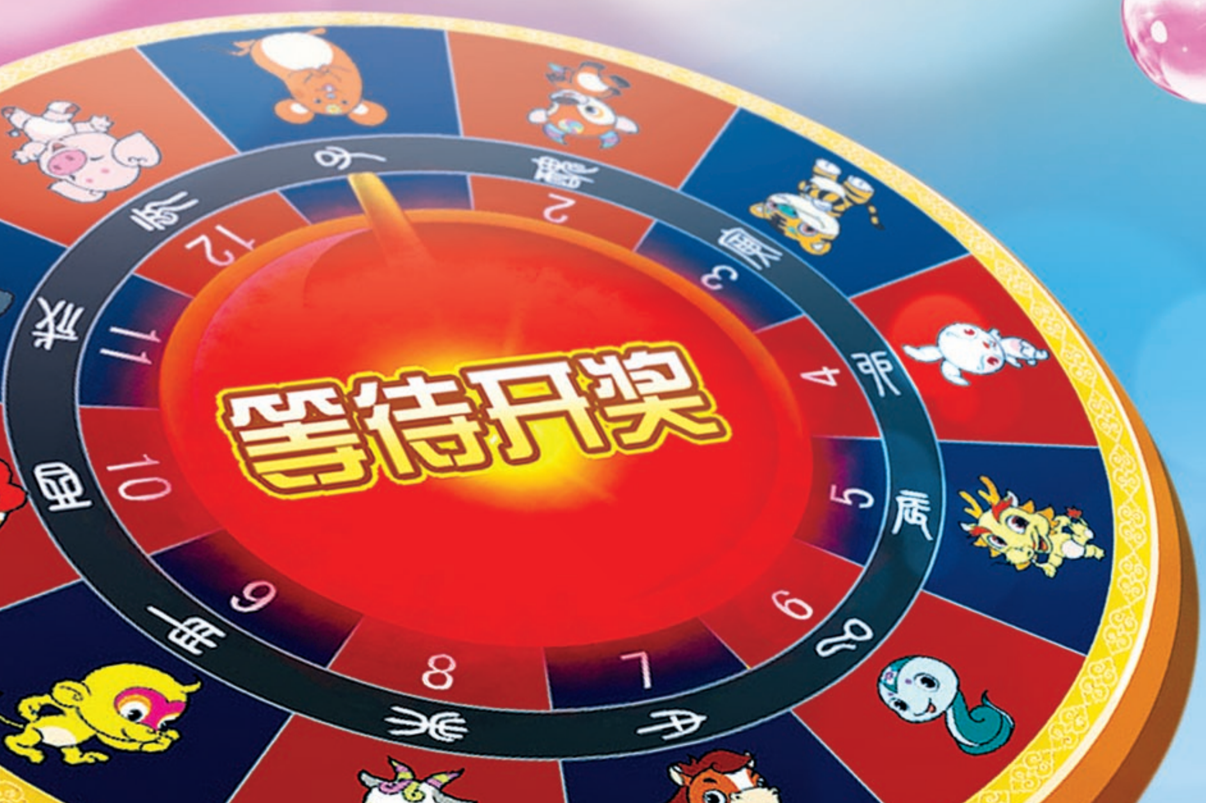
中彩網通控股有限公司

China Netcom Technology Holdings Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8071)

Annual Report 2012



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

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

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Leung Ngai Man *(Chairman)*
Mr. Ng Kwok Chu, Winfield
Ms. Wu Wei Hua

Non-executive Director

Mr. Gao Shikui

Independent Non-executive Directors

Mr. Cai Wei Lun
Mr. Qi Ji
Mr. Niu Zhihui

COMPANY SECRETARY

Ms. Man Tsz Sai, Lavender

COMPLIANCE OFFICER

Mr. Leung Ngai Man

AUTHORISED REPRESENTATIVES

Mr. Leung Ngai Man
Mr. Ng Kwok Chu, Winfield

AUDIT COMMITTEE

Mr. Niu Zhihui *(Chairman)*
Mr. Cai Wei Lun
Mr. Qi Ji

REMUNERATION COMMITTEE

Mr. Niu Zhihui *(Chairman)*
Mr. Cai Wei Lun
Mr. Qi Ji
Mr. Leung Ngai Man

NOMINATION COMMITTEE

Mr. Leung Ngai Man *(Chairman)*
Mr. Cai Wei Lun
Mr. Qi Ji
Mr. Niu Zhihui

AUDITORS

HLB Hodgson Impey Cheng Limited
Chartered Accountants
Certified Public Accountants

PRINCIPAL BANKERS

China CITIC Bank International Limited
Bank of Communications Co., Ltd

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1006, 10th Floor
Tower One Lippo Centre
89 Queensway
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT IN THE CAYMAN ISLANDS

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

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Hong Kong

STOCK CODE

8071

WEBSITE

www.chinanetcomtech.com

CHAIRMAN'S STATEMENT

On behalf of the board ("**Board**") of Directors, I hereby present to our shareholders ("**Shareholders**") the annual results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2012.

FINANCIAL HIGHLIGHTS

During the year, the revenue of the Group for the year ended 31 December 2012 was approximately HK$2,248,000, representing an increase of approximately 12% as compared with that in 2011. The revenue was mainly derived from lottery business and trading of computer hardware and software.

The loss attributable to owners of the Company was approximately HK$290,861,000 for the year ended 31 December 2012, representing a decrease of approximately 53% as compared with that in 2011.

BUSINESS OVERVIEW

During the year, 深圳環彩普達科技有限公司 (Shenzhen Huancai Puda Technology Company Limited, being its unofficial English name), a subsidiary in which the Company has controlling interest, has engaged in various kinds of agreement with different parties to expand its lottery sales business. Some of the agreements were listed as follows:

Agreements with Liaoning Welfare Lottery

On 7 February 2012, 深圳環彩普達科技有限公司 ("**Huancai Puda**") and 遼寧省福利彩票發行中心 (Liaoning Province Welfare Lottery Issuing Centre, being its unofficial English name) ("**Liaoning Welfare Lottery**") entered into (i) a cooperation agreement, pursuant to which Huancai Puda agreed to set up and manage the sales halls of a high payout and quick-result lottery game, namely China Welfare Lottery "Happy 12", in Liaoning Province and act as the sales agent; and (ii) a service agreement, pursuant to which Liaoning Welfare Lottery appointed Huancai Puda to undertake the development and maintenance of the sales management system of "Happy 12". Details of the cooperation agreement and the service agreement were set out in the announcement of the Company dated 13 February 2012. Such sales halls are located in Shenyang and Dalian, Liaoning Province, the PRC and commenced operation in May 2012.

The terminal supply agreement with Scientific Games

On 25 July 2012, Huancai Puda and 美彩科技（中國）有限公司 (Scientific Games (China) Company Limited, being its unofficial English name) ("**SG**") have jointly entered into a lottery terminal supply agreement ("**Lottery Terminal Supply Agreement**"), pursuant to which Huancai Puda will exclusively supply hardware of a type of floor-standing terminals to SG related market. Huancai Puda shall be entitled to receive a percentage of the sales revenues generated by such type of terminals. The Lottery Terminal Supply Agreement shall be valid for a minimum of five years and will extend for another three years provided that Lottery Terminal Supply no written objection is received by either party to the Lottery Terminal Supply Agreement. Details of the Lottery Terminal Supply Agreement were set out in the announcement of the Company dated 7 August 2012.

Sales agency agreement with Chongqing Welfare Lottery

On 28 September 2012, Huancai Puda and 重慶市福利彩票發行中心 (Chongqing Welfare Lottery Issuing Centre, being its unofficial English name) entered into a sales agency agreement ("**Sales Agency Agreement**"), pursuant to which Huancai Puda agreed to set up and manage China Welfare Lottery "Lucky Farms" thematic sales points in Chongqing, the PRC and to act as the sales agent for the sales of welfare lottery in such sales points. "Lucky Farms" is a quick-result lottery game with a payout rate of 59%. It draws at an interval of every ten minutes with a total of 97 draws every day. The business hour of "Lucky Farms" runs from 10 a.m. to 2 a.m. the next day. The Sales Agency Agreement shall be valid for five years and will automatically renew for another three years upon expiry if there is no objection from each party. Details of the Sales Agency Agreement were set out in the announcement of the Company dated 10 October 2012.

Money lending business

The Company has been granted a money lenders licence to carry on money lending business in Hong Kong.

INDUSTRY OVERVIEW

China's lottery industry has maintained the strong growth momentum in 2012, with a total sales of lottery amounting to Renminbi ("**RMB**") 261.52 billion, representing a growth of 18% year on year. Welfare Lottery and Sports Lottery contributed RMB151.03 billion and RMB110.49 billion, increased 18.2% and 17.8% year on year respectively. The top three fastest growing lottery types were Welfare Video Lottery, Sports CTG and Sports Single Match Game, which grew 31.8%, 26.2% and 23.0% year on year respectively.

Currently, the number of lottery consumer in China is over 200 million and the per-capita lottery consumption is increasing. It will be expecting that the total sales volume in lottery market will greatly increase along with the abundant lottery types and increasing bonus.

Furthermore, as a sun rising industry, China lottery industry will have a sustainable development along with the richer non-paper lottery products, enlarging lottery market, updating lottery types, plentiful lottery buying channels, enlarging lottery consumer group and enriching lottery cultural content.

PROSPECT

Year 2012 continued to be a strong year for the China lottery industry, with annual sales well over RMB 261.5 billion, representing another year of increase of approximately 18%.

The Company has been successfully operated the lottery sales halls for "Happy 12" in Liaoning Province in the People's Republic of China ("**PRC**") and will continue to increase the number as well as the efficiency of the sales halls in the coming years. In the meantime, the Group also committed to develop and set up the thematic sales points for "Lucky Farms" in Chongqing at the earliest possible date.

The lottery terminal supply agreement with Scientific Games (China) Company Limited is another integral part of the Company's strategy, as the Company taps on their know-how to introduce various lottery terminals in other provinces in the PRC.

Looking forward, the Company will continue to expand its strong business relationship and management expertise to continue developing lottery sales halls in the PRC, striving to become the leading operator of high frequency lottery sales hall in the PRC. At the same time, the Group will continue to adopt an active and prudent strategy, and keep looking for projects in the PRC lottery industry as well as developing money lending business or other opportunities in line with China's 12th Five-Year Plan.

APPRECIATION

Lastly, I would like to extend my heartfelt appreciation to our valued Shareholders, business partners, advisors, management and staff for their continued support of our efforts to capitalize on this promising industry.

Leung Ngai Man
Chairman of the Board

Hong Kong, 19 March 2013

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATIONAL REVIEW

For the year, the Group's audited revenue from continuing operation and the loss attributable to owners of the Company were approximately HK$2,248,000 and HK$290,861,000 respectively, representing an increase of approximately HK$234,000 and a decrease approximately HK$327,917,000 respectively as compared with the audited revenue from continuing operation of approximately HK$2,014,000 and the loss attributable to owners of the Company of approximately HK$618,778,000 for the year ended 31 December 2011.

FINANCIAL REVIEW

On 29 August 2012, the Company and Mr. Leung entered into the loan capitalisation agreement whereby Mr. Leung agreed to subscribe for, and the Company agreed to allot and issue, the subscriber preferred shares at the issue price of HK$0.60 each for capitalising the loan owed by the Company to Mr. Leung. As at the date of the loan capitalisation agreement, the Company was indebted to Mr. Leung in an aggregate sum of HK$938,000,000 which sum represents the outstanding amount to be settled pursuant to the promissory note. The Directors consider the loan capitalisation will strengthen the financial position and lower the gearing ratio of the Group.

As at 31 December 2012, the Group recorded total assets of approximately HK$640,087,000 (2011: HK$941,766,000), and recorded total liabilities of approximately HK$255,605,000 (2011: HK$791,203,000).

As at 31 December 2012, the Group has cash and bank balances (excluding pledged bank deposit) of approximately HK$36,072,000 (2011: HK161,455,000). The majority bank balances are denominated in RMB and Hong Kong dollars and put in short term deposit.

Capital structure

As at 31 December 2012, the Company's total number of issued ordinary shares was 1,854,235,049 ordinary shares of HK$0.005 each ("**Shares**") (2011: 9,271,175,247 ordinary shares of HK$0.001 each). Changes in the share capital for ordinary shares of the Company during the year were set out in note 32 to the consolidated financial statements.

As at 31 December 2012, the Company's total number of issued non-redeemable convertible preferred shares was 1,563,333,333 preferred shares of HK$0.005 each ("**Preferred Share(s)**") (2011: Nil). Changes in the share capital for non-redeemable convertible preferred shares of the Company during the year were set out in note 33 to the consolidated financial statements. Each of the Preferred Share is convertible into one ordinary share upon full conversion any time after issue.

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

Agreements with Liaoning Welfare Lottery

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The terminal supply agreement with Scientific Games

On 25 July 2012, Huancai Puda and 美彩科技（中國）有限公司 (Scientific Games (China) Company Limited, being its unofficial English name) ("**SG**") have jointly entered into a lottery terminal supply agreement ("**Lottery Terminal Supply Agreement**"), pursuant to which Huancai Puda will exclusively supply hardware of a type of floor-standing terminals to SG related market. Huancai Puda shall be entitled to receive a percentage of the sales revenues generated by such type of terminals. The Lottery Terminal Supply Agreement shall be valid for a minimum of five years and will extend for another three years provided that Lottery Terminal Supply no written objection is received by either party to the Lottery Terminal Supply Agreement. Details of the Lottery Terminal Supply Agreement were set out in the announcement of the Company dated 7 August 2012.

Sales agency agreement with Chongqing Welfare Lottery

On 28 September 2012, Huancai Puda and 重慶市福利彩票發行中心 (Chongqing Welfare Lottery Issuing Centre, being its unofficial English name) entered into a sales agency agreement ("**Sales Agency Agreement**"), pursuant to which Huancai Puda agreed to set up and manage China Welfare Lottery "Lucky Farms" thematic sales points in Chongqing, the PRC and to act as the sales agent for the sales of welfare lottery in such sales points. "Lucky Farms" is a quick-result lottery game with a payout rate of 59%. It draws at an interval of every ten minutes with a total of 97 draws every day. The business hour of "Lucky Farms" runs from 10 a.m. to 2 a.m. the next day. The Sales Agency Agreement shall be valid for five years and will automatically renew for another three years upon expiry if there is no objection from each party. Details of the Sales Agency Agreement were set out in the announcement of the Company dated 10 October 2012.

Completion of placing of unlisted warrants

On 13 July 2012, an aggregate of 362,000,000 unlisted warrants were successfully placed by the Company to not less than six placees, who are third parties independent of and not connected to the Company and its connected persons, at the placing price of HK$0.005 per warrant and the subscription price of HK$0.30 per warrant share. The subscription period for the warrants is 30 months from the date of issue of the warrants.

Upon the exercise in full of the subscription rights attached to the warrants, a maximum of 362,000,000 shares will be allotted and issued. The maximum net proceeds from the placing (without taking into account of the exercise of the subscription rights attaching to the warrants) of unlisted warrants is approximately HK$1.6 million for general working capital of the Group and for future investment opportunities as and when they arise. Details of the placing were set out in the announcements of the Company dated 19 June 2012 and 13 July 2012.

Termination of Discloseable Transaction

On 21 July 2011, Multi Joy Corporation Limited ("**Multi Joy**"), a wholly-owned subsidiary of the Company, and 中國數字圖書館有限責任公司 (China Digital Library Limited Company, being its unofficial English translation) ("**China Digital Library**") entered into an agreement ("**JV Agreement**") for the formation of 中數三網科技 (北京) 有限公司 (Zhongshu Sanwang Technology (Beijing) Limited, being its unofficial English translation), a joint venture company to be owned as to 49% and 51% by Multi Joy and China Digital Library respectively in the PRC to engage in the development and application of computer software, hardware and application system; development, application and operation of multi-media and information technology; sales of self-developed technology and related technology; and information consulting services. The JV Agreement is conditional upon a number of conditions being fulfilled. As one of the conditions precedent to the JV Agreement has not been fulfilled, both parties have mutually agreed to terminate the JV Agreement by entering into a termination agreement on 11 May 2012 with respect to the termination of the JV Agreement. Details of which were set out in the announcements of the Company dated 22 July 2011, 26 July 2011 and 14 May 2012.

Money lending business

On 13 November 2012, Golden Rich Million Limited, a wholly-owned subsidiary of the Company, has been granted a Money Lenders Licence to carry on money lending business in Hong Kong. Related business is still at preparation stage.

Termination of Agreement with Jinse Pingdao

On 18 January 2012, Max Choice Holdings Limited, a wholly-owned subsidiary of the Company, and 上海金色平道文化傳媒有限公司 (Shanghai Jinse Pingdao Cultural Media Limited, being its unofficial English name) ("**Jinse Pingdao**"), the operator of Xingfu lottery channel, entered into an agreement, pursuant to which the Company agreed to set up a joint venture company in the PRC by Huancai Puda and Jinse Pingdao to co-develop TV interactive lottery services in the PRC. Nonetheless, the agreement has been terminated due to the change of market situation.

Disposal of subsidiaries

i. 雲南西部礦業有限公司 ("Yunnan Xibu Mining Company Limited")

In July 2012, the Group disposed of 80% equity interest in Yunnan Xibu Mining Company Limited, being its unofficial English Name ("**Yunnan Xibu**"), which carried out the exploration of mine operations, to an independent third party at a consideration of RMB130,000 (equivalent to approximately HK$160,000), as the Group plans to focus its resources on its core business of lottery business operations and to optimise its asset structure.

ii. 北京市彩贏科技有限公司 ("Beijing Caiyingle Technology Company Limited")

The Company sold to Mr. Leung all interest in Media Hong Kong Investment Limited, a wholly-owned subsidiary of the Company, plus shareholder's loan of HK$11.84 million, at an aggregate consideration of HK$9,300,000. The principal asset of Media Hong Kong Investment Limited is the 65% equity interests in Beijing Caiyingle Technology Company Limited, being its unofficial English Name ("**Beijing Caiyingle**").

The Board considers that the above disposal would enable the Group to divest its loss-making operation and commit the available resources to businesses that provide a better return to the Shareholders. The proceeds from the disposal is for general working capital of the Group. Details of the disposal were set out in the announcements of the Company dated 22 August 2012 and 28 August 2012.

Connected Transaction – the loan capitalisation

On 29 August 2012, the Company and Mr. Leung entered into the Loan Capitalisation Agreement whereby Mr. Leung agreed to subscribe for, and the Company agreed to allot and issue, the Subscriber Preferred Shares at the issue price of HK$0.60 each for capitalising the loan owed by the Company to Mr. Leung. As at the date of the Loan Capitalisation Agreement, the Company was indebted to Mr. Leung in an aggregate sum of HK$938,000,000 which sum represents the outstanding amount to be settled pursuant to the Promissory Note. The Loan Capitalisation completed on 17 December 2012, and 1,563,333,333 Subscriber Preferred Shares were allotted and issued to Mr. Leung pursuant to the terms of the Loan Capitalisation Agreement.

Segment review

During the year, the ordinary activities had been mainly derived from the following two business segments:

(i) Trading of computer hardware and software business – Trading of computer hardware and software in the PRC; and

(ii) Lottery business – Development of computer software, hardware and application system, sale of self-developed technology or results, provision of relevant technical consultancy services in the PRC and development and provision of operation system sector of the PRC lottery market.

MANAGEMENT DISCUSSION AND ANALYSIS

Employee information

As at 31 December 2012, the Group employed a total of 51 (2011: 62) employees. The staff costs, including Directors' remuneration and share-based payment, were approximately HK$23,208,000 (2011: HK$25,961,000) for the year ended 31 December 2012.

