020	0.116	6,551,500	–	(6,551,500)	–	–
Mr. Tsang Yuen Wai, Samuel (appointed on 2 July 2013)	31.3.2008 *(Note 1)*	1.10.2008 to 31.3.2018	0.679	–	91,721	(91,721)	–	–
Mr. Tsoi, David	10.7.2009 *(Note 2)*	10.7.2010 to 9.7.2019	0.280	262,060	–	(262,060)	–	–
Mr. Pang Hing Chung, Alfred	10.7.2009 *(Note 2)*	10.7.2010 to 9.7.2019	0.280	262,060	–	–	–	262,060
	18.11.2010 *(Note 1)*	18.5.2011 to 17.11.2020	0.116	262,060	–	–	–	262,060
Mr. Chrysafidis, Evangelos (resigned on 13 November 2012)	18.11.2010 *(Note 1)*	18.5.2011 to 17.11.2020	0.116	1,310,300	–	(1,310,300)	–	–
Mr. Chan Sek Keung, Ringo (resigned on 2 July 2013)	20.2.2003 *(Note 3)*	20.2.2004 to 19.2.2013	0.105	1,572,360	–	(1,572,360)	–	–
	10.7.2009 *(Note 2)*	10.7.2010 to 9.7.2019	0.280	3,930,900	(3,930,900)	–	–	–
	18.11.2010 *(Note 1)*	18.5.2011 to 17.11.2020	0.116	2,620,600	(2,620,600)	–	–	–
Mr. Wang, John Peter Ben (resigned on 2 December 2013)	31.3.2008 *(Note 1)*	1.10.2008 to 31.3.2018	0.679	5,039,413	–	(5,039,413)	–	–
	10.7.2009 *(Note 2)*	10.7.2010 to 9.7.2019	0.280	3,930,900	–	(3,930,900)	–	–
	18.11.2010 *(Note 1)*	18.5.2011 to 17.11.2020	0.116	6,551,500	–	(6,551,500)	–	–
				43,239,899	(5,542,569)	(37,173,210)	–	524,120

Type of participants	Date of grant	Exercisable period	Exercise price per share	Number of share options: Outstanding at 1.1.2013	Reclassified during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2013
			HK$					
Substantial shareholder:	31.3.2008 *(Note 1)*	1.10.2008 to 31.3.2018	0.679	5,705,046	–	(5,705,046)	–	–
	10.7.2009 *(Note 2)*	10.7.2010 to 9.7.2019	0.280	5,241,200	–	(5,241,200)	–	–
	18.11.2010 *(Note 1)*	18.5.2011 to 17.11.2020	0.116	6,551,500	–	(6,551,500)	–	–
				17,497,746	–	(17,497,746)	–	–
Employees:	31.3.2008 *(Note 1)*	1.10.2008 to 31.3.2018	0.679	6,440,123	(917,210)	(327,575)	(1,992,966)	3,202,372
	16.2.2009 *(Note 2)*	16.2.2010 to 15.2.2019	0.229	2,620,600	–	(2,620,600)	–	–
	10.7.2009 *(Note 2)*	10.7.2010 to 9.7.2019	0.280	7,999,381	–	(6,813,560)	(216,199)	969,622
	18.11.2010 *(Note 1)*	18.5.2011 to 17.11.2020	0.116	10,076,207	–	(9,441,650)	(26,206)	608,351
				27,136,311	(917,210)	(19,203,385)	(2,235,371)	4,780,345
Advisors: *(Note 5)*	12.1.2007 *(Note 3)*	12.1.2008 to 11.1.2017	0.067	1,588,736	–	(1,005,654)	–	583,082
	31.3.2008 *(Note 1)*	1.10.2008 to 31.3.2018	0.679	10,424,746	(91,721)	(6,677,288)	(1,886,832)	1,768,905
	16.2.2009 *(Note 2)*	16.2.2010 to 15.2.2019	0.229	12,447,850	–	(9,067,276)	–	3,380,574
	10.7.2009 *(Note 2)*	10.7.2010 to 9.7.2019	0.280	12,094,069	3,930,900	(10,783,769)	–	5,241,200
	18.11.2010 *(Note 1)*	18.5.2011 to 17.11.2020	0.116	9,827,250	2,620,600	(8,254,890)	(262,060)	3,930,900
				46,382,651	6,459,779	(35,788,877)	(2,148,892)	14,904,661
Total:				134,256,607	–	(109,663,218)	(4,384,263)	20,209,126

No share options under the Old Share Option Scheme has been granted or cancelled during the year ended 31 December 2013.

(b) 2012 Share Option Scheme

Type of participants	Date of grant	Exercisable period	Exercise price per share	Number of share options: Outstanding at 1.1.2013	Granted during the year	Reclassified during the year	Exercised during the year	Outstanding at 31.12.2013
			HK$			*(Note 6)*		
Directors:								
Mr. Tsui Che Yin, Frank (appointed on 2 July 2013)	2.7.2013 *(Note 4)*	2.7.2013 to 1.7.2023	0.544	–	8,000,000	–	(2,000,000)	6,000,000
Mr. Ko Chun Fung, Henry	2.7.2013 *(Note 4)*	2.7.2013 to 1.7.2023	0.544	–	4,000,000	–	(1,000,000)	3,000,000
Mr. Tsang Yuen Wai, Samuel (appointed on 2 July 2013)	2.7.2013 *(Note 4)*	2.7.2013 to 1.7.2023	0.544	–	8,000,000	–	(2,000,000)	6,000,000
Mr. Tam Chi Wai, Dennis (appointed on 2 July 2013)	2.7.2013 *(Note 4)*	2.7.2013 to 1.7.2023	0.544	–	8,000,000	–	(2,000,000)	6,000,000
Mr. Wang, John Peter Ben (resigned on 2 December 2013)	2.7.2013 *(Note 4)*	2.7.2013 to 1.7.2023	0.544	–	2,000,000	(1,500,000)	(500,000)	–
				–	30,000,000	(1,500,000)	(7,500,000)	21,000,000
Substantial shareholder:	2.7.2013 *(Note 4)*	2.7.2013 to 1.7.2023	0.544	–	9,252,000	–	(2,313,000)	6,939,000
				–	9,252,000	–	(2,313,000)	6,939,000
Advisor: *(Note 5)*	2.7.2013 *(Note 4)*	2.7.2013 to 1.7.2023	0.544	–	–	1,500,000	–	1,500,000
				–	–	1,500,000	–	1,500,000
Total:				–	39,252,000	–	(9,813,000)	29,439,000

No share options under the 2012 Share Option Scheme has been lapsed or cancelled during the year ended 31 December 2013.

Notes:

(1) These grants under the Old 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 share options granted.

(2) These grants under the Old 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 share options granted.

(3) These grants under the Old 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 share options granted.

(4) These grants under the 2012 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 grant date at stepped annual increments of 25% of the total share options granted.

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

(6) The director who has resigned from his position has been appointed as advisor and the outstanding share options entitled to him remain valid until the end of exercisable period.

(7) The weighted average closing price of the Shares immediately before and at the dates on which the share options were exercised were HK$0.90 and HK$0.91 respectively.

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 2013, 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	1,057,834,409	–	43.93%
Melco Leisure and Entertainment Group Limited ("Melco Leisure") *(Note 2)*	Held by a controlled corporation	1,057,834,409	–	43.93%
Melco *(Note 3)*	Held by controlled corporations	1,057,834,409	–	43.93%
Mr. Ho, Lawrence Yau Lung ("Mr. Ho") *(Note 4)*	Held by controlled corporations	1,057,834,409	–	43.93%
	Beneficial owner	–	6,939,000	0.29%
Ms. Lo Sau Yan, Sharen *(Note 5)*	Held by spouse	1,057,834,409	6,939,000	44.22%
Global Crossing Holdings Ltd. ("GCH")	Beneficial owner	217,412,724	–	9.03%
Universal Rich Holdings Limited ("Universal Rich") *(Note 6)*	Held by a controlled corporation	217,412,724	–	9.03%
Mr. Chang Tung-Bing *(Note 7)*	Held by controlled corporations	217,412,724	–	9.03%

Notes:

(1) As at 31 December 2013, the total number of the issued Shares was 2,408,041,487.

(2) Melco Leisure was deemed to be interested in 1,057,834,409 Shares through its controlled corporation, Melco LV.

(3) Melco was deemed to be interested in 1,057,834,409 Shares through its controlled corporations, Melco LV and Melco Leisure.

