Annual Report 2013

China LotSynergy

China LotSynergy Holdings Limited
華彩控股有限公司*
(Incorporated in Bermuda with limited liability)
Stock code: 1371

* For identification purposes only

Contents

Corporate Information

DIRECTORS

Executive Directors

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

Non-Executive Director

HOONG Cheong Thard

Independent Non-Executive Directors

HUANG Shenglan
CHAN Ming Fai
CUI Shuming

COMPANY SECRETARY

WONG Hiu Wong

COMPLIANCE OFFICER

CHAN Tan Na, Donna

AUTHORISED REPRESENTATIVES

CHAN Tan Na, Donna
WONG Hiu Wong

AUDIT COMMITTEE

HUANG Shenglan
CHAN Ming Fai
CUI Shuming

REMUNERATION COMMITTEE

HUANG Shenglan
CHAN Ming Fai
LAU Ting

NOMINATION COMMITTEE

LAU Ting
HUANG Shenglan
CHAN Ming Fai

AUDITORS

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

REGISTERED OFFICE

Canon's Court
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Hamilton HM 12
Bermuda

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Hamilton HM 11
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BRANCH SHARE REGISTRARS IN HONG KONG

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Shops 1712–1716, 17th Floor, Hopewell Centre
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Wan Chai
Hong Kong

LEGAL ADVISERS

Appleby
Baker & McKenzie

PRINCIPAL BANKERS

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

Financial Summary

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

RESULTS

	Year ended 31 December				
	2013	2012	2011	2010	2009
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**743,756**	607,255	528,136	282,577	84,578
Gross profit	**543,981**	482,506	431,676	220,340	37,002
Share option expenses	**(7,031)**	(1,015)	(19,750)	(9,520)	(10,667)
Gain on redemption of convertible note, net of imputed interest expenses	**–**	–	–	151,119	(26,423)
Finance costs	**(22,656)**	(19,825)	(19,495)	(5,809)	–
Profit/(Loss) before income tax	**349,202**	271,529	267,006	250,221	(82,722)
Income tax expense	**(87,000)**	(69,196)	(48,703)	(33,477)	(5,030)
Profit/(Loss) for the year	**262,202**	202,333	218,303	216,744	(87,752)
Profit/(Loss) attributable to:					
Owners of the Company	**88,556**	67,513	66,485	152,254	(81,596)
Non-controlling interests	**173,646**	134,820	151,818	64,490	(6,156)
	262,202	202,333	218,303	216,744	(87,752)

ASSETS AND LIABILITIES

	As at 31 December				
	2013	2012	2011	2010	2009
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total current assets	**1,169,688**	938,338	948,416	614,238	1,175,545
Total assets	**2,381,534**	1,998,308	1,766,710	1,417,451	1,948,957
Total liabilities	**(925,358)**	(743,763)	(549,172)	(331,072)	(1,023,270)
Net assets	**1,456,176**	1,254,545	1,217,538	1,086,379	925,687

Management Discussion and Analysis

The Group is engaged in the provision of technology and services for lottery systems, terminal equipment, gaming products and their operations in China's lottery market. The principal businesses of the Group cover various lottery products ranging from video lottery, computer-generated ticket games ("CTG") and high frequency lottery to new media lottery. Through building up its technical competencies, expansion into new markets in China and high standards of corporate governance, the Group has established a solid foundation and a reputable brand name, providing it with comprehensive capabilities for sustainable development in the industry. On 16 October 2013, the Group became the first Hong Kong listed lottery company to successfully transfer its listing from the GEM Board to the Main Board of the Hong Kong Stock Exchange.

CHINA'S LOTTERY MARKET

China's lottery market demonstrated sustained growth in 2013 according to figures published by the Ministry of Finance, with total lottery sales of RMB309.325 billion, representing an increase of 18.3% year on year ("YOY"). Welfare Lottery and Sports Lottery contributed RMB176.528 billion and RMB132.797 billion respectively, representing growth of 16.9% and 20.2% YOY respectively. With the exception of Scratch Cards, all other lottery types posted double-digit sales growth. The three fastest growing lottery types were Welfare Video Lottery, Sports Single Match Games and Lotto (i.e., Welfare and Sports CTGs), which grew at 29.1%, 26.2% and 21.4% YOY respectively.