The salaries and benefits of the Group's employees are kept at a competitive level and employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus system, which is reviewed annually. The Group also operates a share option scheme adopted by the Company on 29 June 2007 ("**Share Option Scheme**") where options to subscribe for Shares may be granted to the Directors, employees and consultants of the Group. The aim of the Share Option Scheme is to recognise outstanding performance of the staff in order to retain key staff members and for the benefits of the future business development of the Group.

Charge on Group assets

As at 31 December 2012, a fixed deposit of approximately HK$212,000 was pledged for obtaining the corporate card services (2011: HK$210,000).

Future plans for material investments or capital assets

Save as disclosed in this annual report, there was no specific plan for material investments and acquisition of material capital assets as at 31 December 2012. However, the Group will continue to seek new business development opportunities especially in the sector of the PRC lottery market.

Gearing ratio

As at 31 December 2012, the gearing ratio of the Group was 24% (2011: 437%), based on the total borrowings of HK$91,118,000 (2011: HK$657,568,000) and the total equity of approximately HK$384,482,000 (2011: HK$150,563,000).

Exposure to fluctuation in exchange rates

The Group has no significant foreign exchange risk due to limited foreign currency translations.

Contingent liabilities

As at 31 December 2012, the Group had no significant contingent liabilities (2011: Nil).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Leung Ngai Man, aged 52, joined the Group on 2 April 2007 as executive Director and was appointed as the chief executive officer of the Company on 29 June 2007 and subsequently re-designated as the chairman of the Board on 31 March 2008. Mr. Leung is also the compliance officer, authorized representative, chairman of each of the senior management committee and the nomination committee, member of the remuneration committee and directors of various subsidiaries of the Company. He has over 26 years' experience in the areas of trading, property development and management in China. Mr. Leung has established an extensive business and social network and relationship with numerous PRC companies. He commenced business in the property development sector in the 1990s. Mr. Leung is also the chairman of the board, and an executive director of Sino Prosper State Gold Resources Holdings Limited (stock code: 766).

Mr. Ng Kwok Chu, Winfield, aged 54, joined the Group as executive Director on 16 October 2007. Mr. Ng is also an authorized representative, a member of the senior management committee of the Company and directors of various subsidiaries of the Company. He has over 24 years' experience in consumer and commercial finance in the markets of Hong Kong and the People's Republic of China. Currently. Mr. Ng is an executive Director of Sino Prosper State Gold Resources Holdings Limited (stock code: 766) and an independent non-executive director, a member of each of the audit committee and the nomination committee and chairman of the remuneration committee of China Uptown Group Company Limited (stock code: 2330). He was the independent non-executive director of Long Success International (Holdings) Limited (stock code: 8017) during the period from January 2006 to October 2012.

Ms. Wu Wei Hua, aged 42, joined the Group on 11 December 2007 as executive Director. Ms. Wu is also a member of the senior management committee of the Company. She graduated from Donghua University in the PRC and obtained a Bachelor Degree in Textile Engineering. Ms. Wu has been working in the industry of finance and administration management in the PRC since 1995 and has gained extensive management experience throughout these years. She is currently the financial controller of Sino Prosper State Gold Resources Holdings Limited (stock code: 766) and its subsidiaries in the PRC.

Non-executive Director

Mr. Gao Shikui, aged 60, join the Group on 1 November 2012 as non-executive director of the Company. Mr. Gao has over 40 years' experience in the areas of exploration, development, production and sales of crude oil and has held various senior positions in companies engaged in these fields such as中國石油勘探開發有限公司(China Petroleum Exploration Development Company Limited, being its unofficial English translation) and中國海洋石油南海東部有限公司(China Ocean Petroleum South East Company Limited, being its unofficial English translation). He was the managing director of China Everbright Petroleum (International) Limited and China Everbright Petroleum Exploration & Investment Co., Ltd. during November 1998 to December 2007. Mr. Gao was also one of the vice chairman of China Guangdong Petroleum Society and the deputy chairman of China Chamber of Commerce for Petroleum Industry. From 2008 to 2011, he acted as the president of Sysmoto Group Limited and concurrently held the position of chief executive officer of Beijing Sysmoto Joyful Multimedia Co., Ltd. ("**Beijing Sysmoto**"), a subsidiary of Sysmoto Group Limited. Beijing Sysmoto is primarily engaged in development of lottery projects in relation to lottery sales through internet, mobile phones and mobile videos.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Independent Non-executive Directors

Mr. Cai Wei Lun, aged 57, joined the Group on 11 August 2009 as independent non-executive director of the Company. Mr. Cai is also a member of each of the audit committee, the remuneration committee and the nomination committee of the Company. He has over 23 years' experience in the property development sector in China. Mr. Cai is an independent non-executive director and a member of the audit committee of Sino Prosper State Gold Resources Holdings Limited (stock code: 766).

Mr. Qi Ji, aged 25, joined the Group on 29 February 2012 as independent non-executive director of the Company. Mr. Qi is also a member of each of the audit committee, the remuneration committee and the nomination committee of the Company. He graduated from Changchun University of Technology with a degree in Computer Network Technology. Mr. Qi has been engaged in computer software and hardware development and programming. He has extensive experience in web design, website production and management.

Mr. Niu Zhihui, aged 40, joined the Group on 1 November 2012 as independent non-executive director of the Company. Mr. Niu is also the chairman of each of the audit committee and remuneration committee of the Company and a member of the nomination committee of the Company. He graduated from Dongbei University of Finance and Economics in Liaoning Province with a Bachelor Degree in Finance. Mr. Niu is a registered accountant. He has worked in a state-owned bank in the PRC and several accounting firms. Mr. Niu has a profound understanding on the laws of the PRC in relation to accounting and taxation and financial policy and accumulated extensive working experience in finance and accounting. He is an independent non-executive director and chairman of each of the audit committee and the remuneration committee of Sino Prosper State Gold Resources Holdings Limited (stock code: 766).

Senior Management

Mr. Lin Zhi Wei, aged 39, the chief technology officer of the Company and its subsidiaries. Mr. Lin graduated from Tsinghua University in the PRC majoring in automatic control. He was a senior engineer of Chinese Academy of Sciences and was appointed as one of the first batch of expert members of the National E-Government Consultant and Training Expert Committee (國家電子政務諮詢培訓專家委員會) where he took charge of several major government informatisation construction projects, and developed the first 彩證通 (selling lotteries on securities trading platforms) and 彩銀通 (selling lotteries on banking platforms) systems of the PRC. Mr. Lin has rich experience in lottery operation and major information system construction. In 2002, he was engaged in establishing Shenzhen Bozone IT Co. Ltd., and served as its chief operating officer. Mr. Lin was the first one to bring forward the conception of selling lotteries on mobile phone, digital television, movable termination and internet. He focuses on developing and using new public platforms to expand lottery-related businesses.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Ji Feng Qing, aged 47, the chief executive officer of 深圳環彩普達科技有限公司 (Shenzhen Huancai Puda Technology Company Limited, being its unofficial English name). Mr. Ji graduated from Nankai University in the PRC and obtained a Bachelor Degree in History. Currently, he is studying for the Master of Finance in Nankai University. Mr. Ji has been working in the industry of lottery business operation and information technology in the PRC since 1993 and has gained extensive management experience throughout these years. He has over 19 years' experience in the areas of marketing, sales, finance and management in the information technology industry. Mr. Ji was one of the founders of Huancai Puda.

Mr. Wu Bin, aged 38, the chief technology officer of 深圳環彩普達科技有限公司 (Shenzhen Huancai Puda Technology Company Limited, being its unofficial English name). Mr. Wu graduated from Tsinghua University in the PRC and obtained a Master Degree in Electrical Engineering. He has been working in the industry of lottery business operation and electrical engineering in the PRC since 2001 and has gained extensive management experience throughout these years. Mr. Wu has over 12 years' experience in the areas of marketing, sales, and management in the electrical engineering and information technology industry. He was one of the founders of Huancai Puda.

REPORT OF THE DIRECTORS

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

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of its subsidiaries were set out in note 17 to the consolidated financial statements. An analysis of the Group's performance for the year ended 31 December 2012 by business segments was set out in note 6 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The Group's loss for the year ended 31 December 2012 and the state of affairs of the Group and of the Company as at that date were set out in the consolidated financial statements on pages 38 to 137.

The Directors do not recommend the payment of any dividend in respect of the year ended 31 December 2012 (2011: Nil).

SHARE CAPITAL, SHARE OPTIONS, UNLISTED WARRANTS AND CONVERTIBLE BONDS

Details of the movements in the Company's share capital, share options, unlisted warrants and convertible bonds during the year, together with the reasons thereof, were set out in notes 32, 36, 35 and 29 to the consolidated financial statements respectively.

RESERVES

Details of the movements in the reserves of the Company and the Group during the year were set out in note 34 to the consolidated financial statements and the consolidated statement of changes in equity respectively.

DISTRIBUTABLE RESERVES

In accordance with the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium account is distributable to the Shareholders provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be able to pay its debts as they fall due in the ordinary course of business. As at 31 December 2012, the Company did not have any reserves available for distribution (2011: Nil).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year were set out in note 16 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association ("**Articles**") or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new Shares on a pro-rata basis to the existing Shareholders.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the published results and the assets and liabilities of the Group for the last five financial years as extracted from the audited consolidated financial statements of the Group was set out on page 138 of the annual report of the Company for the year ended 31 December 2012 ("**Annual Report**"), of which this report forms part.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the purchases and sales percentage from the major customers and suppliers of the Group was set out below:

		Percentage of total purchases
(1)	**Purchases**	
	– the largest supplier	14.00%
	– the five largest suppliers combined	15.00%

		Percentage of total sales
(2)	**Sales**	
	– the largest customer (Note)	56.49%
	– the five largest customers combined	97.52%

As far as the Directors are aware, none of the Directors or any of their associates, or any Shareholders (which, to the knowledge of the Directors, owns more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and suppliers for the year.

Note: The largest customers are 遼寧省彩票發行中心 and 大連永大宏安稅務師事務所有限公司 which accounted for 56.49% and 24.02% respectively of the total sales of the Group.

REPORT OF THE DIRECTORS

DIRECTORS

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

Executive Directors

Mr. Leung Ngai Man *(Chairman)*
Mr. Ng Kwok Chu, Winfield
Ms. Wu Wei Hua

Non-executive Director

Mr. Gao Shikui	(appointed on 1 November 2012)

Independent Non-executive Directors

Mr. Cai Wei Lun	
Mr. Qi Ji	(appointed on 29 February 2012)
Mr. Niu Zhihui	(appointed on 1 November 2012)
Dr. Leung Wai Cheung	(resigned on 1 November 2012)

In accordance with article 86 (3) of the Articles, Mr. Gao Shikui shall hold office until the forthcoming annual general meeting of the Company ("**AGM**") and being eligible, will offer himself for re-election as Director at the AGM.

In accordance with articles 87 (1) and (2) of the Articles, Mr. Leung Ngai Man and Mr. Cai Wei Lun will retire as Directors by rotation and, being eligible, offer themselves for re-election as Directors at the AGM.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received annual written confirmations from each of its independent non-executive Directors in respect of their independence during the year in accordance with the relevant requirements of the GEM Listing Rules and all independent non-executive Directors are still being considered to be independent.

REPORT OF THE DIRECTORS

DIRECTORS' BIOGRAPHIES

Biographical details of the Directors are set out on pages 12 to 14 of the Annual Report.

DIRECTORS' SERVICE CONTRACTS

None of the Directors who proposed for re-election at the AGM has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTOR'S INTERESTS IN CONTRACTS

Save as disclosed in note 43 to the consolidated financial statements, no Director had a significant beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DISCLOSURE OF INFORMATION ON DIRECTOR PURSUANT TO RULE 17.50A(1) OF THE GEM LISTING RULES

During the reporting period, the updated information on Director discloseable under Rule 17.50A(1) of the GEM Listing Rules is as follows:

– Mr. Ng Kwok Chu, Winfield, an executive Director, resigned as an independent non-executive director and chairman of each of the audit committee, remuneration committee and nomination committee of Long Success International (Holdings) Limited (stock code: 8017) on 6 October 2012.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OR ANY ASSOCIATED CORPORATIONS

As at 31 December 2012, the interests and short positions of the Directors in the share capital of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance, Cap. 571 of the Laws of Hong Kong ("**SFO**"), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules were as follows:

Long positions in the ordinary Shares and underlying Shares

Name of Directors	Capacity	Number of Shares	Number of Underlying Shares	Total number of Shares and underlying Shares	Approximate percentage of the issued share capital
Mr. Leung Ngai Man ("**Mr. Leung**")	Beneficial owner	536,335,000	1,683,416,666 (Notes 1, 2 and 3)	2,219,751,666	119.71%
	Through a controlled corporation	294,880 (Note 4)	–	294,880	0.02%
Mr. Ng Kwok Chu, Winfield ("**Mr. Ng**")	Beneficial owner	94,500	2,000,000 (Note 5)	2,094,500	0.11%
Ms. Wu Wei Hua ("**Ms. Wu**")	Beneficial owner	–	2,000,000 (Note 6)	2,000,000	0.11%

Notes:

1. These underlying Shares comprises of 120,083,333 shares to be issued upon exercise of conversion rights attaching to the Convertible Bonds (as defined below) which was issued by the Company on 27 August 2010 and 1,563,333,333 Subscriber Preferred Shares (as defined below) were allotted and issued by the Company on 17 December 2012.

2. The convertible bonds in an aggregate principal amount of HK$797,500,000 at a conversion price of HK$0.24 per share was issued to Mr. Leung on 27 August 2010 ("**Convertible Bonds**"). Upon full conversion of the Convertible Bonds, a maximum of 3,322,916,666 shares will be issued to Mr. Leung. As at the date of the Annual Report, the Convertible Bonds in the amount of HK$144,100,000 remains outstanding. As a result of the consolidation of every five shares of HK$0.001 each in the issued and unissued share capital of the Company into one consolidated share of HK$0.005 each which became effective on 27 February 2012 ("**2012 Share Consolidation**"), the relevant conversion price was adjusted from HK$0.24 to HK$1.20 per Share and the number of Shares falling to be issued under the outstanding Convertible Bonds was adjusted from 600,416,666 shares to 120,083,333 Shares. Such interests constituted a long position of the Director in a physically settled equity derivative for the purpose of the SFO.

3 1,563,333,333 subscriber preferred shares at an issue price of HK$0.60 per subscriber preferred share were issued to Mr. Leung on 17 December 2012 to capitalize the outstanding amount of approximately HK$938,000,000 due by the Company to Mr. Leung pursuant to the promissory note issued by the Company to Mr. Leung on 27 August 2010 as part of the consideration for the acquisition of the entire equity interests in Pearl Sharp Limited. Such interests constituted a long position of the Director in a physically settled equity derivative for the purpose of the SFO.

4. These Shares were held by Speedy Well Investments Limited ("**Speedy Well**") which was wholly and beneficially owned by Mr. Leung. By virtue of the SFO, Mr. Leung was deemed to be interested in the Shares held by Speedy Well. As a result of the 2012 Share Consolidation, the price and number of these Shares were adjusted.

5. On 10 July 2008, Mr. Ng was granted share options pursuant to the Share Option Scheme to subscribe for a total of 20,000,000 shares at an exercise price of HK$0.1328 per share. The options would be exercisable during the period from 10 July 2008 to 29 June 2017. As a result of the consolidation of every two shares in the issued and unissued share capital of the Company into one consolidated share of HK$0.001 each which became effective on 21 October 2008 ("**2008 Share Consolidation**"), the relevant subscription price was adjusted from HK$0.1328 to HK$0.2656 per consolidated share and the number of consolidated shares falling to be issued under the outstanding share options was adjusted from 20,000,000 shares to 10,000,000 consolidated shares. As a result of the 2012 Share Consolidation, the relevant subscription price was adjusted from HK$0.2656 to HK$1.3280 per Share and the number of Shares falling to be issued under the outstanding share options was adjusted from 10,000,000 consolidated shares to 2,000,000 Shares. Such interests constituted a long position of the Director in a physically settled equity derivative for the purpose of the SFO.

6. On 10 July 2008, Ms. Wu was granted share options, pursuant to the Share Option Scheme to subscribe for a total of 20,000,000 shares at an exercise price of HK$0.1328 per share. The options would be exercisable during the period from 10 July 2008 to 29 June 2017. As a result of the 2008 Share Consolidation, the relevant subscription price was adjusted from HK$0.1328 to HK$0.2656 per consolidated share and the number of consolidated shares falling to be issued under the outstanding share options was adjusted from 20,000,000 shares to 10,000,000 consolidated shares. As a result of the 2012 Share Consolidation, the relevant subscription price was adjusted from HK$0.2656 to HK$1.3280 per Share and the number of Shares falling to be issued under the outstanding share options was adjusted from 10,000,000 consolidated shares to 2,000,000 Shares. Such interests constituted a long position of the Director in a physically settled equity derivative for the purpose of the SFO.

Save as disclosed above, none of the Directors had registered any interest or short positions in the Shares or underlying Shares or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

DIRECTOR'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the paragraph headed "Directors' interests and short positions in the Shares and underlying Shares or any associated corporations" and in the Share Option Scheme disclosure in note 36 to the consolidated financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or their respective spouse or minor children to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

Details of the Share Option Scheme which replaced its old share option scheme adopted on 19 February 2001 are set out in note 36. Details of the share options granted under the Share Option Scheme and remain outstanding as at 31 December 2012 are as follow:

Name or category of participant	Share option type	Number of share options: At 1 January 2012	Granted	Exercised	Forteited/ Lapsed	At 31 December 2012	Date of grant of options	Exercise period of share options	Exercise price of share option# HK$	Closing price of Shares immediately before the date of grant of options HK$
Directors										
Mr. Ng	2008	10,000,000	–	–	–	2,000,000*	10 July 2008	10 July 2008 to 29 June 2017	1.328*	0.258
Ms. Wu	2008	10,000,000	–	–	–	2,000,000*	10 July 2008	10 July 2008 to 29 June 2017	1.328*	0.258
Sub-total		20,000,000	–	–	–	4,000,000*				
Consultants										
In aggregate	2007(a)	48,000,000	–	–	–	9,600,000*	9 July 2007	9 July 2007 to 29 June 2017	1.425*	0.248
	2007(b)	41,000,000	–	–	–	8,200,000*	22 August 2007	22 August 2007 to 29 June 2017	2.030*	0.364
	2008	36,000,000	–	–	–	7,200,000*	10 July 2008	10 July 2008 to 29 June 2017	1.328*	0.258
	2011	15,000,000	–	–	(15,000,000)	–	15 February 2011	15 February 2011 to 29 June 2017	1.665*	0.315
Sub-total		140,000,000	–	–	(15,000,000)	25,000,000*				
Total		160,000,000	–	–	(15,000,000)	29,000,000*				
Weighted average exercise price		0.3137	–	–	–	1.5685*				

Note:

* The number of share options granted and the exercise price of the share options was adjusted as a result of the 2012 Share Consolidation.

SUBSTANTIAL SHAREHOLDER'S INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

As at 31 December 2012, no person or company (other than the Directors) had an interest or short positions in the Shares, underlying Shares and debentures of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO and were directly or indirectly interest in 5% or more of the nominal value of any class of the share capital carrying rights to vote on all circumstances at general meeting of any other members of the Group.

CONTRACT OF SIGNIFICANCE

During the year, the Group did not enter into any contract of significance with its controlling Shareholders or any of its subsidiaries.

During the year, no contract of significance for the provision of services to the Group by a controlling Shareholder or any of its subsidiaries was made.