(4) Mr. Ho was deemed to be interested in 1,057,834,409 Shares through his controlled corporations, Melco LV, Melco Leisure and Melco and 6,939,000 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 1,057,834,409 Shares and 6,939,000 share options of the Company 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 Tung-Bing 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 2013.

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

CONTINUING CONNECTED TRANSACTIONS

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 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.

As Mr. Ding Jingge, a director of BTI, together with his spouse are substantial shareholders of both BTI and Intradak when entering into the BTI Agreement, Intradak is a connected person of the Company within the meanings of the GEM Listing Rules. The entering into of the BTI Agreement and the transactions contemplated thereunder constituted continuing connected transactions of the Company.

The aggregate amount of the transactions attributable to the BTI Agreement for the year ended 31 December 2013 was approximately HK$39.3 million, which is within the annual cap.

The above continuing connected transaction is set out in note 33(a)(i) to the consolidated financial statements.

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) on normal commercial terms; and (iii) in accordance with the BTI Agreement on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the continuing connected transactions in accordance with the Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on continuing connected transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions disclosed by the Company in accordance with Rule 20.38 of the GEM Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

As at 31 December 2013, 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 26 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 2013, 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.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2013.

CHARITABLE DONATIONS

During the year, the Group did not make any charitable and other donations (2012: HK$2,467,000).

MAJOR CUSTOMERS AND SUPPLIERS

In 2013, the Group's largest supplier accounted for 98% of total purchases (2012: 52%). The five largest suppliers in 2013 comprised 100% of the Group's total purchases (2012: 100%).

In 2013, the Group's largest customer, Intradak, an associate of a director of BTI, accounted for 72% (2012: 93%) of the Group's total revenue. The five largest customers of the Group in 2013 comprised 100% (2012: 98%) of the Group's total revenue.

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

AUDITOR

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

On behalf of the Board

Tsui Che Yin, Frank
Chairman and Non-executive Director

Hong Kong, 26 March 2014

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 38 to 113, which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other 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.

Director's 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 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 as to 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 presentation 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 2013 and of its loss and cash flow 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 at 31 December 2013, the Group's current liabilities exceeded its current assets by approximately HK$204,470,000, and the Group's total liabilities exceeded its total assets by approximately HK$201,432,000. In addition, the Group incurred a loss of approximately HK$12,970,000 for the year ended 31 December 2013. As explained in note 2 to the consolidated financial statements, in March 2014 the Company entered into a supplementary loan agreement with a shareholder to extend the loan repayment date to March 2015, subject to the shareholder's overriding right to demand repayment. The directors consider that the shareholder will not demand repayment of the loan prior to March 2015 unless the Group has adequate financial resources to do so, and accordingly, the Group will have sufficient working capital to finance its operations and to pay its financial obligations as and when they fall due in the foreseeable future. However, these conditions, along with other matters as set forth in note 2 to the consolidated financial statements, indicate 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
26 March 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2013

	NOTES	2013 HK$'000	2012 HK$'000
Revenue	6	**54,561**	86,940
Changes in inventories of finished goods and work-in-progress		**–**	8,229
Purchase of inventories and raw materials consumed		**(46,084)**	(80,572)
Other income		**15,324**	8,166
Employee benefits costs		**(18,873)**	(15,159)
Depreciation and amortisation		**(1,455)**	(2,967)
Gain on group restructuring	9	**–**	226,767
Impairment losses on:			
– property, plant and equipment	15	**–**	(3,138)
– trade and other receivables	19	**(749)**	(19,064)
Share of results of associates	17	**(307)**	(2,581)
Other expenses		**(7,894)**	(21,686)
Finance costs	8	**(7,215)**	(93,023)
(Loss) profit before taxation		**(12,692)**	91,912
Taxation	10	**(278)**	(21,371)
(Loss) profit for the year	11	**(12,970)**	70,541
Other comprehensive expense			
Items that will not be reclassified subsequently to profit or loss:			
Exchange differences arising on translation from deregistration of a subsidiary/disposal of subsidiaries/translation to presentation currency		**(5,552)**	(4,328)
Total comprehensive (expense) income for the year		**(18,522)**	66,213
(Loss) profit for the year attributable to:			
Owners of the Company		**(17,117)**	78,981
Non-controlling interests		**4,147**	(8,440)
		(12,970)	70,541
Total comprehensive (expense) income attributable to:			
Owners of the Company		**(22,755)**	74,474
Non-controlling interests		**4,233**	(8,261)
		(18,522)	66,213
(Loss) earnings per share	14		
– Basic		**HK(0.73) cent**	HK9.21 cents
– Diluted		**HK(0.73) cent**	HK(2.25) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	NOTES	2013 HK$'000	2012 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**3,038**	5,975
Intangible assets	16	**–**	–
Interests in associates	17	**–**	307
Interest in a joint venture	18	**–**	–
		3,038	6,282
CURRENT ASSETS			
Trade and other receivables	19	**44,167**	66,741
Amount due from a fellow subsidiary	20	**–**	106
Amount due from an associate	21	**645**	–
Bank balances and cash	22	**56,199**	29,121
		101,011	95,968
CURRENT LIABILITIES			
Trade, other payables and accruals	23	**26,536**	58,358
Amount due to immediate holding company	24	**248,492**	241,277
Amounts due to related companies	20	**889**	190
Amount due to a shareholder of a joint venture	20	**2,334**	2,334
Amount due to an associate	21	**–**	190
Amount due to a fellow subsidiary	20	**90**	–
Amount due to non-controlling interests		**6,282**	–
Tax payable		**20,858**	20,858
		305,481	323,207
NET CURRENT LIABILITIES		**(204,470)**	(227,239)
NET LIABILITIES		**(201,432)**	(220,957)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	NOTE	**2013** **HK$'000**	2012 HK$'000
CAPITAL AND RESERVES			
Share capital	25	**24,081**	22,886
Reserves		**(234,819)**	(255,750)
Deficiency of equity attributable to owners of the Company		**(210,738)**	(232,864)
Non-controlling interests		**9,306**	11,907
TOTAL CAPITAL DEFICIENCY		**(201,432)**	(220,957)

The consolidated financial statements on pages 38 to 113 were approved and authorised for issue by the Board of Directors on 26 March 2014 and are signed on its behalf by:

TSUI CHE YIN, FRANK
DIRECTOR

KO CHUN FUNG, HENRY
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

	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 2012	5,030	368,963	30,783	3,543	(4,922)	645,492	6,870	(1,671,164)	(615,405)	24,900	(590,505)
Other comprehensive (expense) income for the year	–	–	–	–	–	–	(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	–	–	–	–	–	(210,401)	17,995	192,406	–	–	–
Issue of new shares *(note 25)*	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	2,730	380,804	–	–	–	(192,646)	9,374	(9,374)	190,888	–	190,888
Release on maturity of convertible bonds	–	–	–	–	–	(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)
Other comprehensive (expense) income for the year	–	–	–	–	–	–	(5,638)	–	(5,638)	86	(5,552)
(Loss) profit for the year	–	–	–	–	–	–	–	(17,117)	(17,117)	4,147	(12,970)
Total comprehensive (expense) income for the year	–	–	–	–	–	–	(5,638)	(17,117)	(22,755)	4,233	(18,522)
Dividend to non-controlling interests	–	–	–	–	–	–	–	–	–	(6,748)	(6,748)
Recognition of equity-settled share-based payments	–	–	6,525	–	–	–	–	–	6,525	–	6,525
Transfer of share-based payment reserve upon forfeiture of share options	–	–	(1,290)	–	–	–	–	1,290	–	–	–
Issue of ordinary shares upon exercise of share options	1,195	54,671	(17,510)	–	–	–	–	–	38,356	–	38,356
Acquisition of a subsidiary *(note 17(b))*	–	–	–	–	–	–	–	–	–	10	10
Deregistration of a subsidiary *(note 30)*	–	–	–	–	–	–	(371)	371	–	(96)	(96)
At 31 December 2013	24,081	906,442	18,557	–	(4,922)	–	(2,332)	(1,152,564)	(210,738)	9,306	(201,432)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

Notes:

(i) For subsidiaries established in the People's Republic of China (the "PRC") other than Hong Kong, 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) Other reserve represents the difference between the adjustment to non-controlling interests and the consideration paid arising in equity transactions.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	NOTES	2013 HK$'000	2012 HK$'000
OPERATING ACTIVITIES			
(Loss) profit before taxation		(12,692)	91,912
Adjustments for:			
Interest expenses		7,215	93,023
Equity-settled share-based payments		6,525	460
Reversal of allowance for trade receivables		(2,673)	–
Depreciation of property, plant and equipment		1,455	2,967
Impairment losses on:			
– trade and other receivables		749	19,064
– property, plant and equipment		–	3,138
Share of results of associates		307	2,581
Interest income		(62)	(38)
(Gain) loss on disposal and written off of property, plant and equipment		(560)	515
Loss on deregistration of a subsidiary	30	257	–
Net foreign exchange gain		(6,261)	(7,528)
Allowance for inventories		–	5,593
Gain on group restructuring		–	(226,767)
Reversal of impairment on interest in associate		(205)	–
Operating cash flows before movements in working capital		(5,945)	(15,080)
Decrease (increase) in trade and other receivables		27,019	(17,832)
Decrease (increase) in amount due from a fellow subsidiary		106	(106)
Increase in amount due from an associate		(300)	–
Increase in inventories		–	(16,283)
(Decrease) increase in trade, other payables and accruals		(31,791)	32,909
Increase in amount due to a fellow subsidiary		90	–
Cash used in operations		(10,821)	(16,392)
Income taxes (paid) refunded		(278)	100
NET CASH USED IN OPERATING ACTIVITIES		(11,099)	(16,292)
INVESTING ACTIVITIES			
Acquisition of a subsidiary	17(b)	18	–
Purchase of property, plant and equipment		(94)	(1,069)
Disposal of subsidiaries		–	(4,755)
Investment in associates		–	(2,884)
Interest received		62	38
Proceeds from disposal of property, plant and equipment		18	–
NET CASH FROM (USED IN) INVESTING ACTIVITIES		4	(8,670)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	2013 *HK$'000*	2012 *HK$'000*
FINANCING ACTIVITIES		
Proceeds from exercise of share options	**38,356**	657
Proceeds from issue of new shares	**–**	28,229
Advance from related companies	**230**	–
Advance to an associate	**(535)**	–
Share issue expenses	**–**	(1,505)
NET CASH FROM FINANCING ACTIVITIES	**38,051**	27,381
NET INCREASE IN CASH AND CASH EQUIVALENTS	**26,956**	2,419
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**29,121**	26,676
EFFECTS OF FOREIGN EXCHANGE RATE CHANGES	**122**	26
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	**56,199**	29,121

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.

Its immediate holding company is Melco LottVentures Holdings Limited (“Melco LV”), a private company incorporated in the British Virgin Islands (“BVI”), and its ultimate holding company is Melco International Development Limited, a company incorporated in Hong Kong with its shares listed on the Stock Exchange.

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 and details of which are set out in note 34.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The Company and its subsidiaries (the “Group”) had current liabilities which exceed current assets by approximately HK$204,470,000 as at 31 December 2013.

As disclosed in note 24, 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 repayment date on 30 March 2014. In March 2014, the Company entered into a supplementary loan agreement with Melco LV to further extend the loan repayment date to 30 March 2015, which is subject to Melco LV’s overriding right to demand immediate payment.

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 2015 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 and when they fall due in the next twelve months from the end of the reporting period.

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

Application of new and revised HKFRSs

The Group has applied for the first time in the current year the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009 – 2011 Cycle
Amendments to HKFRS 1	Government Loans
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities
Amendments to HKFRS 10, HKFRS11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interest in Other Entities: Transition Guide
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosures of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKAS 19 (as revised in 2011)	Employee Benefits
HKAS 27 (as revised in 2011)	Separate Financial Statements
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine

Except as described below, the application of the new or revised 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.

Impact of the application of HKFRS 10

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 changes the definition of control such that an investor has control over an investee when a) it has power over the investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in HKFRS 10 to explain when an investor has control over an investee.

The management of the Company made an assessment as at the date of initial application of HKFRS 10 (i.e. 1 January 2013) as to whether or not the Group has control over all the entities that the Group has equity interests in accordance with the new definition of control and the related guidance set out in HKFRS 10. The management concluded that HKFRS 10 does not have material effect on the Group's consolidated financial statements.

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

Impact of the application of HKFRS 11

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures*, and the guidance contained in a related interpretation, HK(SIC) – Int13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*, has been incorporated in HKAS 28 (as revised in 2011). HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified and accounted for. Under HKFRS 11, there are only two types of joint arrangements – joint operations and joint ventures. The classification of joint arrangements under HKFRS 11 is determined based on the rights and obligations of parties to the joint arrangements by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, and, when relevant, other facts and circumstances. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint venturers) have rights to the net assets of the arrangement. Previously, HKAS 31 contemplated three types of joint arrangements – jointly controlled entities, jointly controlled operations and jointly controlled assets. The classification of joint arrangements under HKAS 31 was primarily determined based on the legal form of the arrangement (e.g. a joint arrangement that was established through a separate entity was accounted for as a jointly controlled entity).

The initial and subsequent accounting of joint ventures and joint operations is different. Investments in joint ventures are accounted for using the equity method (proportionate consolidation is no longer allowed). Investments in joint operations are accounted for such that each joint operator recognises its assets (including its share of any assets jointly held), its liabilities (including its share of any liabilities incurred jointly), its revenue (including its share of revenue from the sale of the output by the joint operation) and its expenses (including its share of any expenses incurred jointly). Each joint operator accounts for the assets and liabilities, as well as revenues and expenses, relating to its interest in the joint operation in accordance with the applicable Standards.

Upon application of HKFRS 11, the management reviewed and assessed the legal form and terms of the contractual arrangements in relation to the Group's investment in a joint arrangement. Under HKFRS 11, the Group previously classified as a jointly controlled entity is treated as the Group's joint venture and continues to be accounted for using the equity method.

Impact of the application of HKFRS 12

HKFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of HKFRS 12 has resulted in more extensive disclosures in the consolidated financial statements (please see notes 17, 18 and 34 for details).

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

HKFRS 13 Fair Value Measurement

The Group has applied HKFRS 13 for the first time in the current year. HKFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements. The scope of HKFRS 13 is broad; the fair value measurement requirements of HKFRS 13 apply to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are within the scope of HKAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

HKFRS 13 defines the fair value of an asset as the price that would be received to sell an asset (or paid to transfer a liability, in the case of determining the fair value of a liability) in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosure requirements.

HKFRS 13 requires prospective application. In accordance with the transitional provisions of HKFRS 13, the Group has not made any new disclosures required by HKFRS 13 for the 2012 comparative period. Other than the additional disclosures, the application of HKFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The Group has applied the amendments to HKAS 1 *Presentation of Items of Other Comprehensive Income*. Upon the adoption of the amendments to HKAS 1, the Group's 'statement of comprehensive income' is renamed as the 'statement of profit or loss and other comprehensive income'. 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. Furthermore, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are 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 have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

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

New and revised HKFRSs in issue but not yet effective

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 2010 – 2012 Cycle[4]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011 – 2013 Cycle[2]
HKFRS 9	Financial Instruments[3]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[1]
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets[1]
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting[1]
HK(IFRIC) – Int 21	Levies[1]

1 Effective for annual periods beginning on or after 1 January 2014, with earlier application permitted.

2 Effective for annual periods beginning on or after 1 July 2014, except as disclosed below. Early application is permitted.

3 Available for application – the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised.

4 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions.

Annual Improvements to HKFRSs 2010 – 2012 Cycle

The *Annual Improvements to HKFRSs 2010 – 2012 Cycle* include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 2 (i) change the definitions of 'vesting condition' and 'market condition'; and (ii) add definitions for 'performance condition' and 'service condition' which were previously included within the definition of 'vesting condition'. The amendments to HKFRS 2 are effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

The amendments to HKFRS 3 clarify that contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of HKFRS 9 or HKAS 39 or a non-financial asset or liability. Changes in fair value (other than measurement period adjustments) should be recognised in profit and loss. The amendments to HKFRS 3 are effective for business combinations for which the acquisition date is on or after 1 July 2014.

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

Annual Improvements to HKFRSs 2010 – 2012 Cycle *(Continued)*

The amendments to HKFRS 8 (i) require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have 'similar economic characteristics'; and (ii) clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.

The amendments to the basis for conclusions of HKFRS 13 clarify that the issue of HKFRS 13 and consequential amendments to HKAS 39 and HKFRS 9 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial.

The amendments to HKAS 16 and HKAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The amendments to HKAS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required. The directors do not anticipate that the application of the amendments included in the Annual Improvements to HKFRSs 2010 – 2012 Cycle will have a material effect on the Group's consolidated financial statements.

Annual Improvements to HKFRSs 2011 – 2013 Cycle

The amendments to HKAS 40 clarify that HKAS 40 and HKFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:

(a) the property meets the definition of investment property in terms of HKAS 40; and

(b) the transaction meets the definition of a business combination under HKFRS 3.