BUSINESS REVIEW AND OUTLOOK

The Group's business segments continued to develop favourably in 2013. VLT sales reached record highs, with growth at 29.1% YOY, maintaining its position as the fastest growing lottery type. All old-generation VLT terminals nationwide were replaced and upgraded to third-generation terminals, with nearly 29,000 units connected by the end of the year. For our Welfare CTG business, Guangdong Welfare Lottery maintained stable sales growth, while the size of Chongqing Welfare Lottery's terminal operations is expected to expand further on the back of outstanding sales performance since the commencement of sales in June 2013. For our Sports Lottery CTG business, the Group won terminal supply contracts in four provinces. Meanwhile, we continued to expand our new media lottery business, which includes telephone lottery and new type lottery, utilizing new channels and new lottery types to establish closer ties with lottery authorities and channel partners, ensuring that the Group will maintain its competitive advantage in the new media lottery area.

Video Lottery Business

China Welfare Lottery Video Lottery (VLT) Business

As a technology-rich product, VLT has been playing a vital role in China's lottery industry. The Group is the exclusive terminal equipment provider for VLT. VLT sales amounted to RMB28.939 billion in 2013, representing a growth of 29.1% YOY. VLT continued to be the fastest growing lottery type nationwide, with sales growth outpacing that of the overall lottery industry's growth of 18.3% YOY during the same period.

With the exception of February, VLT's monthly sales exceeded RMB2.2 billion in 2013, with average daily sales amounting to RMB80.83 million and average daily sales per terminal exceeding RMB3,173.

In 2013, the top five provinces for VLT by sales were Zhejiang (RMB3.654 billion), Shandong (RMB2.779 billion), Guangdong (RMB2.432 billion), Jiangsu (RMB2.407 billion) and Hubei (RMB1.811 billion). They were followed by Anhui, Hunan, Liaoning and Henan, with sales in each province exceeding RMB1.1 billion. Fifteen provinces recorded VLT sales growth of over 30% YOY. Sales growth in Henan, Jiangxi, Sichuan and Guizhou exceeded 45% YOY, out of which Sichuan recorded the highest sales growth, at 87% YOY. VLT accounted for more than 20% of the total Welfare Lottery sales in Zhejiang, Shandong, Hubei, Anhui, Hunan and Gansu. VLT has undoubtedly become a key growth driver for Welfare Lottery across the provinces.

Management Discussion and Analysis

As at 31 December 2013, at the request of China Welfare Lottery Centre ("CWLC"), the Group had manufactured more than 30,000 units of third-generation terminals, and had delivered more than 29,000 of these units to 28 provinces across the nation. Approximately 1,100 VLT halls had been set up with nearly 29,000 third-generation terminals connected. In 2014, the Group will strive to enhance its technical competencies and inject new life into the VLT product. In 2014, the Group will continue to deliver third-generation terminals and expects steady sales growth to continue. VLT is set to become an essential and influential lottery type in China's lottery market.

As a fast growing lottery type under Welfare Lottery, VLT has garnered much attention from provincial welfare lottery centres nationwide. Throughout 2013, provincial welfare lottery centres focused their efforts on reform by optimizing the management and layout of VLT halls, enhancing employee incentives and performance appraisal schemes, and developing practical promotional measures, all of which contributed to VLT's strong sales growth. Aside from serving as a key point-of-sale for Welfare Lottery, VLT halls are increasingly becoming venues for charitable contribution. The "caring welfare grant" program organized in 2013 gave impoverished university students the opportunity to earn a living for themselves by taking part in work-study programs at VLT halls across the nation. At the same time, an ever increasing amount of welfare funds from VLT sales had been distributed to various communities across the country, enabling the implementation of various public welfare and charity initiatives to benefit the disadvantaged and needy. VLT has consistently upheld the motto of "assisting the elderly, the disabled, the orphaned and the impoverished", and is dedicated to continuously making positive contributions to social welfare and general good causes.