CONNECTED AND RELATED PARTY TRANSACTIONS

Details of the related party transactions for the year are set out in note 43 to the consolidated financial statements and such related party transactions do not fall under the definition of "connected transaction" or "continuing connected transaction" in chapter 20 of the GEM Listing Rules.

COMPETITION AND CONFLICT OF INTERESTS

None of the Directors or substantial Shareholders or any of their respective associates has engaged in any business that competes or may compete with the businesses of the Group or has any other conflict of interests with the Group.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report. The Company has maintained a sufficient public float in compliance with Rule 18.08B of the GEM Listing Rules.

REPORT OF THE DIRECTORS

EVENT AFTER THE REPORTING PERIOD

Lapse of the acquisition agreement and return of deposit

As announced by the Company on 6 February 2013, an acquisition agreement dated 2 March 2011 (the "**Acquisition Agreement**") and supplemented by a supplemental agreement dated 23 August 2011 (the "**Supplemental Agreement**") entered into between Greatest Profit Investment Limited (the "**Purchaser**"), an indirect wholly-owned subsidiary of the Company, Century Profit Holdings Limited (the "**Vendor**"), the entire interest of which is beneficially owned by the Warrantors (as defined below), and Mr. Lin Zhiwei and the other two beneficial shareholders of the Vendor (the "**Warrantors**"), who are independent third parties, in respect of the acquisition of the entire issued share capital of Carnix Investment Limited, a wholly-owned subsidiary of the Vendor, and the entire issued share capital of Mutual International Limited, a wholly-owned subsidiary of the Vendor, at a consideration of RMB73,500,000 (the "**Consideration**"), had lapsed (the "**Lapse of the Acquisition Agreement**") as certain conditions for completion of the Acquisition Agreement had not been satisfied or waived on or before the agreed date and the parties to the Acquisition Agreement agreed that the deposit of RMB7.35 million, being the partial Consideration, paid by the Purchaser to the Vendor shall be returned to the Purchaser (the "**Return of the Deposit**") in the manner as set out in the announcement of the Company dated 6 February 2013. Details of the Acquisition Agreement, the Supplemental Agreement, the Lapse of the Acquisition Agreement and the Return of the Deposit were set out in the announcements of the Company dated 2 March 2011, 9 March 2011, 31 May 2011, 23 August 2011, 6 March 2012 and 6 February 2013 and the circular of the Company dated 28 October 2011.

AUDIT COMMITTEE

The Company has established an audit committee ("**Audit Committee**") with written terms of reference in compliance with the GEM Listing Rules. During the year, the composition of the Audit Committee has been changed as a result of the appointment of Mr. Qi Ji as independent non-executive Director in February 2012 and the resignation of Dr. Leung Wai Cheung and appointment of Mr. Niu Zhihui as independent non-executive Director in November 2012. As at the date of this report, the Audit Committee comprises three independent non-executive Directors, namely Mr. Niu Zhihui (chairman of the Audit Committee), Mr. Cai Wei Lun and Mr. Qi Ji.

The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control of the Group. During the year, the Audit Committee held four meetings. The annual results of the Group for the year ended 31 December 2012 have been reviewed by the Audit Committee which is of the opinion that the preparation of such results complied with the applicable accounting standards, the GEM Listing Rules and the legal requirements, and that adequate disclosures have been made.

CORPORATE GOVERNANCE

A report detailed corporate governance was set out on pages 25 to 35 in the annual report.

AUDITORS

The accounts for the year ended 31 December 2012 were audited by HLB Hodgson Impey Cheng Limited whose term of office will expire upon the AGM. A resolution for the re-appointment of HLB Hodgson Impey Cheng Limited as the auditors of the Company for the subsequent year is to be proposed at the AGM. The accounts for the years ended 31 December 2010 and 2011 were audited by HLB Hodgson Impey Cheng. In March 2012, the practice of HLB Hodgson Impey Cheng was reorganised as HLB Hodgson Impey Cheng Limited. Save for the above, there has been no other change in the auditors of the Company in any of the preceding three years.

By order of the Board
China Netcom Technology Holdings Limited
Ng Kwok Chu, Winfield
Executive Director

Hong Kong, 19 March 2013

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Board is committed to maintaining high standards of corporate governance in order to uphold the transparency of the Group and safeguard interests of the Shareholders.

The Code on Corporate Governance Practices ("**Former Code**") was revised and renamed as the Corporate Governance Code ("**Revised Code**") on 1 April 2012, contained in Appendix 15 to the GEM Listing Rules. During the financial year under review, the Company has complied with all the code provisions of the Former Code for the period from 1 January 2012 to 31 March 2012 and of the Revised Code for the period from 1 April 2012 to 31 December 2012, except for the following:

(a) Code provision A.2.1 stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual.

Currently, the role of the chairman of the Board is performed by Mr. Leung who possesses essential leadership skills and has extensive knowledge in the business of the Group. The Board believes that vesting the role of the chairman in Mr. Leung provides the Company with strong and consistent leadership, facilitates effective and efficient planning and implementation of business decisions and strategies, and ensures the generation of benefits to the Shareholders.

Although the appointment of the chief executive officer of the Company remains outstanding, the overall management of the Company was performed by Mr. Leung and all the executive Directors who have extensive experience in the business of the Group. Their respective areas of profession spearheaded the Group's overall development and business strategies.

The Company is still looking for a suitable candidate to fill the vacancy of the chief executive officer in order to comply with the Revised Code.

(b) Code provision A.3 of the Former Code stipulates that under rule 5.05 of the GEM Listing Rules, the Board must include at least three independent non-executive Directors.

Following the resignation of Mr. Wang Jun Sui on 28 October 2010 until 28 February 2012, being the date prior to the appointment of Mr. Qi Ji, the number of independent non-executive Directors and Audit Committee members fell below the minimum number required under rules 5.05(1) and 5.28 of the GEM Listing Rules respectively during the year. On 29 February 2012, Mr. Qi Ji was appointed as independent non-executive Director to fill the vacancy in order to comply with the Former Code and the GEM Listing Rules.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct for securities transactions by Directors ("**Code**") which is no less exacting than the required standard of dealings of securities by directors as set out in rules 5.48 to 5.67 of the GEM Listing Rules ("**Required Standard of Dealings**").

Having made specific enquiry of all the Directors, the Company has been notified by Mr. Leung that he inadvertently dealt in the Shares in January 2012 during the blackout period for the publication of the annual results of the Group for the year ended 31 December 2011 and therefore he had not complied with the Required Standard of Dealings and the Code during the year. In response to such non-compliance, the Directors have been reminded of the appropriate procedures for dealings in the Shares under the Code. Disclosure of the change of interest of Mr. Leung in the Company pursuant to such dealing was made in accordance with the SFO.

Save as disclosed above, all the Directors have complied with the Required Standard of Dealings and the Code throughout the year ended 31 December 2012.

THE BOARD OF DIRECTORS AND MEETINGS

The Board comprises the following Directors during the year and up to the date of this report:

Executive Directors:

Mr. Leung Ngai Man *(Chairman)*
Mr. Ng Kwok Chu, Winfield
Ms. Wu Wei Hua

Non-executive Director:

Mr. Gao Shikui	(appointed on 1 November 2012)

Independent Non-executive Directors:

Mr. Cai Wei Lun	
Mr. Qi Ji	(appointed on 29 February 2012)
Mr. Niu Zhihui	(appointed on 1 November 2012)
Dr. Leung Wai Cheung	(resigned on 1 November 2012)

The biographical details of the Directors were set out under the section headed "Biographical Details of Directors and Senior Management" of this report.

The updated list of Directors and their role and function were published on the websites of GEM and the Company.

CORPORATE GOVERNANCE REPORT

The Board meets regularly (at least four times a year at quarterly intervals) for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company. Additional meetings are convened as and when the Board considers necessary. 21 Board meetings (four of which were regular Board meetings) were held during the year. The Directors attended those meetings in person, by phone or through other electronic means of communication. The attendance record of each Director at Board meetings and general meetings during the year is set out below:

			Attendance/Number of Meetings			
			Board Committee			
			Audit	Nomination	Remuneration	General
Name of Directors	*Notes*	**Board**	**Committee**	**Committee**	**Committee**	**Meeting**
Executive Directors						
Mr. Leung Ngai Man		21/21	0/4	2/2	4/4	1/3
Mr. Ng Kwok Chu, Winfield		21/21	3/4	0/0	0/0	3/3
Ms. Wu Wei Hua		21/21	0/4	0/0	0/0	0/3
Non-executive Director						
Mr. Gao Shikui	(1)	1/1	1/1	0/0	0/0	0/0
Independent Non-executive Directors						
Mr. Cai Wei Lun		17/21	4/4	2/2	4/4	0/3
Mr. Qi Ji	(2)	12/16	4/4	1/1	2/2	0/2
Mr. Niu Zhihui	(1)	1/1	1/1	0/0	0/0	0/0
Dr. Leung Wai Cheung	(3)	15/21	3/3	2/2	3/3	1/2

Notes:

(1) Appointed on 1 November 2012.
(2) Appointed on 29 February 2012.
(3) Resigned on 1 November 2012.

The Board has overall responsibility for the stewardship of the Group, including the responsibilities for the adoption of long-term strategies and appointing and supervising senior management to ensure that the operation of the Group is conducted in accordance with the objective of the Group.

Execution of daily operational matters is delegated to the management.

The senior management committee was established on 27 June 2005 and of its members are Mr. Leung, the chairman of the Committee, Mr. Ng Kwok Chu, Winfield and Ms. Wu Wei Hua, all are the executive Directors.

Currently, Mr. Cai Wei Lun, Mr. Qi Ji and Mr. Niu Zhihui are the independent non-executive Directors. All of them are under a term of service of one year commencing from the date of their respective appointment or the date of entering into their respective service contract. All Directors, including the independent non-executive Directors, are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Articles, provided that the appointment may be terminated by the Company or the Director concerned with a written notice pursuant to their service contract or letter of appointments.

The term of appointment of non-executive director is similar to the term of appointment of independent non-executive director. Mr. Gao Shikui was appointed as the non-executive Director on 1 November 2012. He has entered into a service contract with the Company for a term of one year and is subject to retirement and re-election at the AGM in accordance with the Articles.

Save for the co-directorship of Mr. Leung, Mr. Ng Kwok Chu, Winfield, Mr. Cai Wei Lun and Mr. Niu Zhihui in Sino Prosper, and Ms. Wu Wei Hua, being the financial controller of Sino Prosper and its subsidiaries in the PRC, there is no relationship (including financial, business, family or other material/ relevant relationships) among members of the Board. All of them are free to exercise their independent judgement during the year. The Company has received annual written confirmations from Mr. Cai Wei Lun, Mr. Qi Ji and Mr. Niu Zhihui, being the independent non-executive Directors during the year in respect of their independence pursuant to the GEM Listing Rules. The Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines set out in the GEM Listing Rules.

In accordance with the Articles, one-third of the Directors are subject to retirement by rotation or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third shall retire from the office and being eligible offer themselves for re-election provided that every Director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years. The Directors to be retired by rotation shall be those who have been longest in office since their last appointment or re-appointment.

In case where conflict of interest arises involving a substantial Shareholder or a Director, such matter will not be dealt with by written resolutions. Independent non-executive Directors with no conflict of interest will be dealt with such conflict issues.

The board committees of the Company, including the audit committee, the remuneration committee and the nomination committee save all adopted the applicable practices and procedures used in the Board meetings for all committee meetings.

The Company has arranged for appropriate insurance cover in respect of legal action against the Directors.

CONTINUOUS PROFESSIONAL DEVELOPMENT OF THE DIRECTORS

In order to comply with the code provision A.6.5 of the Revised Code, the Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills.

According to the confirmation/records provided by the Directors, all the Directors have participated in the continuous professional developments for the year ended 31 December 2012. During the year, the Directors have participated in the continuous professional developments in the following manners:

Directors	Attending in-house briefings	Giving talks	Attending seminars/ courses/ conference	Reading materials
Executive Directors				
Mr. Leung Ngai Man	3	3	3	3
Mr. Ng Kwok Chu, Winfield			3	3
Ms. Wu Wei Hua	3	3	3	3
Non-executive Director				
Mr. Gao Shikui				3
Independent non-executive Directors				
Mr. Cai Wei Lun	3	3	3	3
Mr. Qi Ji	3	3	3	3
Mr. Niu Zhihui	3	3	3	3

CHAIRMAN AND CHIEF EXECUTIVE

The Chairman of the Company is Mr. Leung Ngai Man, who possesses essential leadership skills and has extensive knowledge in the business of the Group. The appointment of the chief executive officer of the Company remains outstanding. The role of the chief executive is currently taken up by Mr. Leung and all the executive Directors who have extensive experience in the business of the Group. The roles of the Chairman of the Company and the chief executive are not separate and exercised by the same person together with all the executive Directors.

The Company is still looking for a suitable candidate to fill the vacancy of the chief executive officer in order to comply with the Revised Code.

BOARD COMMITTEES

The Board has established the nomination committee, the remuneration committee and the audit committee in order to maintain high level of corporate governance standard of the Company.

Nomination Committee

The Company has established a nomination committee with written terms of reference on 23 March 2012 in order to comply with the Revised Code effective on 1 April 2012. The Committee is chaired by Mr. Leung, the Chairman of the Company and executive Director, and other members include Mr. Cai Wei Lun, Mr. Qi Ji and Mr. Niu Zhihui (all are independent non-executive Directors).

The primary duties of the nomination committee are to review the structure, size and composition of the Board at least annually; identify individuals suitably qualified to become members of the Board, to assess the independence of the independent non-executive Directors and the make recommendation to the Board on relevant matters relating to the appointment or reappointment of directors.

During the year, the nomination committee is responsible for identifying potential directors, reviewing the credentials of the potential director based on his qualifications, skills, experience, credibility and reputation. Once the potential director(s) is/are confirmed, it will make recommendations to the Board for approval.

The nomination committee held two meetings during the year ended 31 December 2012. Individual attendance records of each member of the nomination committee were set out in the table on page 27 of this report.

Remuneration Committee

The Company has established a remuneration committee with written terms of reference on 27 June 2005, comprising all the independent non-executive Directors and the chairman of the Board. The committee is currently chaired by Mr. Niu Zhikui and other members include Mr. Cai Wei Lun, Mr. Leung and Mr. Qi Ji.

The role and functions of the remuneration committee include the determination of the specific remuneration packages of all Directors, which include benefits in kind, pension rights and compensation payments, comprising any compensation payable for loss or termination of their office or appointment. The remuneration committee also considers factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration. The remuneration committee collects and reviews the remuneration plan and policy of all Directors and the senior management of the Group by reference to the prevailing rate which other companies listed on GEM adopt.

During the year, the remuneration committee assessed the performance of executive Directors and approval the terms of executive Directors' service contracts.

During the year ended 31 December 2012, four meetings of the remuneration committee were held. Individual attendance records of each member of the remuneration committee were set out in the table on page 27 of this report.

Audit Committee and Accountabilitiy

The Board is responsible for presenting a balanced, clear and comprehensible assessment of the Group's performance and prospects. The Board is also responsible for preparing the accounts of the Company, which give a true and fair view of the financial position of the Group on a going concern basis, and other price-sensitive announcements and financial disclosures. The management provides all relevant information and records to the Board enabling the Board to make the above assessment and to prepare the accounts and other financial disclosures. In full compliance with Rule 5.28 of GEM Listing Rules, the audit committee, which has been established since the listing of the Company, was composed of the three independent non-executive Directors as at the date of this report. The audit committee is currently chaired by Mr. Niu Zhihui with the other members being Mr. Cai Wei Lun and Mr. Qi Ji who was appointed on 29 February 2012. During the year, the following persons served as members of the audit committee:

Name	Service period
Dr. Leung Wai Cheung	From 1 January 2012 to 31 October 2012
Mr. Cai Wei Lun	From 1 January 2012 to 31 December 2012
Mr. Qi Ji	From 29 February 2012 to 31 December 2012
Mr. Niu Zhihui	From 1 November 2012 to 31 December 2012

During the year, no former partner of the Company's existing auditing firm acted as a member of the audit committee within one year on the date of his or her ceasing to be a partner or had any financial interest in the auditing firm. There was no disagreement between the Board and the audit committee on the selection, appointment, resignation or dismissal of the external auditors during the year. The audit committee's primary duties include ensuring the Group's consolidated financial statements, annual, interim and quarterly reports, and the auditors' report present a true and balanced assessment of the Group's financial position, reviewing the Group's financial control, internal control and risk management systems and reviewing the Group's financial and accounting policies and practices.

The work done by the audit committee during the year ended 31 December 2012 were set out as follows:

(a) reviewing and recommending the annual report, interim report and quarterly reports for the relevant period or year to the Board for approval;

(b) discussing the application of the new accounting policy with the external auditors;

(c) recommending the re-appointment of the auditors to the Board for approval; and

(d) reviewing the internal control system and the recommendation made by the external auditors.

The audit committee is provided with sufficient resources enabling it to discharge its duties. For the financial year ended 31 December 2012, the audit committee held four meetings. Individual attendance reports of each member of the audit committee were set out in the table on page 27 of this report.

The Company Secretary keeps full minutes of all meetings of the audit committee. In line with practices of the meetings of the Board and other committees, draft and final versions of the minutes of the meetings of the audit committee are circulated to all members of the audit committee for comments, approval and record as soon as practicable after each meeting.

The accounts for the year ended 31 December 2012 were audited by HLB Hodgson Impey Cheng Limited whose term of office will expire upon the AGM. The audit committee has recommended to the Board that HLB Hodgson Impey Cheng Limited be re-appointed as the auditors of the Company at the forthcoming AGM.

The audit committee, the remuneration committee and the nomination committee have adopted specific terms of reference clearly defining their respective powers and responsibilities. These committees are required by their terms of reference to report to the Board in relation to their decisions, findings or recommendations, and in certain specific situations, to seek the Board's approval before taking any actions. The Board reviews, on a yearly basis, all delegations by the Board to each of the committees to ensure that such delegations are appropriate and continue to be beneficial to the Group as a whole.

AUDITORS' REMUNERATION

As at 31 December 2012, the fee payable to the auditors in respect of the audit and non-audit services provided by the auditors of the Group is as follows:

Type of services	**Amount** *(HK$'000)*
Audit services	900
Non-audit services	Nil

DIRECTORS' AND AUDITORS' ACKNOWLEDGEMENT

All Directors acknowledged their responsibility for preparing the accounts for the year ended 31 December 2012 which give a true and fair view of the financial position of the Group. The Directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern. The statement of the auditors of the Company about their reporting responsibilities on the consolidated financial statements for the year ended 31 December 2012 was set out in the section "Independent Auditors' Report" of this report.

INTERNAL CONTROL

The Board has overall responsibilities for the establishment and maintenance of an adequate and effective internal control system to safeguard the Group's assets against unauthorized use or disposition, and to protect the interest of Shareholders of the Company.

The Group has in place an effective internal control system which encompasses sound control environment, appropriate segregation of duties, well-defined policies and procedures, close monitoring and is reviewed and enhanced by the management at regular intervals.

The Group is committed to maintaining and upholding good corporate governance practices and internal control system. In respect of the year ended 31 December 2012, the Group has engaged external consultants, CT Partners Consultants Limited, to review the effectiveness of the Group's internal control system on the lottery business under COSO Framework and make recommendations for improvement and strengthening of its internal control system. Based on the reports on the findings from the external consultants, the Board was satisfied that the Group has operated an effective internal control system.