The directors do not anticipate that the application of the amendments included in the *Annual Improvements to HKFRSs 2011 – 2013 Cycle* will have a material effect on the Group's consolidated financial statements.

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

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include the requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for hedge accounting.

Key requirements of HKFRS 9 are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

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

The directors anticipate that the adoption of HKFRS 9 in the future may affect the classification and measurement of the Group's financial assets.

The directors anticipate that the application of the new and revised standards, amendments and interpretation issued but not yet effective will have no material impact on the results and the financial position of the Group.

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

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities

The amendments to HKAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.

The directors of the Company do not anticipate that the application of these amendments to HKAS 32 will have a significant impact on the Group's consolidated financial statements as the Group does not have any financial assets and financial liabilities that qualify for offset.

Amendments to HKAS 36 Recoverable Amount Disclosures for Non-Financial Assets

The amendments to HKAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit ("CGU") to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements regarding the fair value hierarchy, key assumptions and valuation techniques used when the recoverable amount of an asset or CGU was determined based on its fair value less costs of disposal.

The directors of the Company do not anticipate that the application of these amendments to HKAS 36 will have a significant impact on the Group's consolidated financial statements.

Amendments to HKAS 39 Novation of Derivatives and Continuation of Hedge Accounting

The amendments to HKAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative hedging instrument arising from the novation should be included in the assessment of hedge effectiveness.

The directors of the Company do not anticipate that the application of these amendments to HKAS 39 will have any effect on the Group's consolidated financial statements as the Group does not have any derivatives that are subject to novation.

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 (the "GEM Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis, at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries 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.

When necessary, adjustments made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's according policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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 joint venture.

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 recognized in profit or loss as incurred.

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

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized 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.

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 acquire (if any), the excess is recognized 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 recognized 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 HKFRS.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. 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.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates or joint ventures 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 or joint ventures. When the Group's share of losses of an associate or joint venture equals or exceeds its interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), 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 or joint venture.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates and joint ventures *(Continued)*

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of the investee 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 the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a joint venture. 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 disposal) 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.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture or when the investment or a portion thereof is classified as held for sale. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with HKAS 39. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture 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 the equity method is discontinued.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates and joint ventures *(Continued)*

When a group entity transacts with an associate or a joint venture of the Group such as a sale or contribution of assets, profits or losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interest in the associate or joint venture that are not related to the Group.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable revenue is reduced for estimated customer returns rebates and other similar allowances.

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 the sales of goods is recognised when the goods, including lottery terminals, are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of the reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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

Leasing

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

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

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

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 recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group’s foreign operations are translated into the presentation currency of the Group (i.e. HK$) using of exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, 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).

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 an expense 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 before tax as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and 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 arrangements, 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.

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 except when they relate to items that are reorganised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. 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 with finite useful lives that are acquired separately carried at costs 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).

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. 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 acquired in a business combination with finite useful lives are reported at cost less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets *(Continued)*

Intangible assets acquired in a business combination (Continued)

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

Impairment losses on tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives, 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. When 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.

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 disposal 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 (or CGU) 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 immediately in profit and loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets are classified into loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument 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 debt instrument, 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, amount due from an associate and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

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 each 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.; or
- disappearance of an active market for that financial asset because of financial difficulties.

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 (see the accounting policy below).

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 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.

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.

Financial liabilities

Financial liabilities including trade and other payables, amounts due to related companies/ an associate/immediate holding company/a shareholder of a joint venture/a fellow subsidiary 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. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derecognition (Continued)

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

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Share-based payment transactions

Share options 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.

Shares granted to directors, employees and substantial shareholder

For grants of share options that are conditional upon satisfying specified vesting conditions, 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, 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payment transactions *(Continued)*

Shares granted to directors, employees and substantial shareholder (Continued)

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.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

Share options granted to advisors

Share options issued in exchange for services are measured at the fair values of the services received, unless that fair value cannot be reliably measured, in which case the goods or services received are measured by reference to the fair value of the share options granted. The fair values of the goods or services received are recognised as expenses, with a corresponding increase in equity (share-based payment reserve), when the Group obtains the goods or when the counterparties render services, unless the goods or services qualify for recognition as assets.

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 judgements, 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:

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 2013, the carrying amount of trade receivables was HK$40,438,000, net of allowance for doubtful debts of HK$1,734,000 (2012: HK$62,866,000, net of allowance for doubtful debts of HK$14,633,000). As at 31 December 2013, the carrying amount of other receivables was HK$2,482,000, net of allowance for doubtful debts of HK$18,089,000 (2012: HK$2,792,000, net of allowance for doubtful debts of HK$15,012,000).

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 2013, the carrying amount of property, plant and equipment was HK$3,038,000 (2012: HK$5,975,000), net of accumulated impairment losses of HK$3,138,000 (2012: HK$3,138,000). The management performed impairment review as at 31 December 2013 and considered no impairment is necessary (2012: HK$3,138,000).

6. REVENUE

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

	2013	2012
	HK$'000	*HK$'000*
Revenue		
Manufacturing and sales and trading of lottery terminals	**49,395**	82,596
Provision of services and solutions for distribution of lottery products	**5,166**	4,344
	54,561	86,940

7. SEGMENT INFORMATION

The Group's revenue and contribution to loss were solely derived from lottery business which comprises of provision of services and solutions for distribution of lottery products and manufacturing and sales and trading 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, analysed by the geographical area in which the assets are located:

	2013	2012
	HK$'000	*HK$'000*
Non-current assets		
The PRC	**3,004**	6,175
Hong Kong	**34**	107
	3,038	6,282

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:

	2013	2012
	HK$'000	*HK$'000*
Customer A	**39,331**	80,858
Customer B	**10,064**	–

8. FINANCE COSTS

	2013	2012
	HK$'000	*HK$'000*
Interest on:		
Amount due to immediate holding company	**7,215**	356
Effective interest expense on convertible bonds	**–**	91,972
Loan from a related company wholly repayable within five years	**–**	695
	7,215	93,023

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 then 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 entered into an agreement with Global Crossing Holdings Limited ("GCH"), a 32.86% non-controlling shareholder of Oasis Rich International Ltd. ("Oasis Rich") at the relevant time, 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.

9. GAIN ON GROUP RESTRUCTURING *(Continued)*

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 Group Limited ("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.

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 of the Company held on 15 October 2012. On 12 November 2012, the GCH Disposal, the Intralot Disposal and the Open Offer were completed.

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.

9. GAIN ON GROUP RESTRUCTURING *(Continued)*

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.

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 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 are 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 Oasis Rich and Gain Advance derecognised as at 12 November 2012 were as follows:

	Gain Advance *HK$'000*	Oasis Rich *HK$'000*	Total *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
Amount 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)

9. GAIN ON GROUP RESTRUCTURING *(Continued)*

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 sales of lottery terminals.

10. TAXATION

	2013	2012
	HK$'000	*HK$'000*
PRC Enterprise Income Tax		
– Current year	**248**	513
– Underprovision in respect of prior year	**30**	–
– Capital gain tax on disposal of the PRC subsidiaries	**–**	20,858
	278	21,371

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.

10. TAXATION *(Continued)*

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

	2013	2012
	HK$'000	*HK$'000*
(Loss) profit before taxation	**(12,692)**	91,912
Tax at the domestic income tax at the rate of 25% *(Note)*	**(3,173)**	22,978
Tax effect of income not taxable for tax purposes	**(3,782)**	(3,024)
Underprovision in respect of prior year	**30**	–
Tax effect of expenses not deductible for tax purposes	**3,117**	31,657
Tax effect of tax losses not recognised	**4,325**	4,823
Utilisation of tax losses previously not recognised	**(316)**	(28)
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	**77**	645
Taxation for the year	**278**	21,371

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

At 31 December 2013, the Group had unused tax losses of HK$132,420,000 (2012: HK$116,384,000) available to offset against future profits. No deferred tax asset has been recognised in respect of unused tax losses due to the unpredictability of future profit streams.