CTG and High Frequency Lottery Business

CTG Business

In 2013, Welfare CTG sales amounted to RMB129 billion nationwide, representing growth of 19% YOY. Guangdong province, which is served by the Group's subsidiary, Guangzhou San Huan Yong Xin Technology Company ("GZSH"), remained the largest provincial Welfare Lottery market in China, contributing RMB11.1 billion in CTG sales during the year, representing growth of 8.2% YOY. In June 2013, GZSH signed a contract with Chongqing Municipal Welfare Lottery Centre to provide Welfare Lottery CTG terminals and technical services on a revenue-sharing basis. Currently, the terminals in Chongqing initially deployed by GZSH are operational. Chongqing Municipal Welfare Lottery Centre recorded CTG sales of RMB2.22 billion in 2013. According to the contract, GZSH will continue to work with Chongqing Municipal Welfare Lottery Centre to deploy more terminals in 2014. GZSH also provides terminal maintenance services to Shenzhen Welfare Lottery Centre.

Management Discussion and Analysis

Guangzhou Lottnal Terminal Company Limited ("GZL"), a subsidiary of the Group, has developed standard, economy and portable type Sports Lottery CTG terminals in-house, all of which have been successfully included in China Sports Lottery Centre's terminal procurement catalogue since March 2013. Thereafter, GZL has successfully won bids to supply standard type Sports Lottery CTG terminals and provide technical services to Sports Lottery Centres in Guizhou, Gansu, Zhejiang and Anhui. In February 2014, GZL won another bid to supply standard type Sports Lottery CTG terminals and provide technical services to Gansu Sports Lottery Centre. Additionally, GZL continues to work with domestic and international terminal manufacturers to provide customized terminals and lottery readers. In 2014, the Group's increasingly sophisticated product and technological capabilities will coincide with the period of peak demand for the addition and replacement of Sports Lottery CTG terminals. The Group will leverage its unique intellectual property rights and product advantages to gain more contracts and earn more business opportunities.

High Frequency Lottery Business (KENO)

Total sales of KENO nationwide dropped in 2013 compared to 2012, due to competitive pressure from provincial high frequency games with higher payout ratios. In the first half of 2013, CWLC expanded its nationwide management of CTG games to include KENO, and focused its efforts on increasing the payout ratio of the game. The Group believes that the increased payout ratio, along with the implementation of proactive measures required for social game types, such as co-location, will be the catalysts that will enable KENO to break out of its development bottleneck and drive rapid growth.

New Media Lottery Business

Telephone Lottery Business

In 2013, the Group made significant strides in its telephone lottery business, benefitting from closer ties with lottery authorities, telecommunications operators and financial institutions in China.

In 2013, the Group entered into telephone lottery distribution contracts with another three provincial lottery authorities. To date, the Group has already secured new media lottery business cooperation with more than ten provincial lottery authorities, an indication of the recognition gained on the Group's strength in the new media lottery area. In addition to maintaining close cooperation with China Merchants Bank and Bank of Communications, the Group also entered into cooperation with, among others, Shanghai Pudong Development Bank and Bank of Chengdu. A highlight of 2013 is that the Group assumed the role of operational support for lottery operations available on

Management Discussion and Analysis

China Mobile's mobile payment platform, demonstrating the Group's commitment to excellence, as well as its strong operational competencies and service capabilities.

2014 will be a crucial year for the Group's telephone lottery business. To further solidify its leading position in the new media lottery area, the Group is striving to cooperate with more provincial lottery authorities, with the aim of becoming a telephone lottery system provider and distributor. The Group will increase the breadth and depth of its collaboration with telecommunications operators and financial institutions in China, and continue to realize new collaborations in 2014. The Group will continue to strive to provide the best services to our various partners to establish mutually beneficial relationships, thereby contributing to the development of new media lottery in China's lottery market.

New Type Lottery Business

In 2013, the rapid development of China's e-commerce, mobile internet and other new media businesses, as well as the widespread usage of new technology have been key drivers of product innovations in the lottery market. With the support of various government policies, lottery authorities at different levels are accelerating the construction of new type lottery systems and new project submissions, in an effort to capture first mover opportunities.