COMPANY SECRETARY

The Company Secretary, Ms. Man Tsz Sai, Lavender, is responsible for facilitating the Board process, as well as communication among Board members of the Company. In accordance with rule 5.15 of the GEM Listing Rules, she has taken no less than 15 hours of the relevant professional training during the year ended 31 December 2012. Ms. Man is also directly responsible for the Group's compliance with the continuing obligation of the GEM Listing Rules, Codes on Takeovers and Mergers and Share Repurchases, Companies Ordinance, Securities and Futures Ordinance and other applicable laws, rules and regulations.

The primary corporate contract person of the Company is Mr. Ng Kwok Chu, Winfield, the executive Director.

SHAREHOLDERS' RIGHTS

Procedures for the Shareholders to convene an extraordinary general meeting

Pursuant to the article 58 of the Articles, any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting ("**EGM**") to be called by the Board for the transaction of any business specified in such requisition.

Such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures for the shareholders to put their enquiries to the Board

The Company is committed to a policy of open and regular communication and reasonable disclosure of information to its Shareholders. The Company delivers quarterly, interim and annual results, reports and publication of the quarterly, interim and annual results announcement and other disclosed information on the websites of the Stock Exchange and the Company to all the Shareholders.

The Company endeavor to maintain two way communications with the Shareholders through various channels. The Shareholders are encouraged to put their enquiries about the Group through the Company's email at info@chinanetcomtech.com or by mail to the address of the Company's principle place of business in Hong Kong at Unit 1006, 10th Floor, Tower One Lippo Centre, 89 Queensway, Hong Kong. All the enquiries are dealt with in timely manner. The Shareholders are also encouraged to attend the AGM and the EGM and to put their enquiries to the Board directly. Notices are duly circulated to the Shareholders in order to ensure each Shareholder is informed to attend the AGM and the EGM. The Chairman of the Board, the chairman of each of the remuneration committee, nomination committee and audit committee and the senior management attend the aforesaid meetings and respond to the Shareholders' enquiries in a promptly manner. Pursuant to the GEM Listing Rules, voting by poll is mandatory at all general meetings. The detailed procedures for conducting a poll are set out in the proxy forms and will be explained by the chairmen of the AGM and the EGM orally in the beginning of the aforesaid meetings. The poll results will be posted on the websites of the Stock Exchange and the Company after the AGM and the EGM.

INVESTOR RELATIONS

The Company believes that maintaining a high level of transparency is a key to enhance investor relations. It is committed to a policy of open and timely disclosure of corporate information to its Shareholders and investment public.

The Company updates its Shareholders on its latest business developments and financial performance through its annual, interim and quarterly reports. The website of the Company (www.chinanetcomtech.com) has provided an effective communication platform to the public and the Shareholders.

CORPORATE GOVERNANCE REPORT

CHANGES IN CONSTITUTIONAL DOCUMENTS

At the EGM held on 22 November 2012, amendments to the memorandum and articles of association of the Company (the "**M&A**") were approved by the Shareholders, mainly to bring the M&A in align with the provisions of Appendix 3 and Appendix 11 to the GEM Listing Rules, to reflect the creation of the preferred shares and the increase of the authorised share capital of the Company and the respective rights, privileges and restrictions of the preferred shares. An updated version of the M&A is available on the websites of the Stock Exchange and the Company.

By order of the Board
China Netcom Technology Holdings Limited
Ng Kwok Chu, Winfield
Executive Director

Hong Kong, 19 March 2013

INDEPENDENT AUDITORS' REPORT

國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

Chartered Accountants
Certified Public Accountants

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

TO THE SHAREHOLDERS OF
CHINA NETCOM TECHNOLOGY HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Netcom Technology Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 38 to 137, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

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

Auditors' responsibility

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

INDEPENDENT AUDITORS' REPORT

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

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

Opinion

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

HLB Hodgson Impey Cheng Limited
Chartered Accountants
Certified Public Accountants

Hui Chun Keung, David
Practising Certificate Number: P05447

Hong Kong, 19 March 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000 (Restated)
Continuing operations			
Revenue	5	**2,248**	2,014
Cost of sales		**(3,574)**	(1,870)
Gross (loss)/profit		**(1,326)**	144
Other income and gains	7	**16,958**	11,363
Administrative expenses		**(36,323)**	(39,942)
Impairment loss of goodwill	18	**(32,940)**	(12,400)
Impairment loss of other intangible assets	20	**(137,355)**	–
Loss on early redemption of promissory note	30	**(32,130)**	(70,497)
Finance costs	8	**(108,295)**	(103,798)
Other operating expenses		**(17,073)**	(22,237)
Share of losses of associates	21	**(364)**	(298)
Loss before tax		**(348,848)**	(237,665)
Income tax (expense)/credit	9	**(34,849)**	3,146
Loss for the year from continuing operations	10	**(383,697)**	(234,519)
Discontinued operations			
Loss for the year from discontinued operations	11	**(2,910)**	(404,995)
Loss for the year		**(386,607)**	(639,514)
Other comprehensive income			
Exchange differences on translating foreign operations		**4,150**	42,735
Reclassification adjustment relating to foreign operations disposed of during the year		**(1,190)**	110
Share of other comprehensive (expense)/income of associates	21	**(38)**	9
Other comprehensive income for the year		**2,922**	42,854
Total comprehensive expense for the year		**(383,685)**	(596,660)
Loss attributable to:			
Owners of the Company		**(290,861)**	(618,778)
Non-controlling interests		**(95,746)**	(20,736)
		(386,607)	(639,514)
Total comprehensive expense attributable to:			
Owners of the Company		**(289,890)**	(589,359)
Non-controlling interests		**(93,795)**	(7,301)
		(383,685)	(596,660)
Loss per share	14		
From continuing and discontinued operations – Basic and diluted (HK cents per share)		**(15.7)**	(34.0)
From continuing operations – Basic and diluted (HK cents per share)		**(15.5)**	(12.0)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment	16	**3,985**	2,297
Goodwill	18	**–**	34,409
Other intangible assets	20	**578,369**	728,462
Interests in associates	21	**7,191**	54
Available-for-sale investment	22	**–**	118
		589,545	765,340
Current assets			
Inventories	23	**110**	488
Trade and other receivables	24	**13,914**	13,777
Amount due from a non-controlling interest of a subsidiary	25	**234**	496
Pledged bank deposit	26	**212**	210
Cash and bank balances	26	**36,072**	161,455
		50,542	176,426
Current liabilities			
Trade and other payables	27	**10,822**	14,886
Amount due to a non-controlling interest of a subsidiary	28	**221**	220
Amount due to an associate	21	**66**	–
Current tax liabilities		**1**	1
		11,110	15,107
Net current assets		**39,432**	161,319
Total assets less current liabilities		**628,977**	926,659
Non-current liabilities			
Convertible bonds	29	**91,118**	79,883
Promissory note	30	**–**	577,685
Deferred tax liabilities	31	**153,377**	118,528
		244,495	776,096
Net assets		**384,482**	150,563
Capital and reserves			
Share capital – ordinary shares	32	**9,271**	9,271
Share capital – non-redeemable convertible preferred shares	33	**7,817**	–
Reserves		**152,731**	(163,648)
Equity attributable to owners of the Company		**169,819**	(154,377)
Non-controlling interests		**214,663**	304,940
Total equity		**384,482**	150,563

The consolidated financial statements on pages 38 to 137 were approved and authorised for issue by the board of directors on 19 March 2013 and signed on its behalf by:

Leung Ngai Man
Director

Ng Kwok Chu, Winfield
Director

STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment	16	–	36
Investments in subsidiaries	17	**321,276**	556,276
		321,276	556,312
Current assets			
Prepayments, deposits and other receivables	24	**62**	3
Amounts due from subsidiaries	17	**157,815**	251,828
Bank balances	26	**28,906**	28,844
		186,783	280,675
Current liabilities			
Other payables and accruals	27	**1,319**	2,109
Amounts due to subsidiaries	17	**22,931**	16,658
		24,250	18,767
Net current assets		**162,533**	261,908
Total assets less current liabilities		**483,809**	818,220
Non-current liabilities			
Convertible bonds	29	**91,118**	79,883
Promissory note	30	–	577,685
Deferred tax liabilities	31	**8,785**	10,639
		99,903	668,207
Net assets		**383,906**	150,013
Capital and reserves			
Share capital – ordinary shares	32	**9,271**	9,271
Share capital – non-redeemable convertible preferred shares	33	**7,817**	–
Reserves	34	**366,818**	140,742
Total equity		**383,906**	150,013

Leung Ngai Man
Director

Ng Kwok Chu, Winfield
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Attributable to owners of the Company										
	Share capital HK$'000	Share premium account HK$'000	Capital redemption reserve HK$'000 (Note 34)	Convertible bonds equity reserve HK$'000	Share options reserve HK$'000	Foreign currency translation reserve HK$'000	Other reserve HK$'000 (Note 34)	Accumulated losses HK$'000	Subtotal HK$'000	Attributable to non-controlling interests HK$'000	Total HK$'000
Balance at 1 January 2011	9,059	2,553,718	1	87,788	14,136	82,016	(49)	(2,345,705)	400,964	310,973	711,937
Loss for the year	–	–	–	–	–	–	–	(618,778)	(618,778)	(20,736)	(639,514)
Other comprehensive income for the year	–	–	–	–	–	29,419	–	–	29,419	13,435	42,854
Total comprehensive income/ (expense) for the year	–	–	–	–	–	29,419	–	(618,778)	(589,359)	(7,301)	(596,660)
Non-controlling interest arising on acquisition of a subsidiary (Note 39)	–	–	–	–	–	–	–	–	–	(30)	(30)
Capital contribution by a non-controlling interest of a subsidiary	–	–	–	–	–	–	–	–	–	1,283	1,283
Recognition of equity-settled share-based payments	–	–	–	–	1,230	–	–	–	1,230	–	1,230
Issue of ordinary shares under share option scheme (Note 32 (i))	17	3,369	–	–	(795)	–	–	–	2,591	–	2,591
Released upon disposal of subsidiaries (Note 40(b))	–	–	–	–	–	–	–	–	–	15	15
Deferred tax relating to convertible bonds	–	–	–	4,252	–	–	–	–	4,252	–	4,252
Exercise of convertible bonds (Note 32 (ii))	195	51,523	–	(25,773)	–	–	–	–	25,945	–	25,945
Balance at 31 December 2011	9,271	2,608,610	1	66,267	14,571	111,435	(49)	(2,964,483)	(154,377)	304,940	150,563

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Attributable to owners of the Company												
	Share capital – ordinary shares HK$'000	Share capital – non-redeemable convertible preferred shares HK$'000	Share premium account HK$'000	Warrants reserve HK$'000	Capital redemption reserve HK$'000 (Note 34)	Convertible bonds equity reserve HK$'000	Share options reserve HK$'000	Foreign currency translation reserve HK$'000	Other reserve HK$'000 (Note 34)	Accumulated losses HK$'000	Subtotal HK$'000	Attributable to non-controlling interests HK$'000	Total HK$'000
Balance at 1 January 2012	9,271	–	2,608,610	–	1	66,267	14,571	111,435	(49)	(2,964,483)	(154,377)	304,940	150,563
Loss for the year	–	–	–	–	–	–	–	–	–	(290,861)	(290,861)	(95,746)	(386,607)
Other comprehensive income for the year	–	–	–	–	–	–	–	971	–	–	971	1,951	2,922
Total comprehensive income/ (expense) for the year	–	–	–	–	–	–	–	971	–	(290,861)	(289,890)	(93,795)	(383,685)
Capital contribution by non-controlling interests of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	604	604
Issue of unlisted warrants (Note 35)	–	–	–	1,810	–	–	–	–	–	–	1,810	–	1,810
Transaction costs attributable to issue of unlisted warrants	–	–	–	(70)	–	–	–	–	–	–	(70)	–	(70)
Issue of non-redeemable convertible preferred shares (Note 33)	–	7,817	604,529	–	–	–	–	–	–	–	612,346	–	612,346
Released upon disposal of subsidiaries (Note 40(a))	–	–	–	–	–	–	–	–	–	–	–	2,914	2,914
Release of reserve upon share options forfeited	–	–	–	–	–	–	(1,230)	–	–	1,230	–	–	–
Balance at 31 December 2012	9,271	7,817	3,213,139	1,740	1	66,267	13,341	112,406	(49)	(3,254,114)	169,819	214,663	384,482

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000 (Restated)
Cash flows from operating activities			
Loss for the year			
From continuing operations		**(383,697)**	(234,519)
From discontinued operations		**(2,910)**	(404,995)
Adjustments for:			
Income tax expense/(credit) recognised in profit or loss		**34,849**	(3,146)
Share of losses of associates		**364**	298
Finance costs recognised in profit or loss		**108,295**	103,798
Interest income		**(1,602)**	(2,438)
Loss on disposal of property, plant and equipment		**213**	7
Gain on disposal of other assets		**(7,501)**	–
Gain on disposal of subsidiaries	40	**(5,289)**	(8,120)
Loss on early redemption of promissory note	30	**32,130**	70,497
Depreciation of property, plant and equipment		**1,696**	623
Amortisation of other intangible assets		**16,657**	21,916
Impairment loss of goodwill		**32,940**	391,981
Impairment loss of other intangible assets		**137,355**	24,187
Expense recognised in respect of equity-settled share-based payments		**–**	1,230
		(36,500)	(38,681)
Movements in working capital			
Increase in trade and other receivables		**(201)**	(2,965)
Decrease/(increase) in amount due from a non-controlling interest of a subsidiary		**262**	(39)
Decrease/(increase) in inventories		**378**	(488)
Decrease in trade and other payables		**(4,042)**	(362)
Increase in amount due to a non-controlling interest of a subsidiary		**1**	8
Increase in amount due to an associate		**66**	–
Cash used in operations		**(40,036)**	(42,527)
Income taxes paid		**–**	(2)
Net cash used in operating activities		**(40,036)**	(42,529)
Cash flows from investing activities			
Interest received		**1,602**	2,142
Increase in pledged bank deposit		**(2)**	–
Decrease/(increase) in short-term bank deposits with maturity more than three months		**124,948**	(112,892)
Payments for property, plant and equipment		**(4,640)**	(747)
Proceed from disposal of property, plant and equipment		**270**	–
Proceed from disposal of available-for-sale investment		**118**	–
Deposit paid for acquisition of non-controlling interest of a subsidiary		**–**	(8,702)
Payments for other intangible assets		**–**	(612)
Net cash outflow on acquisition of subsidiaries	39	**–**	(6,960)
Net cash inflow on disposal of subsidiaries	40	**9,425**	7,960
Net cash generated by/(used in) investing activities		**131,721**	(119,811)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
			(Restated)
Cash flows from financing activities			
Proceeds from issue of ordinary shares under share option scheme		**–**	2,591
Proceed from issue of unlisted warrants		**1,810**	–
Payment for transaction cost attributable to issue of unlisted warrants		**(70)**	–
Repayment of promissory note		**(93,000)**	(140,000)
Capital contribution by non-controlling interests of subsidiaries		**604**	1,283
Interest paid		**(1,529)**	(1,674)
Net cash used in financing activities		**(92,185)**	(137,800)
Net decrease in cash and cash equivalents		**(500)**	(300,140)
Cash and cash equivalents at the beginning of year		**36,507**	336,116
Effect of foreign exchange rate changes, net		**65**	531
Cash and cash equivalents at the end of year		**36,072**	36,507
Analysis of the balances of cash and cash equivalents	26		
Cash and bank balances		**36,072**	161,455
Short-term bank deposits with maturity more than three months		**–**	(124,948)
Cash and cash equivalents at the end of year		**36,072**	36,507

1. GENERAL INFORMATION

China Netcom Technology Holdings Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (1998 Revision) of the Cayman Islands and its shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business in Hong Kong of the Company are disclosed in the corporate information section of the annual report.

During the year ended 31 December 2012, the Company and its subsidiaries (together referred to as the "Group") were involved in the following principal activities:

– trading of computer hardware and software
– provision of lottery system management service and operation of lottery sales halls services in the People's Republic of China (excluding Hong Kong) (the "PRC")

During the year ended 31 December 2011, the Group discontinued the staff secondment operation as set out in Note 11.

During the year ended 31 December 2012, the Group discontinued the exploration of mines operation as set out in Note 11.

The consolidated financial statements are presented in Hong Kong dollars (HK$), which is the same as the functional currency of the Company.

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

In the current year, the Group has applied the following new and revised Hong Kong Accounting Standards ("HKAS(s)"), HKFRS(s), amendments and interpretations ("HK(IFRIC) – Int") (hereinafter collectively referred to as the "new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"):

Amendments to HKFRS 1	*Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
Amendments to HKFRS 7	*Disclosures – Transfers of Financial Assets*
Amendments to HKAS 12	*Deferred Tax: Recovery of Underlying Assets*

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

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

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

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

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

HKFRS 9 *Financial Instruments*

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

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

HKFRS 9 *Financial Instruments* (Continued)

Key requirements of HKFRS 9 are described below:

- All recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent reporting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting 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. Previously, 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 have a significant impact on the amounts reported in respect of the Group's financial assets and financial liabilities. Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

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

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

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

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements. HK (SIC) – Int 12 *Consolidation – Special Purpose Entities* will be withdrawn upon the effective date of HKFRS 10. Under HKFRS 10, there is only one basis for consolidation, that is, control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

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

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

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

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

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

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

The directors anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. The application of these five standards may have significant impact on amounts reported in the consolidated financial statements. However, the directors have not yet performed a detailed analysis of the impact of the application of these standards and hence have not yet quantified the extent of the impact.

HKFRS 13 *Fair Value Measurement*

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies 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 in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 *Financial Instruments: Disclosures* will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that the application of the new standard may affect certain amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

Amendments to HKFRS 7 and HKAS 32 *Offsetting Financial Assets and Financial Liabilities and the related disclosures*

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 amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

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

Amendments to HKFRS 7 and HKAS 32 *Offsetting Financial Assets and Financial Liabilities and the related disclosures* (Continued)

The amendments to HKFRS 7 are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

The directors anticipate that the application of these amendments to HKAS 32 and HKFRS 7 may result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future.

Amendments to HKAS 1 *Presentation of Items of Other Comprehensive Income*

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

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

Annual Improvements to HKFRSs 2009 – 2011 Cycle issued in June 2012

The *Annual Improvements to HKFRSs 2009 – 2011 Cycle* include a number of amendments to various HKFRSs. The amendments are effective for annual periods beginning on or after 1 January 2013. Amendments to HKFRSs include:

- amendments to HKAS 1 *Presentation of Financial Statements*;
- amendments to HKAS 16 *Property, Plant and Equipment*; and
- amendments to HKAS 32 *Financial Instruments: Presentation*.

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

Annual Improvements to HKFRSs 2009 – 2011 Cycle issued in June 2012 (Continued)

Amendments to HKAS 1

HKAS 1 *Presentation of Financial Statements* clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the previous period. The additional comparative information does not need to contain a complete set of financial statements.

In addition, the amendment clarifies that the opening statement of financial position as at the beginning of the preceding period must be presented when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position. However, the related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

Amendments to HKAS 16

The amendments to HKAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in HKAS 16 and as inventory otherwise. The directors do not anticipate that the amendments to HKAS 16 will have a significant effect on the Group's consolidated financial statements.

Amendments to HKAS 32

The amendments to HKAS 32 clarify that income tax on distributions to holders of an equity instrument and transaction costs of an equity transaction should be accounted for in accordance with HKAS 12 *Income Taxes*. The directors anticipate that the amendments to HKAS 32 will have no material effect on the Group's consolidated financial statements.