Included in unrecognised tax losses are losses of HK$52,859,000 (2012: HK$49,114,000) 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 and ranges from 2014 to 2018. 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. For the year ended 31 December 2012, 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 as at 31 December 2012 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. (LOSS) PROFIT FOR THE YEAR

(Loss) profit for the year has been arrived at after charging (crediting):

	2013	2012
	HK$'000	*HK$'000*
Depreciation of property, plant and equipment	**1,455**	2,967
Directors' emoluments	**8,479**	3,115
Other staff costs:		
Salaries and other benefits	**7,537**	10,259
Retirement benefit scheme contributions	**1,290**	1,490
Share-based payments	**1,567**	295
Total employee benefit expenses	**18,873**	15,159
Auditor's remuneration	**1,154**	1,325
Allowance for inventories (included in purchase of inventories and raw materials consumed)	**–**	5,593
Charity donation	**–**	2,467
(Gain) loss on disposal and written off of property, plant and equipment	**(560)**	515
Loss on deregistration of a subsidiary	**257**	–
Operating lease rentals in respect of land and buildings	**2,255**	3,955
Management fee paid to lottery operator (included in other expenses)	**1,345**	2,288
Transaction costs in relation to group restructuring (included in other expenses)	**–**	4,091
Net foreign exchange gain	**(6,261)**	(7,528)
Reversal of impairment on interest in associate	**(205)**	–
Bank interest income	**(62)**	(38)

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$'000* *(Note a)*	Tsui Che Yin, Frank *HK$'000* *(Note b)*	Ko Chun Fung, Henry *HK$'000*	Tsang Yuen Wai, Samuel *HK$'000* *(Note b)*	Tam Chi Wai, Dennis *HK$'000* *(Note b)*	Wang, John Peter Ben *HK$'000* *(Note e)*	Tsoi, David *HK$'000*	Pang Hing Chung, Alfred *HK$'000*	So Lie Mo, Raymond *HK$'000* *(Note c)*	Chan Po Yi, Patsy *HK$'000* *(Note d)*	Total *HK$'000*
2013											
Fees	60	179	–	179	179	110	144	120	114	18	1,103
Other emoluments											
Salaries and other benefits	–	–	2,223	–	–	–	–	–	–	–	2,223
Bonus *(Note f)*	–	–	180	–	–	–	–	–	–	–	180
Contributions to retirement benefit schemes	–	–	15	–	–	–	–	–	–	–	15
Share-based payments	–	1,322	661	1,322	1,322	331	–	–	–	–	4,958
Total emoluments	60	1,501	3,079	1,501	1,501	441	144	120	114	18	8,479

Notes:

(a) Resigned on 2 July 2013.

(b) Appointed on 2 July 2013.

(c) Resigned on 13 November 2013.

(d) Appointed on 13 November 2013.

(e) Resigned on 2 December 2013.

(f) 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.

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

	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.

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

During the years ended 31 December 2013 and 2012, 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.

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

Of the five individuals with the highest emoluments in the Group, four (2012: one) were director of the Company whose emolument is included in the disclosures as above. The emoluments of the remaining one (2012: four) individual was as follows:

	2013	2012
	HK$'000	*HK$'000*
Salaries and other benefits	**738**	2,719
Bonus	**81**	165
Contributions to retirement benefit schemes	**13**	48
Share-based payments	**–**	28
	832	2,960

Their emoluments were within the following bands:

	2013	2012
	No. of employees	No. of employees
Nil to HK$1,000,000	**1**	3
HK$1,000,001 to HK$1,500,000	**–**	1

13. DIVIDENDS

No dividend was declared or proposed during 2013, nor has any dividend been proposed since the end of the reporting period (2012: Nil).

14. (LOSS) EARNINGS PER SHARE

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

	2013	2012
	HK$'000	*HK$'000*
(Loss) earnings		
(Loss) profit attributable to owners of the Company for the purpose of basic (loss) earnings per share	**(17,117)**	78,981
Effect of dilutive potential ordinary shares: Convertible bonds *(Note)*	**–**	(120,771)
Loss for the purpose of diluted loss per share	**(17,117)**	(41,790)

14. (LOSS) EARNINGS PER SHARE *(Continued)*

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.

	2013	2012
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	**2,342,672**	857,193
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	**2,342,672**	1,860,520

The computation of diluted loss per share in 2013 and 2012 did not include the Company's outstanding share options since their assumed exercise would result in a decrease in diluted loss per share.

15. PROPERTY, PLANT AND EQUIPMENT

	Lottery terminals	Machinery and equipment	Furniture, fixtures and equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST					
At 1 January 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 and 1 January 2013	–	8,241	1,204	1,148	10,593
Additions	–	26	–	68	94
Disposals and write off	–	(2,932)	(406)	(61)	(3,399)
Acquisition of a subsidiary	–	20	2	–	22
Exchange realignment	–	41	20	32	93
At 31 December 2013	–	5,396	820	1,187	7,403
DEPRECIATION AND IMPAIRMENT					
At 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 disposal of a subsidiary	–	(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 and 1 January 2013	–	2,848	998	772	4,618
Provided for the year	–	1,255	102	98	1,455
Eliminated on disposals and write off	–	(1,360)	(360)	(58)	(1,778)
Exchange realignment	–	29	18	23	70
At 31 December 2013	–	2,772	758	835	4,365
CARRYING VALUES					
At 31 December 2013	–	2,624	62	352	3,038
At 31 December 2012	–	5,393	206	376	5,975

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.

During the year, the directors conducted a review of the Group's property, plant and equipment and concluded that the recoverable amounts of the relevant assets are greater than the respective carrying value and no impairment is necessary.

16. INTANGIBLE ASSETS

	Lottery software licences HK$'000 (note a)	License rights HK$'000 (note b)	Technology know-how HK$'000 (note c)	Total HK$'000
COST				
At 1 January 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 and 1 January 2013	75,619	114,267	25,448	215,334
Exchange realignment	2,146	3,243	723	6,112
At 31 December 2013	77,765	117,510	26,171	221,446
AMORTISATION AND IMPAIRMENT				
At 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 and 1 January 2013	75,619	114,267	25,448	215,334
Exchange realignment	2,146	3,243	723	6,112
At 31 December 2013	77,765	117,510	26,171	221,446
CARRYING AMOUNTS				
At 31 December 2013	–	–	–	–
At 31 December 2012	–	–	–	–

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 and a perpetual, non-exclusive license right to use and sublicense the software in connection with projects of China Welfare Lottery Issuing Centre. The lottery software is a system platform to support and upgrade the lottery products and gaming operations.

A full impairment loss for the carrying amount of the lottery software licences was recognised in previous years.

16. INTANGIBLE ASSETS *(Continued)*

Notes: (Continued)

(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.

(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.

17. INTERESTS IN ASSOCIATES

	2013	2012
	HK$'000	*HK$'000*
Costs of unlisted investments in associates	**10,000**	13,000
Share of post-acquisition losses	**(10,000)**	(11,300)
Accumulated impairment loss recognised *(note b)*	**–**	(1,393)
	–	307

As at 31 December 2013 and 2012, the Group had interests in the following associates:

Name of associate	**Place of incorporation/ establishment**	**Principal place of operations**	**Proportion of nominal value of issued share capital held indirectly by the Group**		**Principal activity**
			2013	2012	
ChariLot Company Limited ("ChariLot")	Hong Kong	Hong Kong	**40%** ***(note a)***	40%	Provision of services for distribution of lottery products
China Excellent Net Technology Investment Limited ("China Excellent")	Hong Kong	Hong Kong	**–** ***(note b)***	35%	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 had been paid and the unpaid amount of HK$190,000 was included in the amount due to an associate. During the year ended 31 December 2013, the amount of HK$190,000 was settled against the expenses paid on behalf of ChariLot.

17. INTERESTS IN ASSOCIATES *(Continued)*

Notes: (Continued)

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

On 31 May 2013, the Group entered into an agreement in relation to subscription of 184,616 new shares of China Excellent at a consideration of HK$185,000 and the transaction was completed on 31 May 2013. Consequently, the Group's equity interest in China Excellent increased from 35% to 95% and China Excellent became a subsidiary of the Group. The consideration of subscribing the new shares of China Excellent was settled against the shareholder's loan due to Rising Move, a wholly-owned subsidiary of the Group. Since China Excellent is a small company and the consideration of acquiring its further 60% equity interest is relatively immaterial to both the Group's financial position and results, details of this acquisition are not separately disclosed.

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

	2013	2012
	HK$'000	*HK$'000*
Current assets	**37**	3,055
Non-current assets	**7**	73
Current liabilities	**(793)**	(4,841)
Loss and total comprehensive expense for the year	**(1,303)**	(2,988)

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:

	2013	2012
	HK$'000	*HK$'000*
Unrecognised share of losses of an associate for the year	**214**	142
Accumulated unrecognised share of losses of an associate	**214**	142

18. INTEREST IN A JOINT VENTURE

	2013 HK$'000	2012 HK$'000
Cost of unlisted investment in a joint venture	**15,560**	15,560
Share of post-acquisition losses	**(15,560)**	(15,560)
	–	–

As at 31 December 2013 and 2012, the Group had interest in the following joint venture:

Name of joint venture	Place of incorporation and operations	Class of shares held	Proportion of nominal value of issued capital held by the Group 2013	2012	Proportion of voting power held 2013	2012	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 joint venture of the Group. The Group has discontinued the recognition of its share of losses of this joint venture.