In 2013, the Group expanded upon its advantageous position in new type lottery development by increasing its cooperation with numerous lottery authorities to further improve systems in accordance with new specifications, commence development of a variety of games and assist lottery authorities with project submission.

The Group continued to innovate in gaming products, developing new games which have earned broad acclaim by combining the needs of the market with the desires of the players. In order to quickly penetrate key markets, the Group has devised a new media marketing plan which focuses on establishing strategic cooperation with many leading new media companies in China.

New type lottery is an important area of strategic development for the Group and a key growth driver for the market. The Group firmly believes that through enhanced systems and products and market-oriented promotional strategies, it will build up a competitive advantage in this market, while at the same time assisting lottery authorities in expansion to new markets, leading to unlimited development prospects.

Conclusion

In 2013, lottery sales nationwide reached record highs, a trend which will undoubtedly continue over the next few years. As a professional lottery company with deep involvement and ties in China's lottery market, the Group stands to reap the benefits of its sustained rapid development. Having undergone twenty years of booming growth, China's lottery sector is currently facing unprecedented opportunities and transformations.

Lottery games are inherently numerical, as the gaming process essentially involves the sale of number sequences. New media lottery has the advantage of being the lowest cost method of achieving this, making it incomparably dynamic and revolutionary. The Group understands that new media lottery entails an innovative combination of new lottery channels and new games, primarily backed by enhanced system capabilities and new gaming innovations. Thus, the Group will focus on acquiring a more accurate grasp of the market's and players' needs and desires to drive innovation in this area.

Management Discussion and Analysis

The 300,000 terminals and sales outlets under Sports and Welfare Lottery are the result of twenty years of development of China's lottery industry, and form the backbone of the sector. The upward trend for future terminal and sales outlets growth is expected to be sustained. The growth in new media lottery consumption will supplement consumption through terminals in physical outlets with new features. With the entire retail sector entering the online-to-offline ("O2O") era, the lottery sector is also poised to adopt this innovation. Implementation of lottery-specific O2O strategies necessitates conducting in-depth research into the lottery market's development landscape, player behaviour and the psychology of consumption. Learning from the successes of other consumer goods industries, developing suitable O2O products, and bringing customers more convenience, rationality and entertainment will all facilitate stronger expansion and development of China's lottery industry.

With lottery issuance and regulatory authorities advocating the need for better cooperation between the market and the government, the Group, as a trusted partner of lottery authorities, will continue to strive to provide professional and high quality services, and will strictly comply with lottery related policies and regulations. In 2014, the new media lottery sector is expected to thrive, and the lottery industry will witness an accelerated integration of online and offline businesses. The Group is prepared to strengthen its existing businesses and earnings base, while striving to capture new business opportunities to achieve new growth drivers, thus creating greater value for its shareholders.

FINANCIAL REVIEW

The Group recorded a turnover of approximately HK$743.8 million for the year ended 31 December 2013, representing an increase of approximately 22% over 2012. The Group recorded approximately HK$88.6 million in profit attributable to owners of the Company for the year ended 31 December 2013, representing an increase of approximately 31% over 2012. The improvement in both turnover and profit attributable to owners of the Company is mainly attributable to the sustained growth of the China lottery market in 2013.

LIQUIDITY, FINANCIAL RESOURCES, GEARING RATIO AND CAPITAL STRUCTURE

The Group believes that it has adequate financial resources to fund its capital and operating requirements. At 31 December 2013, the Company had an outstanding corporate guarantee for an unlimited amount for total banking facilities of property installment loans of approximately HK$153.7 million (2012: HK$106.9 million), and an outstanding corporate guarantee limited to approximately HK$17 million (2012: HK$17 million) for a banking facility of a property installment loan of approximately HK$17 million (2012: HK$17 million); whereas, a subsidiary of the Group had an outstanding corporate guarantee for a maximum of RMB150 million (2012: RMB80 million) plus interest and fees for a banking facility of a working capital loan of RMB200 million (2012: RMB150 million) granted to the Group. The Group had outstanding bank borrowings at 31 December 2013 of approximately HK$797.2 million (2012: HK$612.9 million). At 31 December 2013, the bank borrowings and banking facilities of the Group were secured by (i) leasehold land and buildings of the Group with a carrying amount of approximately HK$172.9 million (2012: HK$176.4 million), (ii) standby letters of credit issued by bank for an aggregate amount of US$59 million (2012: US$55 million), (iii) accounts receivable of approximately HK$60.5 million (2012: HK$47.4 million) and (iv) bank deposits amounting to approximately HK$501.3 million (2012: HK$446.9 million).