The directors anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange ("GEM Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

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

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

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

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

Changes in the Group's ownership interests in existing subsidiaries

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

3. 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 interest 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 recognised 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 retained earnings as specified by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Business combinations

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

- 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.

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

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

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

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 recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

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

The Group's policy for goodwill arising on the acquisition of an associate is described below.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsidiaries

Subsidiaries are entities over which the Group has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are excluded from consolidation from the date that control ceases.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less any impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Investments in associates

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

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in associates (Continued)

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. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 the sale of goods is recognised when the goods 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.

Revenue from provision of management, marketing and operating services for lottery system and lottery halls is recognised when the services are rendered.

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 estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing

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

The Group as lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Group as lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at 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 carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve (attributed to non-controlling interests as appropriate).

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

In relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in equity under the heading of foreign currency translation reserve.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Retirement benefit costs

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Hong Kong Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance, for all of its employees who are eligible to participate in the Hong Kong Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated statement of comprehensive income as they become payable in accordance with the rules of the Hong Kong Scheme. The assets of the Hong Kong Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the Hong Kong Scheme.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Retirement benefit costs (Continued)

Pursuant to the relevant regulations of the government of the PRC, subsidiaries of the Company operating in the PRC participate in a local municipal government retirement benefits scheme (the "PRC Scheme"), whereby the subsidiaries are required to make contributions, as calculated under the rules specified by the relevant PRC local government authorities, to the PRC Scheme to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the subsidiaries. The only obligation of the Group with respect to the PRC Scheme is to pay the ongoing required contributions under the PRC Scheme mentioned above. Contributions under the PRC Scheme are charged to the consolidated statement of comprehensive income as incurred. There are no provisions under the PRC Scheme whereby forfeited contributions may be used to reduce future contributions.

Share-based payment arrangements

Share options granted by the Company to employees of the Group in an equity-settled share-based payment arrangement

For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of share options granted at the date of grant and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

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

For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When 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 accumulated losses.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payment arrangements (Continued)

Share options granted to consultants in an equity-settled share-based payment transactions

Share options issued in exchange for goods or services are measured at the fair values of the goods or 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 immediately, unless the goods or services qualify for recognition as assets. Corresponding adjustment has been made to equity (share options reserve).

Taxation

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

Current 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 comprehensive income/income statement because of items 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

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases 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 deferred tax 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 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax (Continued)

The carrying amount of deferred tax assets is reviewed at the end of each 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 realised, based on tax rates (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 for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised 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.

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 useful lives, using the straight-line method as follows:

Furniture, fixtures and fittings	2-5 years
Computer and office equipment	2-5 years
Motor vehicles	5-10 years
Leasehold improvements	Over the shorter of term of lease or 3 years

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

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.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each 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 accumulated impairment losses.

Internally-generated intangible assets - research and development expenditure

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

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

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (Continued)

Internally-generated intangible assets - research and development expenditure (Continued)

- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

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

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill 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 are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Exploration and evaluation assets

Exploration and evaluation assets are stated at cost less impairment losses. Exploration and evaluation assets include topographical and geological survey drilling, exploratory drillings, sampling and trenching and expenditure incurred for the technical feasibility studies and incurred to secure further mineralisation in the mine ore. Expenditure incurred prior to obtaining the exploration and evaluation rights to explore an area are written off as incurred. Once the technical feasibility and commercial viability of extracting the mineral resource had been determined and that the project reaches development phase, exploration and evaluation costs capitalised are amortised. If exploration property is abandoned during the evaluation stage, the total expenditure thereon will be written off.

Impairment of exploration and evaluation assets

The carrying amount of the exploration and evaluation assets is reviewed annually and adjusted for impairment in accordance with HKAS 36 *Impairment of Assets* whenever one of the following events or changes in circumstances indicate that the carrying amount may not be recoverable (the list is not exhaustive):

- the period for which the Group has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the Group has decided to discontinue such activities in the specific area; or
- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset exceeds its recoverable amount.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of tangible and intangible assets other than goodwill and exploration and evaluation assets

At the end of each 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 asset 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 to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units 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 the asset may be impaired.

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

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) 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 cash-generating unit) 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 cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a first-in-first-out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts (if any).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Financial instruments

Financial assets and financial liabilities are recognised 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 and 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 the following specified categories: financial assets "at fair value through profit or loss" (FVTPL), "available-for-sale" (AFS) financial assets and "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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

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 and points 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.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or

- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the consolidated statement of comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

AFS financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

Equity and debt securities held by the Group that are classified as AFS financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to interest income calculated using the effective interest method and dividends on AFS equity investments are recognised in profit or loss.

Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

Dividends on AFS equity investments are recognised in profit or loss when the Group's right to receive the dividends is established.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy in respect of impairment loss on financial assets below).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, amount due from a non-controlling interest of a subsidiary, pledged bank deposit and cash and bank balances) are measured at amortised cost using the effective interest method, less any impairment.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when 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 investment have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

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

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, 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 average credit period, as well as 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 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).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

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

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

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

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity instruments

Classification as debt or equity

Debt 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 an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Non-redeemable convertible preferred shares

Non-redeemable convertible preferred shares in which the Group has no contractual obligation to redeem and will be only settled by the exchange of fixed number of the Group's own equity instruments is classified as equity instruments.

The balance will be transferred to share capital and share premium once preferred shares are converted. Any excess of par value of issued ordinary shares will be transferred to share premium.

Convertible bonds

The component parts of compound instruments (convertible bonds) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to share premium. Where the conversion option remains unexercised at the maturity date of the convertible bonds, the balance recognised in equity will be transferred to accumulated losses. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognised directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortised over the lives of the convertible bonds using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL on initial recognition.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the consolidated statement of comprehensive income.

Other financial liabilities

Other financial liabilities (including trade and other payables, amount due to a non-controlling interest of a subsidiary, amount due to an associate, convertible bonds and promissory note) are subsequently measured at amortised cost using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

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 and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis other than financial liabilities classified as at FVTPL.

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.

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.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person,

- (i) has controls or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a); and
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, management is 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 underlying 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.

Key sources of estimation uncertainty

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.

Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy as stated in Note 3. This requires an estimation of the value in use of the cash-generating unit(s) ("CGU(s)") to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows (Note 19).

Lottery business

An impairment charge of approximately HK$32,940,000 (2011: HK$12,400,000) arose in the CGU of the lottery business during the course of the 2012 resulting in the carrying amount of the CGU of the lottery business being written down to its recoverable amount.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty (Continued)

Estimated impairment of other intangible assets – concession rights

The carrying amount of concession rights is reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amount of these assets, or, where appropriate, the CGU(s) to which they belong, is calculated as the higher of its fair value less costs to sell and value in use. Estimating the value in use requires the Group to estimate the expected future cash flows from the CGU(s) and to choose a suitable discount rate in order to calculate the present value of those cash flows (Note 19).

As at 31 December 2012, the carrying amount of concession rights related to lottery business is approximately HK$578,369,000 (2011: HK$728,462,000), after deducting the accumulated amortisation and impairment of approximately HK$1,900,494,000 (2011: HK$1,737,150,000) as detailed in Note 20.

Since the lottery business is in preliminary stage, significant estimation is required in determining the future cash flows expected to arise from the lottery business. The directors are of the view that there is great potential for its lottery business as there are not many companies providing such similar service. Where the actual future cash flows are less than expected, a material impairment loss may arise.

5. REVENUE

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

	2012	2011
	HK$'000	HK$'000
Sale of lottery equipment	**17**	–
Sale of computer hardware and software	**540**	1,590
Provision of management, marketing, and operating services for lottery system and lottery halls	**1,691**	424
	2,248	2,014

6. SEGMENT INFORMATION

Information reported to the board of directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided.

Specifically, the Group's reportable and operating segments under HKFRS 8 are as follows:

(a) Trading of computer hardware and software business – Trading of computer hardware and software in the PRC; and

(b) Lottery business – Development of computer software, hardware and application system, sale of self-developed technology or results, provision of relevant technical consultancy services in the PRC and development and provision of operation system sector of the PRC lottery market.

6. SEGMENT INFORMATION (Continued)

Segment revenue and results

The following is an analysis of the Group's revenue and results from continuing operations by reportable segment:

	Trading of computer hardware and software		Lottery business		Total	
	2012	2011	**2012**	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
						(Restated)
Segment revenue:						
Sales to external customers	**540**	1,590	**1,708**	424	**2,248**	2,014
Segment loss	**(493)**	(259)	**(321,933)**	(220,623)	**(322,426)**	(220,882)
Interest and other income					**2,218**	11,396
Interest on bank overdraft					**–**	(1)
Central administration costs					**(28,640)**	(28,178)
Loss before tax (continuing operations)					**(348,848)**	(237,665)

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current year (2011: Nil).

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 3. Segment loss represents the loss incurred by each segment without allocation of central administration costs, interest and other income and interest on bank overdraft. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

6. SEGMENT INFORMATION (Continued)

Segment assets and liabilities

	Trading of computer hardware and software		Lottery business		Total	
	2012	2011	**2012**	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
						(Restated)
Segment assets	**1,490**	2,252	**593,042**	776,788	**594,532**	779,040
Corporate and unallocated assets					**45,499**	162,530
Total segment assets					**640,031**	941,570
Assets relating to staff secondment and exploration of mines operations (now discontinued)					**56**	196
Consolidated assets					**640,087**	941,766
Segment liabilities	**85**	313	**252,708**	780,507	**252,793**	780,820
Corporate and unallocated liabilities					**2,812**	10,314
Total segment liabilities					**255,605**	791,134
Liabilities relating to staff secondment and exploration of mines operations (now discontinued)					**–**	69
Consolidated liabilities					**255,605**	791,203

6. SEGMENT INFORMATION (Continued)

Segment assets and liabilities (Continued)

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to operating segments other than pledged bank deposit and other unallocated head office and corporate assets. Goodwill and other intangible assets are allocated to operating segments; and

- all liabilities are allocated to operating segments other than other unallocated head office and corporate liabilities.

Other segment information

Continuing operations

	Trading of computer hardware and software		Lottery business		Total	
	2012	2011	**2012**	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
						(Restated)
Depreciation	**34**	28	**1,523**	418	**1,557**	446
Unallocated depreciation					**139**	176
Total depreciation					**1,696**	622
Loss on disposal of property, plant and equipment	**–**	–	**258**	7	**258**	7
Unallocated gain on disposal of property, plant and equipment					**(47)**	–
Total loss on disposal of property, plant and equipment – net					**211**	7

6. SEGMENT INFORMATION (Continued)

Other segment information (Continued)

Continuing operations (Continued)

	Trading of computer hardware and software		Lottery business		Total	
	2012	2011	**2012**	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
						(Restated)
Share of losses of associates	**–**	–	**364**	298	**364**	298
Loss on early redemption of promissory note	**–**	–	**32,130**	70,497	**32,130**	70,497
Effective interest on convertible bonds	**–**	–	**11,235**	14,884	**11,235**	14,884
Effective interest on promissory note	**–**	–	**97,060**	88,913	**97,060**	88,913
Amortisation of other intangible assets	**–**	–	**16,657**	21,916	**16,657**	21,916
Impairment loss of goodwill	**–**	–	**32,940**	12,400	**32,940**	12,400
Impairment of other intangible assets	**–**	–	**137,355**	–	**137,355**	–
Additions to non-current assets	**4**	189	**4,585**	9,835	**4,589**	10,024
Unallocated					**51**	17
Total additions to non-current assets					**4,640**	10,041

6. SEGMENT INFORMATION (Continued)

Geographical information

The Group operates in two principal geographical areas – the PRC and Hong Kong.

The Group's revenue from continuing operations from external customers by location of operations and information about its non-current assets by location of assets are detailed below:

	Revenue from external customers		Non-current assets*	
	2012	2011	**2012**	2011
	HK'000	HK'000	**HK'000**	HK'000
				(Restated)
PRC	**2,248**	2,014	**589,487**	764,969
Hong Kong	**–**	–	**58**	369
	2,248	2,014	**589,545**	765,338

* Non-current assets excluding those relating to staff secondment and exploration of mines operations.

Information about major customers

For the year ended 31 December 2012, there were two customers with revenue of approximately HK$540,000 and HK$1,270,000 respectively which accounted for more than 10% of the total revenue related to trading of computer hardware and software and lottery business segments.

For the year ended 31 December 2011, there were three customers with revenue of approximately HK$530,000, HK$530,000 and HK$530,000 respectively which accounted for more than 10% of the total revenue related to trading of computer hardware and software segment.

7. OTHER INCOME AND GAINS

	2012 HK$'000	2011 HK$'000 (Restated)
Continuing operations		
Bank interest income	**1,602**	2,437
Net foreign exchange gain	**279**	213
Gain on disposal of subsidiaries (Note 40)	**7,519**	8,120
Gain arising on change in fair value of financial assets classified as held for trading	**–**	478
Gain on disposal of other assets	**7,501**	–
Sundry income	**57**	115
	16,958	11,363

8. FINANCE COSTS

	2012 HK$'000	2011 HK$'000
Continuing operations		
Interest on bank overdraft	**–**	1
Effective interest on convertible bonds	**11,235**	14,884
Effective interest on promissory note	**97,060**	88,913
	108,295	103,798

9. INCOME TAX EXPENSE/(CREDIT) (RELATING TO CONTINUING OPERATIONS)

Income tax recognised in profit or loss

	2012 **HK$'000**	2011 HK$'000
Current tax		
PRC Enterprise Income Tax	**–**	–
Deferred tax	**34,849**	(3,146)
Total income tax expense/(credit) recognised in profit or loss	**34,849**	(3,146)

Hong Kong Profits Tax is calculated at 16.5% (2011: 16.5%) of the estimated assessable profit for both years. No provision for Hong Kong Profits Tax had been made as the Group had no assessable profits arising in or derived from Hong Kong for both years.

Under the prevailing tax law in the PRC, the Enterprise Income Tax rate of the PRC subsidiaries and associates, other than that stated below, is 25% for both years.

In year 2009, 深圳環彩普達科技有限公司, transliterated as Shenzhen Huancai Puda Technology Company Limited ("Huancai Puda"), an indirect 51% owned subsidiary of the Group, was recognised as a new high-tech enterprise and was entitled to a preferential tax rate of 15% from 31 December 2009 to 31 December 2012. From 1 January 2013 onwards, provision for PRC Enterprise Income Tax for Huancai Puda is calculated as 25% of its estimated assessable profits.

9. INCOME TAX EXPENSE/(CREDIT) (RELATING TO CONTINUING OPERATIONS) (Continued)

Income tax recognised in profit or loss (Continued)

The tax expense/(credit) for the year can be reconciled to the loss before tax per the consolidated statement of comprehensive income as follows:

	2012 HK$'000	2011 HK$'000 (Restated)
Loss before tax (from continuing operations)	**(348,848)**	(237,665)
Tax at the Hong Kong Profits Tax rate of 16.5% (2011: 16.5%)	**(57,560)**	(39,215)
Tax effect of share of losses of associates	**60**	49
Tax effect of expenses not deductible for tax purpose	**37,779**	38,695
Tax effect of income not taxable for tax purpose	**(3,106)**	(2,680)
Tax effect of tax losses not recognised	**–**	32
Tax effect on different tax rate of group entities operating in other jurisdictions	**(161)**	(27)
Effect on deferred tax balances resulting from a change in tax rate	**57,837**	–
Income tax expense/(credit) for the year (relating to continuing operations)	**34,849**	(3,146)

Income tax recognised directly in equity

	2012 HK$'000	2011 HK$'000
Deferred tax		
Exercise of convertible bonds	**–**	(4,252)
Total income tax recognised directly in equity	**–**	(4,252)

10. LOSS FOR THE YEAR FROM CONTINUING OPERATIONS

	2012 HK$'000	2011 HK$'000 (Restated)
Loss for the year from continuing operations has been arrived at after charging:		
Cost of inventories recognised as an expense (included in cost of sales)	**495**	1,445
Auditors' remuneration	**900**	900
Employee benefits expense (excluding directors' emoluments) (Note (i)):		
– Salaries and other benefits	**14,288**	11,338
– Contributions to retirement benefits schemes	**317**	250
Directors' emoluments	**8,139**	13,535
Total staff costs	**22,744**	25,123
Minimum lease payments paid under operating leases in respect of land and buildings	**2,398**	2,099
Depreciation of property, plant and equipment	**1,696**	622
Amortisation of other intangible assets (Note (ii))	**16,657**	21,916
Loss on disposal of property, plant and equipment (Note (ii))	**211**	7

Notes:

(i) Employee benefits expense (excluding directors' emoluments) included equity-settled share-based payments of approximately Nil (2011: HK$1,230,000) disclosed above.

(ii) Amortisation of other intangible assets and loss on disposal of property, plant and equipment are included in other operating expenses.

11. DISCONTINUED OPERATIONS

In November 2011, the Group decided to cease its staff secondment business as the Group plans to focus its resources on its core business of lottery business operations and to optimise its asset structure.

In July 2012, the Group disposed of its 80% equity interest in 雲南西部礦業有限公司, transliterated as Yunnan Xibu Mining Company Limited ("Yunnan Western"), which carried out the exploration of mines operations, to an independent third party at a consideration of Renminbi ("RMB") 130,000 (equivalent to approximately HK$160,000), as the Group plans to focus its resources on its core business of lottery business operations and to optimise its asset structure (Note 40(a)).

Analysis of loss for the year from discontinued operations

The combined results of the discontinued operations included in the loss for the year are set out below. The comparative loss and cash flows from discontinued operations have been re-presented to include those operations classified as discontinued in the current year.

	2012	2011
	HK$'000	HK$'000
		(Restated)
Loss for the year from discontinued operations		
Revenue	**–**	–
Cost of sales	**–**	–
Other income and loss – net	**–**	(19)
Administrative expenses	**(678)**	(1,208)
Impairment loss of goodwill	**–**	(379,581)
Impairment loss of other intangible assets	**–**	(24,187)
Loss on disposal of property, plant and equipment included in other operating expenses	**(2)**	–
Loss before tax	**(680)**	(404,995)
Attributable income tax	**–**	–
Loss on disposal of discontinued operation (including approximately HK$857,000 reclassification of foreign currency translation reserve from equity to profit or loss on disposal of the operation) (Note 40(a))	**(2,230)**	–
Loss for the year from discontinued operations	**(2,910)**	(404,995)

11. DISCONTINUED OPERATIONS (Continued)

Analysis of loss for the year from discontinued operations (Continued)

	2012 HK$'000	2011 HK$'000 (Restated)
Loss for the year from discontinued operations attributable to:		
Owners of the Company	**(2,774)**	(399,913)
Non-controlling interest	**(136)**	(5,082)
	(2,910)	(404,995)
Loss for the year from discontinued operations include the following:		
Employee benefits expense (excluding directors' emoluments):		
– Salaries and other benefits	**302**	523
– Contributions to retirement benefits scheme	**52**	98
Directors' emoluments	**110**	217
Total staff costs	**464**	838
Minimum lease payments paid under operating leases in respect of:		
– Land and buildings	**54**	87
– Office equipment	**11**	15
Net foreign exchange loss	**–**	20
Depreciation of property, plant and equipment	**–**	1
Loss on disposal of property, plant and equipment	**2**	–

11. DISCONTINUED OPERATIONS (Continued)

Cash flows from discontinued operations

	2012 HK$'000	2011 HK$'000 (Restated)
Net cash (outflows)/inflows from operating activities	(102)	53
Net cash inflows from investing activities	–	1
Net cash (outflows)/inflows	(102)	54

12. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the eight (2011: five) directors were as follows:

	Fees HK$'000	Salaries and other benefits HK$'000	Contributions to retirement benefits schemes HK$'000	Equity-settled share-based payments HK$'000	Discretionary bonuses HK$'000	Total HK$'000
2012						
Executive directors						
Leung Ngai Man	–	6,574	14	–	–	6,588
Ng Kwok Chu, Winfield	–	624	14	–	–	638
Wu Wei Hua	–	862	14	–	–	876
Non-executive director						
Gao Shikui (Note (ii))	10	–	–	–	–	10
Independent non-executive directors						
Cai Wei Lun	65	–	–	–	–	65
Qi Ji (Note (i))	22	–	–	–	–	22
Niu Zhihui (Note (ii))	–	–	–	–	–	–
Leung Wai Cheung (Note (iii))	50	–	–	–	–	50
	147	8,060	42	–	–	8,249

12. DIRECTORS' EMOLUMENTS (Continued)

	Fees HK$'000	Salaries and other benefits HK$'000	Contributions to retirement benefits schemes HK$'000	Equity-settled share-based payments HK$'000	Discretionary bonuses HK$'000	Total HK$'000
2011						
Executive directors						
Leung Ngai Man	–	6,536	12	–	5,000	11,548
Ng Kwok Chu, Winfield	–	520	12	–	400	932
Wu Wei Hua	–	737	12	–	400	1,149
Independent non-executive directors						
Cai Wei Lun	63	–	–	–	–	63
Leung Wai Cheung (Note (iii))	60	–	–	–	–	60
	123	7,793	36	–	5,800	13,752

Notes:

(i) Appointed on 29 February 2012

(ii) Appointed on 1 November 2012

(iii) Resigned on 1 November 2012

During the years ended 31 December 2011 and 2012, since the appointment of chief executive officer of the Company remains outstanding, no emoluments were paid to the chief executive officer of the Company.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2011: Nil).