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

	2013 HK$'000	2012 HK$'000
Current liabilities	**1,898**	1,897
Loss and total comprehensive expense for the year	**1**	1

18. INTEREST IN A JOINT VENTURE *(Continued)*

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

	2013	2012
	HK$'000	*HK$'000*
Unrecognised share of losses of a joint venture for the year	1	1
Accumulated unrecognised share of losses of a joint venture	196	195

19. TRADE AND OTHER RECEIVABLES

	2013	2012
	HK$'000	*HK$'000*
Trade receivables	42,172	77,499
Less: allowance for doubtful debts	(1,734)	(14,633)
	40,438	62,866
Other receivables	20,571	17,804
Less: allowance for doubtful debts	(18,089)	(15,012)
	2,482	2,792
Prepayments and deposits	1,247	1,083
	44,167	66,741

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:

	2013	2012
	HK$'000	*HK$'000*
Within 30 days	13,566	32,706
31 – 90 days	–	18,435
91 – 180 days	11,907	11,525
181 – 365 days	2,273	200
Over 365 days	12,692	–
	40,438	62,866

19. TRADE AND OTHER RECEIVABLES *(Continued)*

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

Included in the Group's trade receivable balance were debtors with aggregate carrying amount of HK$26,872,000 (2012: HK$11,725,000) 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.

Aging of trade receivables which are past due but not impaired

	2013	2012
	HK$'000	*HK$'000*
91 – 180 days	**11,907**	11,525
181 – 365 days	**2,273**	200
Over 365 days	**12,692**	–
	26,872	11,725

As at 31 December 2013, the Group has not provided fully for all receivables over 180 days because those balances have been subsequently settled after balance sheet date. As at 31 December 2012, the Group had provided fully for all receivables over 180 days because historical experience was such that receivables that were past due beyond 180 days were generally not recoverable.

Movement in the allowance for trade receivables

	2013	2012
	HK$'000	*HK$'000*
Balance at beginning of the year	**14,633**	1,276
Impairment losses recognised	**–**	14,434
Impairment losses reversed	**(2,673)**	(95)
Reallocate to allowance for other receivables	**(1,850)**	–
Eliminated on disposal of a subsidiary	**–**	(777)
Written off	**(8,659)**	–
Exchange realignment	**283**	(205)
Balance at end of the year	**1,734**	14,633

Included in trade receivables are amounts net of individually impaired receivables amounting to HK$1,734,000 (2012: HK$14,633,000). 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.

During the year ended 31 December 2013, the Company reversed the impairment losses on trade receivables amounted of HK$2,673,000 (2012: HK$95,000) upon settlement of such balances.

19. TRADE AND OTHER RECEIVABLES *(Continued)*

Movement in the allowance for trade receivables *(Continued)*

Included in the allowance for trade receivables are individually impaired trade receivables with an aggregate balance of HK$8,659,000 (2012: Nil) which have either been placed under liquidation or in severe financial difficulties.

Movement in the allowance for other receivables

	2013	2012
	HK$'000	*HK$'000*
Balance at beginning of the year	**15,012**	10,468
Relocate from allowance for accounts receivable	**1,850**	–
Impairment losses recognised	**749**	4,725
Exchange realignment	**478**	(181)
Balance at end of the year	**18,089**	15,012

Included in other receivables are amounts of individually impaired receivables amounting to HK$18,089,000 (2012: HK$15,012,000). 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.

20. AMOUNT DUE FROM A FELLOW SUBSIDIARY/(TO) RELATED COMPANIES/(TO) A SHAREHOLDER OF A JOINT VENTURE/(TO) A FELLOW SUBSIDIARY/(TO) NON-CONTROLLING INTERESTS

The amount due from and to a fellow subsidiary is unsecured, interest-free and repayable on demand.

The amounts due to related companies represent 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 non-controlling interests represent the dividend payable to non-controlling interests of a subsidiary.

The amount due to shareholder of a joint venture is unsecured, interest-free and repayable on demand.

The amounts due from a fellow subsidiary and due to related companies/a shareholder of a joint venture/a fellow subsidiary are denominated in currency other than the functional currency of the relevant group entity.

21. 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.

22. 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 0.5% (2012: 0.35%) per annum and cash on hand.

As at 31 December 2013, an amount of HK$49,247,000 (2012: HK$24,739,000) was denominated in currency other than the functional currency of the relevant group entity.

23. TRADE, OTHER PAYABLES AND ACCRUALS

	2013	2012
	HK$'000	*HK$'000*
Trade payables	**15,635**	44,805
Other payables	**9,294**	13,417
Accruals	**1,607**	136
	26,536	58,358

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:

	2013	2012
	HK$'000	*HK$'000*
Within 30 days	**–**	28,419
31 – 90 days	**–**	11,084
91 – 180 days	**11,128**	–
181 – 365 days	**–**	2,151
Over 365 days	**4,507**	3,151
	15,635	44,805

As at 31 December 2013, an amount of HK$4,706,000 (2012: HK$9,719,000) included in other payables, is denominated in currency other than the functional currency of the relevant group entity.

24. 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 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.

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 approximately HK$240,506,000 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 March 2014. In March 2014, the Company entered into a supplementary loan agreement with Melco LV to further extend the loan repayment date to 30 March 2015, which is also subject to Melco LV's overriding right to demand immediate repayment.

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

25. SHARE CAPITAL

	Number of ordinary shares	**Amount** *HK$'000*
Ordinary shares of HK$0.01 each:		
Authorised:		
At 1 January 2012	2,000,000,000	20,000
Increase during the year	3,500,000,000	35,000
At 31 December 2012, 1 January 2013 and 31 December 2013	5,500,000,000	55,000
Issued and fully paid:		
At 1 January 2012	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	273,008,144	2,730
At 31 December 2012 and 1 January 2013	2,288,565,269	22,886
Exercise of share options	119,476,218	1,195
At 31 December 2013	2,408,041,487	24,081

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 loan with 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.

25. SHARE CAPITAL *(Continued)*

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

26. SHARE-BASED PAYMENT TRANSACTIONS

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

(a) Post-Initial Public Offering ("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 ("Participant(s)"), 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 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 shall not exceed 30% of the total number of shares in issue from time to time.

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

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

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.

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.

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

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

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

Type of participant	Date of grant	Exercisable period	Exercise price per share	Number of share options: Outstanding at 1/1/2013	Reclassified during the year	Exercised during the year	Forfeited during the year	Outstanding at 31/12/2013
			HK$		*(note 7)*			
Directors	20/2/2003 *(note 3)*	20/2/2004 to 19/2/2013	0.105	1,572,360	–	(1,572,360)	–	–
	31/3/2008 *(note 4)*	1/10/2008 to 31/3/2018	0.679	10,744,459	1,008,931	(11,753,390)	–	–
	10/7/2009 *(note 5)*	10/7/2010 to 9/7/2019	0.280	13,627,120	(3,930,900)	(9,434,160)	–	262,060
	18/11/2010 *(note 4)*	18/5/2011 to 17/11/2020	0.116	17,295,960	(2,620,600)	(14,413,300)	–	262,060
Substantial shareholder	31/3/2008 *(note 4)*	1/10/2008 to 31/3/2018	0.679	5,705,046	–	(5,705,046)	–	–
	10/7/2009 *(note 5)*	10/7/2010 to 9/7/2019	0.280	5,241,200	–	(5,241,200)	–	–
	18/11/2010 *(note 4)*	18/5/2011 to 17/11/2020	0.116	6,551,500	–	(6,551,500)	–	–
Employees	31/3/2008 *(note 4)*	1/10/2008 to 31/3/2018	0.679	6,440,123	(917,210)	(327,575)	(1,992,966)	3,202,372
	16/2/2009 *(note 5)*	16/2/2010 to 15/2/2019	0.229	2,620,600	–	(2,620,600)	–	–
	10/7/2009 *(note 5)*	10/7/2010 to 9/7/2019	0.280	7,999,381	–	(6,813,560)	(216,199)	969,622
	18/11/2010 *(note 4)*	18/5/2011 to 17/11/2020	0.116	10,076,207	–	(9,441,650)	(26,206)	608,351
Advisors *(note 2)*	12/1/2007 *(note 3)*	12/1/2008 to 11/1/2017	0.067	1,588,736	–	(1,005,654)	–	583,082
	31/3/2008 *(note 4)*	1/10/2008 to 31/3/2018	0.679	10,424,746	(91,721)	(6,677,288)	(1,886,832)	1,768,905
	16/2/2009 *(note 5)*	16/2/2010 to 15/2/2019	0.229	12,447,850	–	(9,067,276)	–	3,380,574
	10/7/2009 *(note 5)*	10/7/2010 to 9/7/2019	0.280	12,094,069	3,930,900	(10,783,769)	–	5,241,200
	18/11/2010 *(note 4)*	18/5/2011 to 17/11/2020	0.116	9,827,250	2,620,600	(8,254,890)	(262,060)	3,930,900
				134,256,607	–	(109,663,218)	(4,384,263)	20,209,126
Exercisable at the end of the year				134,256,607				20,209,126
Weighted average exercise price				0.32	–	0.30	0.62	0.32

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

(a) Post-Initial Public Offering ("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)*			
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
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
Weighted average exercise price					0.31	0.31	–	0.12	0.27	0.32

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

(a) Post-Initial Public Offering ("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.

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

(b) 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.

Details of the movements in the number of share options during the year under the Company's 2012 Share Option Scheme were as follows:

				Number of share options				
Type of participant	Date of grant	Exercisable period	Exercise price per share	Outstanding at 1/1/2013	Granted during the year	Reclassified during the year	Exercised during the year	Outstanding at 31/12/2013
	(note 1)		*HK$*			*(note 2)*		
Directors	2/7/2013	2/7/2013 to 1/7/2023	0.544	–	30,000,000	(1,500,000)	(7,500,000)	21,000,000
Substantial shareholder	2/7/2013	2/7/2013 to 1/7/2023	0.544	–	9,252,000	–	(2,313,000)	6,939,000
Advisors	2/7/2013	2/7/2013 to 1/7/2023	0.544	–	–	1,500,000	–	1,500,000
				–	39,252,000	–	(9,813,000)	29,439,000
Exercisable at the end of the year				–				–
Weighted average exercise price				–	0.544	–	0.544	0.544

Notes:

(1) These grants under the 2012 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 grant date at stepped annual increments of 25% of the total options granted.

(2) The director who has resigned from his position has been appointed as advisor and the outstanding share options entitled to him remain valid until the end of exercisable period.

No Share options were granted under the Post-IPO Share Option Scheme during the year ended 31 December 2012.

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

(b) 2012 Share Option Scheme *(Continued)*

In respect of the share options exercised during the year ended 31 December 2013, the weighted average share price at the dates of exercise is HK$0.91 (2012: HK$0.45) and the weighted average closing price at the dates immediately before exercise dates is HK$0.90 (2012: HK$0.44).

The fair value of share options granted during the year ended 31 December 2013 were calculated using the binomial model. The inputs into the model were as follows:

	2013	
	Substantial Shareholder	**Directors**
Number of options granted	9,252,000	30,000,000
Closing share price immediately before date of grant	HK$0.54	HK$0.54
Exercise price	HK$0.544	HK$0.544
Exercise multiplier	2.8	2.8
Expected volatility	85%	85%
Option life	10 years	10 years
Risk-free interest rate	2.03%	2.03%
Expected dividend yield	0%	0%
Fair value of an option	0.3412-0.3936	0.3300-0.3896

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

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

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

The Group recognised a total expense of HK$6,525,000 (2012: HK$460,000) for the year ended 31 December 2013 in relation to share options granted by the Company.

27. COMPANY'S FINANCIAL POSITION

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

	2013	2012
	HK$'000	*HK$'000*
NON-CURRENT ASSETS		
Property, plant and equipment	**24**	107
Investments in subsidiaries	**1**	1
	25	108
CURRENT ASSETS		
Deposits and prepayments	**1,288**	788
Amount due from a fellow subsidiary	**–**	106
Bank balances and cash	**47,823**	24,492
	49,111	25,386
CURRENT LIABILITIES		
Other payables and accruals	**5,518**	9,319
Amount due to immediate holding company	**248,492**	241,277
Amounts due to subsidiaries	**1,523**	–
Amount due to a related company	**217**	190
Amount due to a fellow subsidiary	**90**	–
	255,840	250,786
NET CURRENT LIABILITIES	**(206,729)**	(225,400)
NET LIABILITIES	**(206,704)**	(225,292)
CAPITAL AND RESERVES		
Share capital	**24,081**	22,886
Reserves *(Note)*	**(230,785)**	(248,178)
TOTAL CAPITAL DEFICIENCY	**(206,704)**	(225,292)

27. COMPANY'S FINANCIAL POSITION *(Continued)*

Note:

	Share premium	Share-based payment reserve	Convertible bonds equity reserve	Exchange reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 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 and 1 January 2013	851,771	30,832	–	–	(1,130,781)	(248,178)
Loss for the year	–	–	–	–	(26,293)	(26,293)
Recognition of equity-settled share-based payments	–	6,525	–	–	–	6,525
Transfer of share-based payment reserve upon forfeiture of share options	–	(1,290)	–	–	1,290	–
Issue of ordinary shares upon exercise of share options	54,671	(17,510)	–	–	–	37,161
At 31 December 2013	906,442	18,557	–	–	(1,155,784)	(230,785)

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 2013 and 2012.

28. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of loan from immediate holding company disclosed in note 24, 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.

29. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2013	2012
	HK$'000	*HK$'000*
Financial assets		
Loans and receivables		
(including cash and cash equivalents)	**99,764**	94,865
Financial liabilities		
Amortised cost	**276,734**	302,213

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, amount due from (to) a fellow subsidiary, amount due from (to) an associate, bank balances and cash, trade and other payables, amount due to immediate holding company, amounts due to related companies, and amount due to a shareholder of a joint venture. 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.

29. 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 fixed-rate loan from immediate holding company (note 24). The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances (note 22). 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.

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments. The analysis is prepared assuming the amount of assets and liabilities outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax loss for the year ended 31 December 2013 would decrease/increase by approximately HK$1,037,000 (2012: the Group's post tax profit for the year increased/decreased by HK$1,005,000). This is mainly attributable to the Group's exposure to interest rates on its fixed-rate amount due to immediate holding company.

Foreign currency risk

The Group's exposure to foreign currency risk related primarily to trade and other receivables, amount due from (to) a fellow subsidiary, amount due from (to) an associate, bank balances and cash, trade and other payables, amount due to immediate holding company, amounts due to related companies, amount due to a shareholder of a joint venture and amount due to non-controlling interests 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**	
	2013	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
HK$	**51,433**	24,904	**252,720**	247,766
USD	**–**	–	**3,791**	5,944

29. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk (Continued)

Foreign currency risk *(Continued)*

Sensitivity analysis

If RMB had strengthened by 5% against HK$, the Group's post-tax loss for the year ended 31 December 2013 would have been decreased by approximately HK$8,403,000 (2012: the Group's post-tax profit for the year increased by HK$9,304,000). If RMB had strengthened by 5% against USD, the Group's post-tax loss for the year ended 31 December 2013 would have been decreased by approximately HK$158,000 (2012: the Group's post-tax profit for the year increased by HK$248,000). 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.

Credit risk

At 31 December 2013, 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% (2012: 100%) 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 19). 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.

29. FINANCIAL INSTRUMENTS *(Continued)*

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

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

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 2013 was HK$201,432,000 (2012: HK$220,957,000) and HK$204,470,000 (2012: HK$227,239,000), 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 remaining 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.

	Weighted average interest rate %	Less than 3 months or on demand *HK$'000*	Total undiscounted cash flows *HK$'000*	Carrying amount at 31.12.2013 *HK$'000*
2013				
Non-derivative financial liabilities				
Trade and other payables	–	24,929	24,929	24,929
Amount due to immediate holding company	3.00	250,356	250,356	248,492
Amounts due to related companies	–	889	889	889
Amount due to a shareholder of a joint venture	–	2,334	2,334	2,334
Amount due to a fellow subsidiary	–	90	90	90
Total		278,598	278,598	276,734

29. 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$'000*	Total undiscounted cash flows *HK$'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 joint venture	–	2,334	2,334	2,334
Amount due to an associate	–	190	190	190
Total		302,213	302,213	302,213

(c) Fair value measurements of financial instruments

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.

30. DEREGISTRATION OF A SUBSIDIARY

On 17 April 2013, Shanghai Zhi Jue Information Technology Limited, a non wholly-owned subsidiary which was inactive in prior years and having insignificant assets and liabilities, was deregistered, resulting in a loss on deregistration of HK$257,000.