13. EMPLOYEES' EMOLUMENTS

Employee benefits expense (excluding directors' emoluments)

	2012 **HK$'000**	2011 HK$'000
Salaries and other benefits	**14,590**	10,631
Equity-settled share-based payments	**–**	1,230
Contributions to retirement benefits schemes	**369**	348
	14,959	12,209

Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, two (2011: three) were directors of the Company whose emoluments are included in the disclosure in Note 12 above. The emoluments of the remaining three (2011: two) individuals were as follows:

	2012 **HK$'000**	2011 HK$'000
Salaries and other benefits	**7,918**	3,500
Contributions to retirement benefits schemes	**–**	12
	7,918	3,512

Their emoluments fell within the following bands:

	Number of individuals	
	2012	2011
Emolument bands		
HK$1,000,001 – HK$1,500,000	**–**	1
HK$2,000,001 – HK$2,500,000	**1**	–
HK$2,500,001 – HK$3,000,000	**2**	1

During the year ended 31 December 2012, no emoluments were paid by the Group to any of the five highest paid individuals including directors, as an inducement to join or upon joining the Group (2011: Nil) or as compensation for loss of office (2011: Nil).

14. LOSS PER SHARE

From continuing and discontinued operations

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

	2012	2011
	HK$'000	HK$'000
Loss		
Loss for the year attributable to owners of the Company for the purposes of basic and diluted loss per share	**(290,861)**	(618,778)

Number of shares

	2012	2011
	'000	'000
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	**1,854,235**	1,820,581

The computation of diluted loss per share did not assume the exercise of the Company's potential ordinary shares granted under the Company's share option scheme, non-redeemable convertible preferred shares, convertible bonds and outstanding warrants since their exercise and conversion would have an anti-dilutive effect.

14. LOSS PER SHARE (Continued)

For continuing operations

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

Loss figures are calculated as follows:

	2012 HK$'000	2011 HK$'000 (Restated)
Loss for the year attributable to owners of the Company	**(290,861)**	(618,778)
Add:		
Loss for the year from discontinued operations attributable to owners of the Company (Note 11)	**2,774**	399,913
Loss for the purposes of basic and diluted loss per share from continuing operations	**(288,087)**	(218,865)

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

For discontinued operations

Basic and diluted loss per share for the discontinued operations is HK0.15 cent per share (2011: HK21.97 cents per share), based on the loss for the year from the discontinued operations of approximately HK$2,774,000 (2011: HK$399,913,000) and the denominators detailed above for both basic and diluted loss per share.

15. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

Of the consolidated loss for the year attributable to owners of the Company of approximately HK$290,861,000 (2011: HK$618,778,000), a loss of approximately HK$145,193,000 (2011: HK$175,228,000) has been dealt with in the financial statements of the Company.

16. PROPERTY, PLANT AND EQUIPMENT

Group

	Furniture, fixtures and fittings HK$'000	Computer and office equipment HK$'000	Motor vehicles HK$'000	Leasehold improvements HK$'000	Total HK$'000
Cost					
Balance at 1 January 2011	628	1,706	728	–	3,062
Additions	57	690	–	–	747
Disposals	(3)	(35)	–	–	(38)
Derecognised on disposal of subsidiaries	(10)	–	–	–	(10)
Acquisition through business combination (Note 39)	–	6	–	–	6
Effect of foreign currency exchange differences	18	52	–	–	70
Balance at 31 December 2011	690	2,419	728	–	3,837
Additions	65	1,617	820	2,138	4,640
Disposals	–	(37)	(419)	(249)	(705)
Derecognised on disposal of subsidiaries	(25)	(63)	(818)	(209)	(1,115)
Effect of foreign currency exchange differences	3	10	(2)	–	11
Balance at 31 December 2012	733	3,946	309	1,680	6,668
Accumulated depreciation and impairment					
Balance at 1 January 2011	(88)	(566)	(295)	–	(949)
Eliminated on disposals of assets	1	30	–	–	31
Eliminated on disposals of subsidiaries	9	–	–	–	9
Depreciation expense	(56)	(421)	(146)	–	(623)
Effect of foreign currency exchange differences	1	(9)	–	–	(8)
Balance at 31 December 2011	(133)	(966)	(441)	–	(1,540)

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group (Continued)

	Furniture, fixtures and fittings HK$'000	Computer and office equipment HK$'000	Motor vehicles HK$'000	Leasehold improvements HK$'000	Total HK$'000
Balance at 1 January 2012	(133)	(966)	(441)	–	(1,540)
Eliminated on disposals of assets	–	26	196	–	222
Eliminated on disposals of subsidiaries	6	15	104	208	333
Depreciation expense	(471)	(585)	(168)	(472)	(1,696)
Effect of foreign currency exchange differences	–	(2)	–	–	(2)
Balance at 31 December 2012	(598)	(1,512)	(309)	(264)	(2,683)
Carrying amounts					
Balance at 31 December 2012	**135**	**2,434**	**–**	**1,416**	**3,985**
Balance at 31 December 2011	557	1,453	287	–	2,297

Company

	Motor vehicle HK$'000
Cost	
Balance at 1 January 2011, 31 December 2011 and 31 December 2012	309
Accumulated depreciation and impairment	
Balance at 1 January 2011	(212)
Depreciation expense	(61)
Balance at 31 December 2011	(273)
Depreciation expense	(36)
Balance at 31 December 2012	(309)
Carrying amounts	
Balance at 31 December 2012	**–**
Balance at 31 December 2011	36

17. INVESTMENTS IN SUBSIDIARIES

Company

	2012 HK$'000	2011 HK$'000
Unlisted shares, at cost	–	–
Capital contributions	2,661,276	2,661,276
Impairment losses recognised	(2,340,000)	(2,105,000)
	321,276	556,276

The amounts due from/(to) subsidiaries are unsecured, interest-free and repayable on demand.

Particulars of the Company's principal subsidiaries at 31 December 2012 are as follows:

Name of subsidiary	Place of incorporation/ registration/ operations	Particulars of issued and fully paid share capital/ registered capital	Proportion ownership interest held by the Company Directly	Indirectly	Principal activities
E-silkroad.net Corporation	British Virgin Islands ("BVI")	1 ordinary share of 1 United States dollar ("US$")	100%	–	Investment holding
Greatest High Holdings Limited	BVI	1 ordinary share of US$1	100%	–	Investment holding
China Nonferrous Metals Resources Investment Limited	BVI	1 ordinary shares of US$1	–	100%	Investment holding
Easywin International Holdings Limited	BVI	1 ordinary share of US$1	100%	–	Investment holding
Pearl Sharp Limited	BVI	1 ordinary share of US$1	–	100%	Investment holding
E-silkroad.net Online Exhibition Limited	Hong Kong	10,000 ordinary shares of HK$1 each	–	100%	Development of e-commerce business, provision of web page design and website maintenance services and provision of administrative services
Greatest Profit Investment Limited	Hong Kong	1 ordinary share of HK$1	–	100%	Investment holding

17. INVESTMENTS IN SUBSIDIARIES (Continued)

Company (Continued)

Name of subsidiary	Place of incorporation/ registration/ operations	Particulars of issued and fully paid share capital/ registered capital	Proportion ownership interest held by the Company Directly	Indirectly	Principal activities
Max Choice Holdings Limited	Hong Kong	1 ordinary share of HK$1	100%	–	Investment holding
大連兆忠科技有限公司 ("Dalian Merit Billion")	PRC*	RMB2,800,000 (2011: RMB1,800,000)	–	100%	Trading of computer hardware and software
Huancai Puda	PRC**	RMB41,819,548 (2011: RMB40,810,000)	–	51%	Development of computer software, hardware and application system, sale of self-developed technology or results and provision of relevant technical consultancy services

* Dalian Merit Billion is a wholly-foreign owned enterprise established in the PRC.

** Huancai Puda is a Sino-foreign equity joint venture established in the PRC.

The above table 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.

18. GOODWILL

Group

	2012 HK$'000	2011 HK$'000
Cost		
Balance at beginning of year	**1,670,757**	1,616,525
Additional amounts recognised from business combination occurring during the year (Note 39)	**–**	9,288
Derecognised on disposal of subsidiaries	**(1,232,146)**	–
Effect of foreign currency exchange differences	**9,509**	44,944
Balance at end of year	**448,120**	1,670,757
Accumulated impairment losses		
Balance at beginning of year	**(1,636,348)**	(1,214,509)
Impairment loss recognised in the year	**(32,940)**	(391,981)
Derecognised on disposal of subsidiaries	**1,230,558**	–
Effect of foreign currency exchange differences	**(9,390)**	(29,858)
Balance at end of year	**(448,120)**	(1,636,348)
Carrying amounts		
Balance at 31 December	**–**	34,409

19. IMPAIRMENT TESTING FOR CGU CONTAINING GOODWILL AND OTHER INTANGIBLE ASSETS

The carrying amounts of goodwill and concession rights as at 31 December 2011 and 2012 were allocated to the CGU of lottery business for impairment testing.

The basis of the recoverable amount of the lottery business' CGU and the major underlying assumptions are summarised below:

The recoverable amount of the lottery business' CGU is determined based on value in use calculation which uses cash flow projections based on financial budgets approved by management covering periods ranged from two to six years (2011: two to seven years) in accordance with the terms of cooperation agreements. The cash flow projections have been extrapolated using a steady 22.04% (2011: 24.66%) per annum growth rate and a discount rate of 24.77% (2011: 22.71%) per annum. The key assumptions for the value in use calculation are those regarding the discount rate, growth in revenue and direct costs during the periods. The management estimates discount rate that reflects current market assessments of the time value of money and the risk specific to the CGU. In performing the impairment testing, the directors of the Company have made reference to a valuation performed by an independent valuer.

During the year ended 31 December 2012, the Group recognised impairment losses of approximately HK$32,940,000 and HK$137,355,000 (2011: HK$12,400,000 and Nil) respectively in relation to goodwill and concession rights allocated to the CGU associated with the lottery business.

20. OTHER INTANGIBLE ASSETS

Group

	Exploration and evaluation assets HK$'000 (Note (a))	Concession rights HK$'000 (Note (b))	Total HK$'000
Cost			
Balance at 1 January 2011	23,036	2,377,560	2,400,596
Additions	612	–	612
Effect of foreign currency exchange differences	861	88,052	88,913
Balance at 31 December 2011	24,509	2,465,612	2,490,121
Disposal of a subsidiary	(24,650)	–	(24,650)
Effect of foreign currency exchange differences	141	13,251	13,392
Balance at 31 December 2012	–	2,478,863	2,478,863
Accumulated amortisation and impairment			
Balance at 1 January 2011	–	(1,653,699)	(1,653,699)
Amortisation expense	–	(21,916)	(21,916)
Impairment loss recognised in profit or loss	(24,187)	–	(24,187)
Effect of foreign currency exchange differences	(322)	(61,535)	(61,857)
Balance at 31 December 2011	(24,509)	(1,737,150)	(1,761,659)
Amortisation expense	–	(16,657)	(16,657)
Impairment loss recognised in profit or loss	–	(137,355)	(137,355)
Eliminated on disposal of a subsidiary	24,650	–	24,650
Effect of foreign currency exchange differences	(141)	(9,332)	(9,473)
Balance at 31 December 2012	–	(1,900,494)	(1,900,494)
Carrying amounts			
Balance at 31 December 2012	**–**	**578,369**	**578,369**
Balance at 31 December 2011	–	728,462	728,462

20. OTHER INTANGIBLE ASSETS (Continued)

Group (Continued)

Notes:

(a) The exploration and evaluation assets include topographical and geological survey drilling, exploratory drillings, sampling and trenching and expenditure incurred for the technical feasibility studies and incurred to secure further mineralisation in the mine ore after Yunnan Western obtained the exploration and evaluation rights of the exploration area.

The exploration and evaluation assets acquired were measured under the cost model after the initial recognition. At the end of each reporting period, the exploration and evaluation assets are measured using the cost model subject to impairment.

During the year ended 31 December 2011, the carrying amount of exploration and evaluation assets of the Group was written down by approximately HK$24,187,000.

During the year ended 31 December 2012, the Group disposed of its 80% equity interest in Yunnan Western to an independent third party at a consideration of RMB130,000 (equivalent to approximately HK$160,000) (Note 40(a)).

(b) The amount of concession rights represents the value in use of contractual rights stated in the cooperation agreements that Huancai Puda and its subsidiary entered into with several lottery issuing centres for providing software system and technical service. The fair value of the concession rights on initial recognition was arrived at on the basis of a valuation carried out by an independent professional qualified valuer not connected with the Group. The valuation was determined by reference to discounted cash flow projections. At the end of each reporting period, the concession rights is measured using the cost model subject to impairment.

The amount of concession rights is amortised on a straight-line method over the period over three to eight years in accordance with the terms of the cooperation agreements.

As at 31 December 2012, the recoverable amount of the concession rights was assessed by the directors with reference to the professional valuation as at 31 December 2012 performed by an independent valuer (Note 19) and an impairment loss of concession rights of approximately HK$137,355,000 (2011: Nil) was charged to the consolidated statement of comprehensive income.

21. INTERESTS IN ASSOCIATES

Group

Details of the Group's interests in associates are as follows:

	2012 HK$'000	2011 HK$'000
Unlisted investments at cost	**7,921**	382
Share of post-acquisition losses and other comprehensive expense, net of dividends received	**(730)**	(328)
	7,191	54

The amount due to an associate is unsecured, interest-free and repayable on demand.

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

Name of entity	Place of registration/ operations	Particulars of fully paid registered capital	Proportion of nominal value of issued capital held by the Group	Principal activities
安徽環彩信息科技有限公司	PRC	RMB1,000,000	40% (indirect)	Development of computer software, hardware and application system, sale of self-developed technology or results and provision of relevant technical consultancy services
深圳精彩明天科技有限公司	PRC	RMB28,571,428 (Note)	30% (indirect)	Development of computer software, hardware and application system, sale of self-developed technology and trading of automated system equipment and communication devices

Note:

The Group contributed to the registered capital of 深圳精彩明天科技有限公司 of assets in the amount of RMB8,571,429, equivalent to approximately HK$10,559,000.

21. INTERESTS IN ASSOCIATES (Continued)

Group (Continued)

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

	2012 HK$'000	2011 HK$'000
Total assets	**35,446**	141
Total liabilities	**(1,220)**	(6)
Net assets	**34,226**	135
Group's share of net assets of associates	**10,280**	54
Total revenue	**–**	37
Total loss for the year	**(1,212)**	(745)
Group's share of losses of associates	**(364)**	(298)
Group's share of other comprehensive (expense)/income of associates	**(38)**	9

22. AVAILABLE-FOR-SALE INVESTMENT

Group

Available-for-sale investment comprises:

	2012 HK$'000	2011 HK$'000
Unlisted equity investment	**–**	118

The above unlisted equity investment represents equity investment in a private entity established in the PRC.

The investment was measured at cost less impairment at the end of each reporting period because the range of reasonable fair value estimates was so significant that the directors of the Company were of the opinion that its fair value cannot be measured reliably.

In November 2012, the Group disposed of its unlisted equity investment to an independent third party at a consideration of RMB100,000.

23. INVENTORIES

Group

	2012 HK$'000	2011 HK$'000
Computer software	–	488
Lottery equipment	110	–
	110	488

24. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000
Trade receivables	–	27	–	–
Prepayments, deposits and other receivables	13,914	13,750	62	3
	13,914	13,777	62	3

Group

The Group allows an average credit period of 30 days to its trade customers. The following is an ageing analysis of net trade receivables based on invoice date at the end of the reporting period:

	2012 HK$'000	2011 HK$'000
0 – 30 days	–	3
31 – 60 days	–	2
61 – 90 days	–	–
91 – 120 days	–	1
Over 120 days	–	21
	–	27

24. TRADE AND OTHER RECEIVABLES (Continued)

Group (Continued)

Trade receivables disclosed above included amounts (see below for aged analysis) which were past due at the end of the reporting period for which the Group had not recognised an allowance for doubtful debts because there had not been a significant change in credit quality and the amounts were still considered recoverable. The Group did not hold any collateral or other credit enhancements over these balances nor did it have a legal right of offset against any amounts owed by the Group to the counterparty.

The ageing analysis of trade receivables that were not impaired is as follows:

	2012 **HK$'000**	2011 HK$'000
Neither past due nor impaired	–	3
Past due but not impaired		
– overdue by 1 – 30 days	–	2
– overdue by 31 – 60 days	–	–
– overdue by 61 – 90 days	–	1
– overdue over 90 days	–	21
	–	27

Included in the balance of prepayments, deposits and other receivables of the Group at 31 December 2012 was a refundable deposit of approximately RMB7,350,000, equivalent to approximately HK$9,020,000 (2011: RMB7,350,000, equivalent to approximately HK$8,702,000) in relation to the acquisition of the additional 49% equity interest in Huancai Puda (Note 45).

25. AMOUNT DUE FROM A NON-CONTROLLING INTEREST OF A SUBSIDIARY

The amount due is unsecured, interest-free and repayable on demand.

26. CASH AND BANK BALANCES/PLEDGED BANK DEPOSIT

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at banks and in hand	**36,284**	161,665	**28,906**	28,844
Less: Pledged bank deposit	**(212)**	(210)	**–**	–
Cash and bank balances	**36,072**	161,455	**28,906**	28,844
Less: Short-term bank deposits with maturity more than three months	**–**	(124,948)	**–**	–
Cash and cash equivalents	**36,072**	36,507	**28,906**	28,844

Pledged bank deposit represents deposit pledged to bank for obtaining the corporate card services.

Bank balances carry interest at floating rates based on daily bank deposit rates. The pledged bank deposit carries fixed interest rate of 0.50% (2011: 0.82%) per annum.