31. 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$1,250 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$1,305,000 (2012: HK$1,504,000) represents contributions paid and payable to the above schemes by the Group in respect of the current accounting period. As at 31 December 2013, all contributions in respect of the reporting period had been paid to the above schemes.

32. 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:

	2013	2012
	HK$'000	*HK$'000*
Within one year	**703**	1,112
In the second to fifth year inclusive	**899**	–
	1,602	1,112

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

33. RELATED PARTY DISCLOSURES

(a) The Group had the following transactions with related parties during the year:

Class of related parties	*Note*	Nature of transactions	2013 *HK$'000*	2012 *HK$'000*
Associate		Consultancy fee income	**300**	600
Subsidiary of a 37.5% non-controlling shareholder of a group company	(i)	Sales of lottery terminals	**17,139**	80,858
Associate of a 37.5% non-controlling shareholder of a group company	(i)	Sales of lottery terminals	**22,192**	–
Non-controlling shareholders of a group company		Dividend payable	**6,282**	–
Subsidiaries of substantial shareholders of the Company		Service fee expense	**196**	64
		Sales of lottery terminals	**–**	1,738
		Purchases of inventories	**–**	38,471
Non-controlling shareholder of a group company *(note 34)*		Sales of property, plant and equipment	**2,178**	–
A company beneficially owned by substantial shareholders		Interest expense	**–**	695
Immediate holding company		Interest expense	**7,215**	356
Non-controlling shareholder of a group company		Expenses recharge income	**910**	–

The Company also entered into a deed of license dated 20 November 2013 with its ultimate holding company pursuant to which its ultimate holding company agrees to grant to the Company, at nil consideration, a revocable but non-transferable and non-exclusive license to use Melco's name bearing the English word "Melco" and/or Chinese word "新濠" and logo in connection with the business of the Company commencing from 20 November 2013 until its ultimate holding company ceases to have more than 35% beneficial interest in the Company, subject to the terms and conditions as set out in the aforesaid deed.

Note:

(i) The subsidiary of the 37.5% non-controlling shareholder of a group company became an associate of the 37.5% non-controlling shareholder during 2013.

33. RELATED PARTY DISCLOSURES *(Continued)*

(b) Compensation of key management personnel

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

	2013	2012
	HK$'000	*HK$'000*
Short-term benefits	**6,467**	5,820
Post-employment benefits	**85**	62
Share-based payments	**4,957**	193
	11,509	6,075

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 26.

(d) The Group's outstanding balances with related parties are set out in the consolidated statement of financial position and in notes 20, 21 and 24.

34. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

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 2013 Directly	2013 Indirectly	2012 Directly	2012 Indirectly	Principal activities
Rising Move	BVI	USD100	**100%**	**–**	100%	–	Investment holding
Precious Success	BVI	USD200	**–**	**51%**	–	51%	Investment holding
PAL Development Limited	Hong Kong	HK$250,000,000	**–**	**51%**	–	51%	Investment holding
Global Score Asia Limited	BVI	USD20,000	**–**	**100%**	–	100%	Investment holding
Trade Express Services Inc.	BVI	USD20,000	**–**	**80%**	–	80%	Investment holding
寶加(北京)信息技術有限公司	PRC#	HK$150,000,000	**–**	**51%**	–	51%	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%**	–	51%	Provision of management services for distribution of lottery products
Rise Accord Holdings Limited	BVI	USD100	**–**	**100%**	–	–	Investment holding
China Excellent *(note 17(b))*	Hong Kong	HK$200,000	**–**	**95%**	–	–	Provision of services for distribution of mobile lottery products
精利風彩網路科技(上海)有限公司	PRC#	HK$500,000	**–**	**95%**	–	–	Provision of services for distribution of mobile lottery products
北京電信達信息技術有限公司 ("Beijing Telenet")	PRC#	RMB10,000,000	**–**	**51%**	–	51%	Distribution of lottery terminals
開創紀元電子商務信息有限公司	PRC##	RMB10,000,000	**–**	**33%**	–	33%	Provision of services for distribution of mobile lottery products

These are wholly foreign owned enterprises established in the PRC.

These are private limited liability companies established in the PRC.

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

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

34. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Continued)*

The table below shows details of non wholly-owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Place of incorporation or establishment and operations	Proportion of equity interest and voting rights held by non-controlling interests	Profit (loss) allocated to non-controlling interests		Accumulated non-controlling interests	
			2013	2012	**2013**	2012
			HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Beijing Telenet	PRC	49%	**4,101**	(5,959)	**7,128**	9,309
Precious Success and its subsidiaries	BVI	49%	**(241)**	(1,236)	**2,708**	3,070
China Excellent and its subsidiaries	HK	5%	**(30)**	–	**(152)**	–
Others			**403**	(1,066)	**(378)**	(472)
					9,306	11,907

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

34. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Continued)*

Beijing Telenet

	2013	2012
	HK$'000	*HK$'000*
Current assets	**45,313**	63,825
Non-current assets	**410**	569
Current liabilities	**(17,912)**	(45,396)
Dividend payable	**(13,264)**	–
Equity attributable to owners of the Beijing Telenet	**14,547**	18,998
Revenue recognised in profit or loss	**49,395**	80,858
Expenses recognised in profit or loss	**(40,559)**	(93,019)
Profit (loss) and total comprehensive income (expense) for the year	**8,836**	(12,161)
Net cash inflow from operating activities	**3,638**	878
Net cash inflow from investing activities	**19**	14
Net cash inflow from financing activities	**–**	–
Effect of foreign exchange rate charges	**56**	9
Net cash inflow	**3,713**	901

34. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Continued)*

Precious Success and its subsidiaries

	2013 **HK$'000**	2012 HK$'000
Current assets	**7,183**	6,549
Non-current assets	**2,594**	5,298
Current liabilities	**(3,193)**	(3,767)
Equity attributable to owners of the Company	**9,430**	9,970
Non-controlling interests	**(2,846)**	(1,890)
Revenue recognised in profit or loss	**5,166**	4,344
Expenses recognised in profit or loss	**(6,205)**	(17,252)
Profit (loss) and total comprehensive income (expense) for the year attributable to:		
– Owners of Precious Success and its subsidiaries	**(1,109)**	(11,982)
– Non-controlling interests of Precious Success and its subsidiaries	**70**	(926)
	(1,039)	(12,908)
Net cash outflow from operating activities	**(138)**	(5,111)
Net cash inflow (outflow) from investing activities	**8**	(435)
Net cash (outflow) inflow from financing activities	**–**	126
Effect of foreign exchange rate changes	**116**	(11)
Net cash outflow	**(14)**	(5,431)

35. MAJOR NON-CASH TRANSACTIONS

For the year ended 31 December 2013, the Group entered into the following major non-cash transactions:

(a) Machinery and equipment of the Group with a carrying amount value of HK$1,573,000 was returned to the supplier at their original cost of HK$2,178,000 and offset with the respective payable balance.

(b) Dividend amounting to HK$6,282,000 was declared by a non wholly-owned subsidiary of the Group to its non-controlling interests and the balance was outstanding as of 31 December 2013 and included as amount due to non-controlling interests.

The Group entered into the following major non-cash transactions for the year ended 31 December 2012:

(a) 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.

(b) 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.

(c) On 13 December 2012, all of the outstanding 2013 Convertible Bonds with principal of approximately HK$240,506,000 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.

FINANCIAL SUMMARY

	Year ended 31 December				
	2009	2010	2011	2012	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
RESULTS					
Revenue					
– Continuing operations	86,110	80,608	96,622	86,940	**54,561**
– Discontinued operations	240,319	–	–	–	**–**
	326,429	80,608	96,622	86,940	**54,561**
(Loss)/profit for the year attributable to owners of the Company					
– Continuing operations	(346,562)	(160,908)	(209,219)	78,981	**(17,117)**
– Discontinued operations	(41,457)	–	–	–	**–**
	(388,019)	(160,908)	(209,219)	78,981	**(17,117)**

	As at 31 December				
	2009	2010	2011	2012	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
ASSETS AND LIABILITIES					
Total assets	508,769	442,281	304,521	102,250	**104,049**
Total liabilities	(709,951)	(807,562)	(895,026)	(323,207)	**(305,481)**
	(201,182)	(365,281)	(590,505)	(220,957)	**(201,432)**
Deficiency of equity attributable to owners of the Company	(222,065)	(375,134)	(615,405)	(232,864)	**(210,738)**
Non-controlling interests	20,883	9,853	24,900	11,907	**9,306**
	(201,182)	(365,281)	(590,505)	(220,957)	**(201,432)**