Included in cash at banks and in hand of the Group is approximately HK$964,000 (2011: HK$4,757,000) of bank balances denominated in RMB placed with banks in the PRC. RMB is not freely convertible into other currencies, however, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

27. TRADE AND OTHER PAYABLES

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payables	**13**	11	**–**	–
Other payables and accruals	**10,809**	14,875	**1,319**	2,109
	10,822	14,886	**1,319**	2,109

Group

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

	2012	2011
	HK$'000	HK$'000
0 – 60 days	**1**	5
61 – 90 days	**1**	1
Over 90 days	**11**	5
	13	11

28. AMOUNT DUE TO A NON-CONTROLLING INTEREST OF A SUBSIDIARY

The amount due is unsecured, interest-free and repayable on demand.

29. CONVERTIBLE BONDS – GROUP AND COMPANY

The Company issued approximately 3,322,900,000 zero-coupon HK dollar denominated convertible bonds at a total principal amount of HK$797.5 million to Mr. Leung Ngai Man ("Mr. Leung"), a substantial shareholder, the chairman and executive director of the Company. The convertible bonds have a maturity period of 5 years from the issue date and can be convertible into ordinary share of the Company at HK$0.005 each for every HK1.20 convertible bonds at the holder's option (after adjusted for the share consolidation as effected on 27 February 2012). Conversion may occur at any time between 27 August 2010 and 26 August 2015.

The convertible bonds contain two components: liability and equity elements. The equity element amounted to HK$439,210,000 was presented in equity as part of the "convertible bonds equity reserve". The effective interest rate of the liability component for the convertible bonds on initial recognition was 17.35% per annum.

No convertible bonds were converted during the year ended 31 December 2012.

During the year ended 31 December 2011, convertible bonds with aggregate principal amount of HK$46,800,000 were converted into ordinary shares of HK$0.005 each of the Company at the conversion price of HK$1.20 per share (after adjusted for the share consolidation effected on 27 February 2012). Accordingly a total 39,000,000 ordinary shares at HK$0.005 each (after adjusted for the share consolidation effected on 27 February 2012) were issued.

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

	HK$'000
At 1 January 2011	90,944
Effective interest expense charged	14,884
Arising from exercise of convertible bonds	(25,945)
At 31 December 2011 and 1 January 2012	79,883
Effective interest expense charged	11,235
At 31 December 2012	**91,118**

30. PROMISSORY NOTE – GROUP AND COMPANY

The Company issued a promissory note with a principal amount of HK$1,200,000,000 to Mr. Leung. Under the terms of the promissory note, the promissory note with principal amount of HK$1,200,000,000 is unsecured, interest bearing at 0.15% per annum and has a maturity period 5 years from the date of issue but can be repaid in whole or in part before maturity at the discretion of the Company at its principal amount and accrued interest up to the redemption date. The promissory note was fair valued at initial recognition with an effective interest rate of 17.35% per annum.

During the year ended 31 December 2012, the Company early redeemed part of the promissory note with total principal amounts of approximately HK$93,000,000 (2011: HK$140,000,000) and incurred an early redemption loss of approximately HK$32,130,000 (2011: HK$70,497,000).

The remaining outstanding promissory note with total principal amounts of approximately HK$938,000,000 owed by the Company to Mr. Leung was capitalised by issuing 1,563,333,333 preferred shares of HK$0.005 each on 17 December 2012 (Note 33).

31. DEFERRED TAXATION

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

Group

	Concession rights HK$'000	Convertible bonds HK$'000	Total HK$'000
At 1 January 2011	108,579	17,347	125,926
Credit to profit or loss	(690)	(2,456)	(3,146)
Credit directly to equity	–	(4,252)	(4,252)
At 31 December 2011 and 1 January 2012	107,889	10,639	118,528
Charge/(credit) to profit or loss	36,703	(1,854)	34,849
At 31 December 2012	**144,592**	**8,785**	**153,377**

31. DEFERRED TAXATION (Continued)

Group (Continued)

Under the PRC Enterprise Income Tax 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. At 31 December 2012 and 2011, no deferred tax liabilities for withholding tax have been recognised as the Group's PRC subsidiaries incurred accumulated losses for the period since 1 January 2008.

At the end of the reporting period, the Group had estimated unused tax losses of approximately HK$42,505,000 (2011: HK$55,989,000) arising from subsidiaries operating outside Hong Kong which is available for setting off against future taxable profit of that subsidiary is due to expire within one to five years and estimated unused tax losses of approximately HK$53,048,000 (2011: HK$53,062,000) available for offset against future profits that may be carried forward indefinitely. No deferred tax asset has been recognised in respect of the estimated unused tax losses due to the unpredictability of future profit streams.

Company

	Convertible bonds HK$'000
At 1 January 2011	17,347
Credit to profit or loss	(2,456)
Credit directly to equity	(4,252)
At 31 December 2011 and 1 January 2012	10,639
Credit to profit or loss	(1,854)
At 31 December 2012	**8,785**

32. SHARE CAPITAL – ORDINARY SHARES

	Number of shares '000	Share capital HK$'000
Authorised:		
At 1 January 2011 and 31 December 2011, ordinary shares of HK$0.001 each	100,000,000	100,000
Share consolidation (Note (iii))	(80,000,000)	–
At 31 December 2012, ordinary shares of HK$0.005 each	**20,000,000**	**100,000**
Issued and fully paid:		
At 1 January 2011, ordinary shares of HK$0.001 each	9,059,175	9,059
Exercise of share options (Note (i))	17,000	17
Exercise of convertible bonds (Note (ii))	195,000	195
At 31 December 2011, ordinary shares of HK$0.001 each	9,271,175	9,271
Share consolidation (Note (iii))	(7,416,940)	–
At 31 December 2012, ordinary shares of HK$0.005 each	**1,854,235**	**9,271**

Notes:

(i) Exercise of share options

Share options were exercised by option holders during the year ended 31 December 2011 to subscribe for a total of 17,000,000 ordinary shares of HK$0.001 each by payment of subscription monies of approximately HK$2,591,000, of which approximately HK$17,000 was credited to share capital and the balance of approximately HK$2,574,000 was credited to the share premium account.

(ii) Exercise of convertible bonds

During the year ended 31 December 2011, 195,000,000 ordinary shares of HK$0.001 each were issued pursuant to the exercise of the conversion rights attaching to the Company's convertible bonds at a conversion price of HK$0.24 per share.

(iii) Share consolidation and change in board lot size

Pursuant to an ordinary resolution passed on 24 February 2012, a share consolidation was approved with effect from 27 February 2012 in which every 5 of the existing issued and unissued ordinary shares of HK$0.001 each in the share capital of the Company would be consolidated into 1 consolidated share of HK$0.005 each. Immediate after the share consolidation, the authorised share capital of the Company comprised 20,000,000,000 consolidated shares of HK$0.005 each of which 1,854,235,049 consolidated shares of HK$0.005 each are in issue and the board lot size is changed from 15,000 shares to 5,000 consolidated shares.

33. SHARE CAPITAL – NON-REDEEMABLE CONVERTIBLE PREFERRED SHARES

	Number of shares '000	Share capital HK$'000
Authorised:		
Preferred shares of HK$0.005 each		
At 1 January 2012	–	–
Increased during the year	2,000,000	10,000
At 31 December 2012	**2,000,000**	**10,000**
Issued and fully paid:		
Preferred shares of HK$0.005 each		
At 1 January 2012	–	–
Issued during the year	1,563,333	7,817
At 31 December 2012	**1,563,333**	**7,817**

On 29 August 2012, Mr. Leung entered into a loan capitalisation agreement with the Company in respect of the loan capitalisation ("Loan Capitalisation Agreement"), pursuant to which Mr. Leung agreed to subscribe for, and the Company has agreed to allot and issue of 1,563,333,333 subscriber preferred shares at an issue price of HK$0.60 per subscriber preferred share to capitalise the outstanding amount of HK$938,000,000 due by the Company to Mr. Leung pursuant to the promissory note ("Loan Capitalisation"). The Loan Capitalisation constituted a connected transaction of the Company under the GEM Listing Rules and the resolutions relating thereto were passed by the shareholders of the Company at an extraordinary general meeting held on 22 November 2012. The Loan Capitalisation was completed on 17 December 2012 and 1,563,333,333 preferred shares of HK$0.005 each were issued to Mr. Leung pursuant to the terms of the Loan Capitalisation Agreement.

All the preferred shares are non-interest bearing and non-redeemable, carry no voting right and each of the preferred share is convertible into one ordinary share any time after issue at the conversion price.

The preferred shares are entitled to dividend to the same extent as holders of the ordinary shares and the preferred shares shall rank pari passu with the ordinary shares in dividend as declared by the Company from time to time.

34. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 41 and 42 of the consolidated financial statements.

The capital redemption reserve of the Group represents the nominal value of the share capital of the Company repurchased and cancelled.

Other reserve represents the difference between the consideration paid for the additional interest in the subsidiary and the non-controlling interest's share of the assets and liabilities reflected in the consolidated statement of financial position at the date of the acquisition of the non-controlling interests.

Company

	Share premium account HK$'000 (Note (i))	Warrants reserve HK$'000	Capital redemption reserve HK$'000 (Note (ii))	Convertible bonds equity reserve HK$'000	Share options reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
Balance at 1 January 2011	2,553,718	–	1	87,788	14,136	(1,953,401)	702,242
Loss for the year	–	–	–	–	–	(595,306)	(595,306)
Total comprehensive expense for the year	–	–	–	–	–	(595,306)	(595,306)
Recognition of equity-settled share-based payments	–	–	–	–	1,230	–	1,230
Issue of ordinary shares under share option scheme	3,369	–	–	–	(795)	–	2,574
Deferred tax relating to convertible bonds	–	–	–	4,252	–	–	4,252
Exercise of convertible bonds	51,523	–	–	(25,773)	–	–	25,750
Balance at 31 December 2011	2,608,610	–	1	66,267	14,571	(2,548,707)	140,742
Loss for the year	–	–	–	–	–	(380,193)	(380,193)
Total comprehensive expense for the year	–	–	–	–	–	(380,193)	(380,193)
Issue of unlisted warrants	–	1,810	–	–	–	–	1,810
Transaction costs attributable to issue of unlisted warrants	–	(70)	–	–	–	–	(70)
Issue of non-redeemable convertible preferred shares (Note 33)	604,529	–	–	–	–	–	604,529
Release of reserve upon share options forfeited	–	–	–	–	(1,230)	1,230	–
Balance at 31 December 2012	**3,213,139**	**1,740**	**1**	**66,267**	**13,341**	**(2,927,670)**	**366,818**

34. RESERVES (Continued)

Company (Continued)

Notes:

(i) The share premium account of the Group and Company arises on shares issued at a premium. In accordance with the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be able to pay its debts as they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

(ii) The capital redemption reserve of the Company represents the nominal value of the share capital of the Company repurchased and cancelled.

35. WARRANTS

On 13 July 2012, an aggregate of 362,000,000 unlisted warrants were successfully placed by the Company to not less than six placees, who are third parties independent of and not connected to the Company and its connected persons at the placing price of HK$0.005 per warrant and the subscription price of HK$0.30 per warrant share. The subscription period for the warrants is 30 months from the date of issue of the warrants.

Upon the exercise in full of the subscription rights attached to the warrants, a maximum of 362,000,000 shares will be allotted and issued. The net proceeds from the placing (without taking into account of the exercise of the subscription rights attaching to the warrants) of unlisted warrants is approximately HK$1.6 million.

As at 31 December 2012, the Company had 362,000,000 warrants outstanding. The exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 362,000,000 additional shares of HK$0.005 each.

36. SHARE-BASED PAYMENT TRANSACTIONS

The Company's share option scheme (the "Scheme") was adopted on 29 June 2007 for employee compensation.

The directors may at their absolute discretion, invite any person belonging to any of the following classes of participants ("Eligible Participants") to take up options to subscribe for shares:

- any employee (whether full time or part time, including any director) of the Company, any of its subsidiaries or any entity ("Invested Entity") in which any member of the Group holds an equity interest;

36. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

- any directors (including non-executive directors and independent non-executive directors) of the Company, any subsidiary or any Invested Entity;
- any supplier of goods or services to any member of the Group or any Invested Entity;
- any customer of any member of the Group or any Invested Entity;
- any person or entity that provides research, development or other technological support to any member of the Group or any Invested Entity;
- any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity;
- any adviser (professional or otherwise), consultant, individual or entity who in the opinion of the directors of the Company has contributed or will contribute to the growth and development of the Group;
- any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group; and
- for the purposes of the Scheme, the offer may be made to any company wholly owned by one or more Eligible Participants.

The share option scheme became effective on 2 July 2007 and, unless otherwise cancelled or amended, will remain in force for 10 years from its date of adoption on 29 June 2007.

Under the Scheme, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes adopted by the Group shall not exceed 30% of the share capital of the Company in issue from time to time. No options may be granted under the Scheme or any other share option scheme adopted by the Group if the grant of such option will result in the limit being exceeded. Subject to the approval of the Company's shareholders, the aggregate number of the Company's shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company shall not exceed 30% of the Company's shares in issue from time to time.

The total number of shares which may be allotted and issued upon exercise of all options excluding, options which have lapsed in accordance with the terms of this Scheme and any other option schemes of the Group must not in aggregate exceed 10% of the shares in issue as at the date of passing the relevant resolution adopting the Scheme without prior approval from the Company's shareholders.

36. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

The total number of shares issued and which may fall to be issued upon exercise of the options and the options granted under any other share option scheme of the Group (including both exercised or outstanding options) to each grantee in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being. Where any further grant of options to a grantee under the Scheme would result in the shares issued and to be issued upon exercise of all options granted and proposed to be granted to such person (including exercised, cancelled and outstanding options) under the Scheme and any other share option schemes of the Group in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the shares in issue, such further grant must be separately approved by shareholders of the Company in general meeting with such grantee and his associates abstaining from voting.

The maximum number of shares issued and to be issued upon exercise of the options granted under the share option scheme and any other share option schemes of the Company to each of any eligible persons (including those cancelled, exercised and outstanding options), in any twelve months period up to the date of the latest grant shall not exceed 1% of the Company's shares in issue provided that the number of shares issued and to be issued upon exercise of all options granted and to be granted to each of the independent non-executive directors or substantial shareholders of the Company or any of their respective associates in the twelve months period up to the date of such grant in excess of 0.1% of the Company's shares in issue and with a value in excess of HK$5 million must be approved in advance by the Company's independent shareholders. Any further grant of options in excess of such limit must be separately approved by shareholders in general meeting in accordance with the requirements of the GEM Listing Rules.

The offer of a grant of share options might be accepted in writing within 21 days from the date of the offer. The exercise period of the share options granted is determinable by the directors, and should not be later than ten years from the date of the offer of the share options or the expiry date of the Scheme, if earlier.

The subscription price is equal to the higher of (i) the nominal value of the shares of the Company; (ii) the closing price per share of the Company as stated in the Stock Exchange's daily quotation sheet on the date of grant; and (iii) the average closing price per share as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant.

36. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

The fair value of share options granted is recognised in the statement of comprehensive income taking into account the probability that the options will vest over the vesting period. Upon the exercise of the 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 in the share premium account. At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated losses. Options which lapsed, if any, prior to their exercise date are deleted from the outstanding options.

All equity-settled share-based payments will be settled in equity. The Group has no legal or constructive obligation to repurchase or settle the options.

Details of specific categories of share options are as follows:

Option type	Date of grant	Exercise period	Exercise price HK$	Weight average fair value at grant date HK$
2007(a)	9 July 2007	9 July 2007 to 29 June 2017	1.4250*	0.4540*
2007(b)	22 August 2007	22 August 2007 to 29 June 2017	2.0300*	0.6375*
2008	10 July 2008	10 July 2008 to 29 June 2017	1.3280*	0.3555*
2009 (c)	10 December 2009	10 December 2009 to 29 June 2017	0.5880*	0.2305*
2011	15 February 2011	15 February 2011 to 29 June 2017	1.6650*	0.4100*

The Company measures the fair value of share options granted to consultant by reference to the fair values of services rendered.

The fair value of the share options granted during the year ended 31 December 2011 was determined using the Black-Scholes Option Pricing Model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option), and behavioural considerations. Expected volatility is based on the historical volatility of the Company's share price, adjusted for any expected changes to future volatility based on publicly available information.

36. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

No share options were granted under the Scheme during the year ended 31 December 2012.

The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

Inputs into the model

	Option type 2011
Grant date share price	0.3320
Exercise price	0.3330
Expected volatility	69.025%
Expected exercise date	14 February 2012
Risk-free interest rate	0.30%
Expected dividend yield	Nil

The following table discloses movements of the Company's share options during the year:

Option type	Outstanding at 1/1/2012	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 31/12/2012
2007 (a)	9,600,000*	–	–	–	9,600,000*
2007 (b)	8,200,000*	–	–	–	8,200,000*
2008	11,200,000*	–	–	–	11,200,000*
2011	3,000,000*	–	–	(3,000,000)*	–
	32,000,000*	–	–	(3,000,000)*	29,000,000*
Exercisable at the end of the year					29,000,000*
Weighted average exercise price	HK$1.5685*	–	–	HK$1.6650*	HK$1.5586*

36. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

The following table discloses movements of the Company's share options during prior year:

Option type	Outstanding at 1/1/2011	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31/12/2011
2007 (a)	9,600,000*	–	–	–	9,600,000*
2007 (b)	8,200,000*	–	–	–	8,200,000*
2008	12,000,000*	–	(800,000)*	–	11,200,000*
2009 (c)	2,600,000*	–	(2,600,000)*	–	–
2011	–	3,000,000*	–	–	3,000,000*
	32,400,000*	3,000,000*	(3,400,000)*	–	32,000,000*
Exercisable at the end of the year					32,000,000*
Weighted average exercise price	HK$1.4750*	HK$1.6650*	HK$0.7620*	Nil	HK$1.5685*

No option has been exercised under the Scheme during the year ended 31 December 2012.

The weighted average share price at the date of exercise for share options exercised during the year ended 31 December 2011 was HK$1.5645* per share.

Options granted are fully vested at the date of grant. During the year ended 31 December 2011, approximately HK$1,230,000 of equity-settled share-based payments to employees has been included in the consolidated statement of comprehensive income, the corresponding amount of which has been credited to share options reserve (Note 34). No liabilities were recognised on the equity-settled share-based payment transactions.

All share options have been accounted for under HKFRS 2. The share options outstanding at the end of the year had a weighted average remaining contractual life of 4.5 years (2011: 5.5 years).

* The above information has been adjusted to reflect the effect of the share consolidation on 27 February 2012 as set out in Note 32 (iii) pursuant to which every 5 of the existing issued and unissued shares of HK$0.001 each in the share capital of the Company were consolidated into 1 consolidated share of HK$0.005 each. Every 5 of the options were consolidated into 1 consolidated option and the exercise prices were adjusted accordingly.

37. CAPITAL MANAGEMENT

The Group's capital management objectives are:

– to ensure the Group's ability to continue as a going concern;

– to provide an adequate return to shareholders; and

– to maintain an optimal capital structure to reduce cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend paid to shareholders, return capital to shareholders and issue new shares to reduce its debt level.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by total capital. Total borrowings are calculated as current and non-current borrowings as shown in the consolidated statement of financial position and total capital is calculated as "total equity", as shown in the consolidated statement of financial position.

Gearing ratio

The gearing ratio at the end of the reporting period was as follows:

	2012	2011
	HK$'000	HK$'000
Total borrowings	**91,118**	657,568
Total equity	**384,482**	150,563
Gearing ratio	**24%**	437%

38. FINANCIAL INSTRUMENTS

38.1 Categories of financial instruments

Financial assets

	2012 HK$'000	2011 HK$'000
Loans and receivables:		
Trade and other receivables (included in financial assets)	**12,873**	13,168
Amount due from a non-controlling interest of a subsidiary	**234**	496
Cash and bank balances (including pledged bank deposit)	**36,284**	161,665
Available-for-sale financial asset:		
Available-for-sale investment	**–**	118

Financial liabilities

	2012 HK$'000	2011 HK$'000
Financial liabilities at amortised cost:		
Trade and other payables (included in financial liabilities)	**10,807**	14,886
Amount due to a non-controlling interest of a subsidiary	**221**	220
Amount due to an associate	**66**	–
Convertible bonds	**91,118**	79,883
Promissory note	**–**	577,685

38.2 Financial risk management objectives and policies

The Group is exposed to financial risks through its use of financial instruments in its ordinary course of operations and in its investment activities. The financial risks include market risk (including foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

38. FINANCIAL INSTRUMENTS (Continued)

38.2 Financial risk management objectives and policies (Continued)

Financial risk management is coordinated at the Group's headquarters, in close co-operation with the board of directors. The overall objectives in managing financial risks focus on securing the Group's short to medium term cash flows by minimising its exposure to financial markets. Long term financial investments are managed to generate lasting returns with acceptable risk levels.

It is not the Group's policy to actively engage in the trading of financial instruments for speculative purposes. The treasury department works under the policies approved by the board of directors. It identifies ways to access financial markets and monitors the Group's financial risk exposures. Regular reports are provided to the board of directors.

There has been no change to the types of the Group's exposure in respect of financial instruments or the manner in which it manages and measures the risks.

38.2.1 *Market risk*

Foreign currency risk management

The Group's exposure to currency exchange rates is minimal as the group companies usually hold most of their financial assets/liabilities in their own functional currencies. Currently the Group does not have foreign currency hedging policy but the management continuously monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Interest rate risk management

The Group does not have material exposure to interest rate risk. A reasonably possible change in interest rate in the twelve months is assessed; which could have immaterial change in the Group's loss after tax and accumulated losses. Changes in interest rates have no material impact on the Group's other components of equity. The Group adopts centralised treasury policies in cash and financial management and focuses on reducing the Group's overall interest expenses.

The directors are of the opinion that the Group's sensitivity to the change in interest rate is low.

Other price risks

As the Group has no significant investments in financial assets at FVTPL, the Group is not exposed to significant other price risks.

38. FINANCIAL INSTRUMENTS (Continued)

38.2 Financial risk management objectives and policies (Continued)

38.2.2 *Credit risk management*

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

Details of the Group's credit risk are included in Note 24.

38.2.3 *Liquidity risk management*

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

The maturity profile of the Group's financial liabilities at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

	On demand or less than 1 year HK$'000	1-5 years HK$'000	Total contractual undiscounted cash flows HK$'000	Total carrying amounts HK$'000
At 31 December 2012				
Non-derivative financial liabilities				
Trade and other payables	10,822	–	10,822	10,822
Amount due to a non-controlling of a subsidiary	221	–	221	221
Amount due to an associate	66	–	66	66
Convertible bonds	–	144,100	144,100	91,118
	11,109	**144,100**	**155,209**	**102,227**

38. FINANCIAL INSTRUMENTS (Continued)

38.2 Financial risk management objectives and policies (Continued)

38.2.3 *Liquidity risk management (Continued)*

	On demand or less than 1 year HK$'000	1-5 years HK$'000	Total contractual undiscounted cash flows HK$'000	Total carrying amounts HK$'000
At 31 December 2011				
Non-derivative financial liabilities				
Trade and other payables	14,886	–	14,886	14,886
Amount due to a non-controlling of a subsidiary	220	–	220	220
Convertible bonds	–	144,100	144,100	79,883
Promissory note	–	1,037,192	1,037,192	577,685
	15,106	1,181,292	1,196,398	672,674

38.3 Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded in active markets are determined with reference to quoted market bid and ask prices respectively; and

- The fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

38. FINANCIAL INSTRUMENTS (Continued)

38.3 Fair value of financial instruments (Continued)

Except as detailed in the following table, the directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate to their fair values:

	2012		2011	
	Carrying amount HK$'000	**Fair value HK$'000**	Carrying amount HK$'000	Fair value HK$'000
Financial liabilities				
Convertible bonds (Note (i))	**91,118**	**97,630**	79,883	79,660
Promissory note (Note (ii))	**–**	**–**	577,685	574,500

Notes:

(i) The fair value of the liability component of convertible bonds has been calculated by using effective interest rate of 15.79% (2011: 17.61%) per annum with reference to the Hong Kong Exchange Fund Note and credit risk margin.

(ii) As at 31 December 2011, the fair value of promissory note is estimated to be HK$574,500,000 using a 17.61% discount rate based on quoted Hong Kong Exchange Fund Note and credit risk margin.

38.3.1 Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

38. FINANCIAL INSTRUMENTS (Continued)

38.3 Fair value of financial instruments (Continued)

38.3.1 Fair value measurements recognised in the consolidated statement of financial position (Continued)

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There were no transfers between Levels 1 and 2 in both years.

At the end of each reporting period, the Group did not have any assets and liabilities that were measured at the above fair value measurements hierarchy.

39. ACQUISITION OF A SUBSIDIARY AND BUSINESS COMBINATION

Acquisition of Beijing Caiyingle

In January 2011, Media Hong Kong Investment Limited ("Media Hong Kong"), a wholly-owned subsidiary of the Company, has entered into a sale and purchase agreement ("Beijing Caiyingle Agreement") with the owners of 北京彩贏樂科技有限公司 ("Beijing Caiyingle") namely the first vendor ("First Vendor") who holds 60% of Beijing Caiyingle and the second vendor ("Second Vendor") who holds 40% of Beijing Caiyingle, pursuant to which Media Hong Kong has agreed to purchase from the First Vendor and the Second Vendor their respective 25% and 40% (65% in aggregate) equity interests in Beijing Caiyingle for a consideration of RMB2,980,769 and RMB4,769,231 respectively (equivalent to approximately HK$9,232,000 in aggregate). The acquisition was completed on 27 April 2011.

In the opinion of the directors, the acquisition will provide synergies in conjunction with lottery sales services business that was acquired by the Group in 2010.

Consideration transferred:

	HK$'000
Cash paid	9,232

Acquisition-related costs amounting to approximately HK$241,000 had been excluded from the cost of acquisition and had been recognised as part of the administrative expenses in the consolidated statement of comprehensive income for the year ended 31 December 2011.

39. ACQUISITION OF A SUBSIDIARY AND BUSINESS COMBINATION (Continued)

Acquisition of Beijing Caiyingle (Continued)

Assets acquired and liabilities recognised at the date of acquisition

	HK$'000
Non-current assets	
Property, plant and equipment (Note 16)	6
Current assets	
Prepayments, deposits and other receivables	159
Cash and bank balances	2,272
Current liabilities	
Other payables and accruals	(2,523)
	(86)

The fair value of receivables acquired, which principally comprised prepayments, deposits and other receivables approximated the gross contractual amounts. There were no contractual cash flows not expected to be collected.

Non-controlling interests

The non-controlling interests at the acquisition date were measured at the non-controlling interests' proportionate share of the acquiree's identifiable net assets.

Goodwill arising on acquisition

	HK$'000
Consideration transferred	9,232
Less : non-controlling interests	(30)
Add : fair value of identifiable net liabilities acquired	86
Goodwill arising on acquisition (Note 18)	9,288

39. ACQUISITION OF A SUBSIDIARY AND BUSINESS COMBINATION (Continued)

Acquisition of Beijing Caiyingle (Continued)

Goodwill arising on acquisition **(Continued)**

None of the goodwill on this acquisition was expected to be deductible for tax purposes.

In the opinion of the directors, goodwill arising from acquisition of Beijing Caiyingle was attributable to the anticipated profitability and future development of Beijing Caiyingle in lottery market in the PRC and the anticipated future operating synergy from the combinations.

Net cash outflow arising on acquisition of a subsidiary

	HK$'000
Consideration paid in cash	9,232
Less: cash and bank balances acquired	(2,272)
	6,960

Impact of acquisition of the results of the Group

Beijing Caiyingle contributed revenues of approximately HK$155,000 and net loss of approximately HK$1,308,000 to the Group for the period from the date of acquisition to 31 December 2011. If the acquisition had occurred on 1 January 2011, Group revenue would have been approximately HK$2,091,000 and loss before allocations would have been approximately HK$639,659,000. This pro forma information was for illustrative purposes only and was not necessarily an indication of the revenue and results of the Group that actually would have been achieved had the acquisition occurred on 1 January 2011, nor was it intended to be a projection of future results.

40. DISPOSAL OF SUBSIDIARIES

(a) Year ended 31 December 2012

In July 2012, the Group disposed of its 80% equity interest in Yunnan Western to an independent third party at a consideration of RMB130,000 (equivalent to approximately HK$160,000).

In August 2012, the Company entered into a disposal agreement with Mr. Leung in relation to the disposal of the entire issued share capital of Media Hong Kong which holds 65% equity interest in Beijing Caiyingle, and the outstanding shareholder's loan made by or on behalf of the Company to Media Hong Kong amounted to approximately HK$12 million, at an aggregate consideration of HK$9,300,000. The disposal was completed on 28 August 2012.

40. DISPOSAL OF SUBSIDIARIES (Continued)

(a) Year ended 31 December 2012 (Continued)

In November 2012, the Group disposed of its 60% indirect equity interest in 鄭州環彩信息技術有限公司 ("Zhengzhou Huancai") to an independent third party at nil consideration.

The net liabilities of Yunnan Western, the consolidated net liabilities of Media Hong Kong and its subsidiary ("Media Hong Kong Group") and the net assets of Zhengzhou Huancai at the dates of disposals were as follows:

	Yunnan Western HK$'000	Media Hong Kong Group HK$'000	Zhengzhou Huancai HK$'000	Total HK$'000
Property, plant and equipment	–	782	–	782
Goodwill	–	1,588	–	1,588
Prepayments, deposits and other receivables	36	28	–	64
Cash and bank balances	6	29	–	35
Amount due from/(to) holding companies	(127)	(11,841)	508	(11,460)
Other payables and accrued expenses	(6)	(16)	–	(22)
	(91)	(9,430)	508	(9,013)
Non-controlling interests	3,211	(297)	–	2,914
Release of foreign currency translation reserve	(857)	(245)	(88)	(1,190)
(Loss)/gain on disposal of subsidiaries	(2,230)	7,431	88	5,289
	33	(2,541)	508	(2,000)
Satisfied by:				
Cash consideration	160	9,300	–	9,460
Amount waived through disposals	(127)	–	508	381
Assignment of shareholder's loan	–	(11,841)	–	(11,841)
	33	(2,541)	508	(2,000)
Net cash inflows on disposals of subsidiaries:				
Cash consideration	160	9,300	–	9,460
Cash and bank balances disposed of	(6)	(29)	–	(35)
	154	9,271	–	9,425

40. DISPOSAL OF SUBSIDIARIES (Continued)

(b) Year ended 31 December 2011

In September 2011, E-silkroad.net Corporation, a direct wholly-owned subsidiary of the Company, and Mr. Leung entered into a sale and purchase agreement, pursuant to which E-silkroad.net Corporation has agreed to sell and Mr. Leung has agreed to purchase the entire issued ordinary share capital of Business Essence Technology Limited ("Business Essence"), an indirectly wholly-owned subsidiary of the Company, which holds 95% equity interests in 中山市光彩未來軟件有限公司, and the shareholder's loan outstanding as at completion made by or on behalf of E-silkroad.net Corporation to Business Essence, at a purchase consideration of approximately HK$7,965,000. The disposal was completed on 15 September 2011. Upon completion of the disposal, the Group ceased to have any shareholding in Business Essence.

The consolidated net liabilities of Business Essence and its subsidiary on the date of disposal was as follows:

	HK$'000
Property, plant and equipment	1
Prepayments, deposits and other receivables	17
Cash and bank balances	5
Amount due to immediate holding company	(7,977)
Other payables and accrued expenses	(303)
	(8,257)
Non-controlling interests	15
Release of foreign currency translation reserve	110
Gain on disposal of subsidiaries	8,120
	(12)
Satisfied by:	
Cash consideration	7,965
Assignment of shareholder's loan	(7,977)
	(12)
Net cash inflow on disposal of subsidiaries:	
Cash consideration	7,965
Cash and bank balances disposed of	(5)
	7,960

41. OPERATING LEASES COMMITMENTS

Group

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

	2012 **HK$'000**	2011 HK$'000
Within one year	**998**	2,012
In the second to fifth years inclusive	**1,821**	310
	2,819	2,322

Operating leases relate to rented premises with lease terms of between 1 to 5 years (2011: 1 to 3 years), with no option to renew the lease terms at the expiry date. The lease does not include contingent rental.

Company

The Company had no significant operating lease commitments at 31 December 2011 and 2012.

42. CAPITAL COMMITMENTS

At 31 December 2012, the Group had the following significant commitments which were not provided for in the consolidated financial statements:

	2012 **HK$'000**	2011 HK$'000
Authorised and contracted for:		
Investment in a joint venture company (Note (i))	**–**	24,412
Capital commitment to the registered capital of a PRC subsidiary payable by the Group (Notes (ii), (iii))	**2,497**	4,948
Exploration work in the PRC	**–**	2,902
Purchase of property, plant and equipment	**8,526**	8,690
	11,023	40,952

42. CAPITAL COMMITMENTS (Continued)

Notes:

(i) In July 2011, Multi Joy Corporation Limited, a wholly-owned subsidiary of the Company ("Multi Joy") and 中國數字圖書館有限責任公司 (transliterated as China Digital Library Limited Company) ("China Digital Library") entered into a joint venture agreement ("JV Agreement") in relation to the formation of 中數三網科技(北京)有限公司 (translated as Zhongshu Sanwang Technology (Beijing) Limited) ("Zhongshu Sanwang") which will be principally engaged in IPTV services related advertisement and value-added services in the PRC. Pursuant to the JV Agreement, the total investment capital and the registered capital of Zhongshu Sanwang are RMB100,000,000 and RMB40,816,000 respectively. Upon its formation, Zhongshu Sanwang will be owned as to 49% and 51% by Multi Joy and China Digital Library respectively.

In May 2012, both parties have mutually agreed to terminate the JV Agreement by entering into a termination agreement with respect to the termination of the JV Agreement.

(ii) Media Hong Kong and the First Vendor entered into an increase in registered capital agreement, pursuant to which Media Hong Kong and the First Vendor agreed to increase the registered capital of Beijing Caiyingle in proportion to their equity interests from RMB5,000,000 to RMB14,285,700. At 31 December 2011, approximately RMB1,982,000 (equivalent to approximately HK$2,350,000) had been contributed by Media Hong Kong.

In August 2012, the Group disposed of its wholly-owned subsidiary Media Hong Kong and its subsidiary and the outstanding shareholder's loan made by or on behalf of the Company to Media Hong Kong amounted to approximately HK$12 million, at an aggregate consideration of HK$9,300,000. The disposal was completed on 28 August 2012 (Note 40).

(iii) Greatest Profit Investment Limited, an indirect wholly-owned subsidiary of the Company and the non-controlling interests of Huancai Puda have agreed to increase the registered capital of Huancai Puda in proportion to their equity interests from RMB40,810,000 to RMB45,810,000. At 31 December 2012, approximately RMB515,000 (equivalent to approximately HK$630,000) have been contributed by Greatest Profit Investment Limited.

At the end of the reporting period, the Company had no significant capital commitments.

43. RELATED PARTY TRANSACTIONS

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

	2012 HK$'000	2011 HK$'000
Exploration and evaluation expenditure	–	120

Note: Exploration and evaluation expenditure was paid to the non-controlling interests of Yunnan Western and the transaction was entered into at terms agreed between the contracting parties.

Compensation of key management personnel

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

Group

	2012 HK$'000	2011 HK$'000
Short-term benefits	8,207	13,716
Post-employment benefits	42	36
	8,249	13,752

44. COMPARATIVE FIGURES

The results and cash flows of the staff secondment and exploration of mines segments have been presented as discontinued operations and accordingly, the comparative figures for the year ended 31 December 2011 of the consolidated statement of comprehensive income had been reclassified in accordance with HKFRSs. For comparative purposes, certain comparative figures have also been reclassified to conform with current year presentation to align with the consolidated financial statements presentation of the Group.

45. EVENTS AFTER THE REPORTING PERIOD

Acquisition of additional 49% equity interest in Huancai Puda

In March 2011, Greatest Profit Investment Limited, being a wholly-owned subsidiary of the Company (the "Purchaser"), Century Profit Holdings Limited ("CPHL") and Mr. Lin Zhiwei, being a director of Huancai Puda and the other two beneficial shareholders of CPHL (collectively, the "Warrantors") entered into an acquisition agreement ("Original Agreement") pursuant to which the Purchaser has conditionally agreed to acquire and CPHL has conditionally agreed to dispose of the entire issued share capital of Carnix Investment Limited ("Carnix") and Mutual International Limited ("MIL"), which collectively holds 49% equity interests in Huancai Puda, at a consideration of RMB73,500,000 (equivalent to approximately HK$86,982,000). Pursuant to the terms of the Original Agreement, the consideration shall be satisfied as to RMB10,800,000 (equivalent to approximately HK$12,781,000) in cash and as to RMB62,700,000 (equivalent to approximately HK$74,201,000) to be satisfied by the Purchaser procuring the Company to allot and issue consideration shares, credited as fully paid at the issue price, on completion to CPHL.

Subsequent to an internal corporate reorganisation by CPHL, in August 2011, a supplemental agreement ("Supplemental Agreement") was entered into between the Purchaser, CPHL and MIL (collectively the "Vendors") and the Warrantors. Pursuant to the Supplemental Agreement, the Purchaser has conditionally agreed to acquire and the Vendors have conditionally agreed to dispose of the entire issued share capital of Carnix and Wise Mark Investments Limited ("WMIL") at a consideration of RMB73,500,000. The sole asset of Carnix and WMIL is their respective 30.87% and 18.13% (collectively 49%) equity interests in Huancai Puda.

In February 2013, the Company announced that completion of the aforesaid acquisition had not been satisfied or waived on or before the agreed date, the acquisition agreements had lapsed and the parties to the acquisition agreements agreed that the full amount of the deposit of RMB7.35 million shall be returned to the Purchaser before 31 December 2013.

FINANCIAL SUMMARY

	For the year ended 31 December				
	2008	2009	2010	2011	**2012**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
RESULTS					
Revenue					
– continuing operations	646	1,893	2,582	2,014	**2,248**
– discontinued operation	620	164	93	–	**–**
Total	1,266	2,057	2,675	2,014	**2,248**
Loss for the year	(50,245)	(414,270)	(2,583,638)	(639,514)	**(386,607)**
Loss attributable to:					
Owners of the Company	(50,119)	(365,512)	(1,887,273)	(618,778)	**(290,861)**
Non-controlling interests	(126)	(48,758)	(696,365)	(20,736)	**(95,746)**
	(50,245)	(414,270)	(2,583,638)	(639,514)	**(386,607)**

	At 31 December				
	2008	2009	2010	2011	**2012**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
ASSETS AND LIABILITIES					
Total asset	1,463,537	1,036,844	1,501,998	941,766	**640,087**
Total liabilities	(367,720)	(1,862)	(790,061)	(791,203)	**(255,605)**
	1,095,817	1,034,982	711,937	150,563	**384,482**
Equity attributable to owners of the Company	1,045,149	1,033,139	400,964	(154,377)	**169,819**
Non-controlling interests	50,668	1,843	310,973	304,940	**214,663**
	1,095,817	1,034,982	711,937	150,563	**384,482**