Management Discussion and Analysis

The Group's total equity amounted to approximately HK$1,456.2 million at 31 December 2013 (2012: HK$1,254.5 million). At 31 December 2013, net current assets of the Group amounted to approximately HK$294.5 million (2012: HK$233.7 million), including approximately HK$841.1 million in cash and deposits with banks and financial institutions (2012: HK$713.6 million).

The gearing ratio (defined as total liabilities over total assets) of the Group at 31 December 2013 was approximately 38.9% (2012: 37.2%).

EXPOSURE TO EXCHANGE RATE FLUCTUATIONS

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

PLEDGE OF ASSETS

At 31 December 2013, the Group's leasehold land and buildings at net book value of approximately HK$172.9 million (2012: HK$176.4 million) were pledged to banks to secure the bank borrowings granted to the Group. At 31 December 2013, the Group's accounts receivable at outstanding balance of approximately HK$60.5 million (2012: HK$47.4 million) and bank deposits amounting to approximately HK$501.3 million (2012: HK$446.9 million) were pledged to secure bank borrowings and banking facilities granted to the Group.

CONTINGENT LIABILITIES

At 31 December 2013, the Group did not have any material contingent liabilities (2012: Nil).

STAFF

At 31 December 2013, the Group had 460 (at 31 December 2012: 480) full time employees. The management believes that the competence of employees is a major contributing factor to the Group's sustained growth and advancement in profitability. Staff remuneration is based on performance and experience. In addition to basic salary, benefits for employees include a performance-related bonus, contributory provident fund, medical insurance and regulated employees' social security program in China. The Group also adopted a share option scheme under which options may be granted to eligible staff based on individual performance. Training programmes for staff are provided as and when required. The Group will further strengthen its team, and in particular on the build up of its technical team, in order to offer enhanced services for China's welfare lottery market.

Biographies of Directors and Senior Management

DIRECTORS

LAU Ting

Board's Chairperson, Executive Director and Chief Executive Officer

Ms. Lau, aged 57, is the Board's Chairperson, an Executive Director and the Chief Executive Officer of the Company. Ms. Lau is the founder of the Group and responsible for planning and leading the implementation of the Group's overall strategies for operational development. She has over twenty years of solid experience in business planning and management, mergers and acquisitions, and financial and human resources management. Ms. Lau is also an executive director of Hong Kong listed Burwill Holdings Limited.

WU Jingwei

Executive Director and Co-Chief Executive Officer

Mr. Wu, aged 42, joined the Group in 2007, and is an Executive Director and the Co-Chief Executive Officer of the Company. Mr. Wu assists the Chief Executive Officer in planning and leading the implementation of the Group's overall strategies for development. Mr. Wu has overall responsibilities for the operations and management of the Group's lottery business with extensive experience in leading the VLT business, CTG business and new media lottery business. Mr. Wu has over fifteen years of experience in information technology. Prior to joining the Group, Mr. Wu had held senior management positions in PKU Founder Group and Hisense Group. Mr. Wu holds a Bachelor's degree in Mechanical Engineering from Beijing Technology and Business University.

CHAN Tan Na, Donna

Executive Director and Chief Financial Officer

Ms. Chan, aged 33, joined the Group in 2012, and is an Executive Director and Chief Financial Officer. Ms. Chan is responsible for the management of several departments of the Group including finance, investor relations and company secretarial. She holds a Bachelor degree in Economics and Finance from the University of Hong Kong and a Master degree in Economics from Boston University, USA. She is a qualified Chartered Financial Analyst (CFA) and holds licenses in relation to asset management from the Hong Kong Securities Institute. From 2005 to early 2012, Ms. Chan held positions at Deutsche Bank's Corporate Finance department and Atlantis Investment Management (Hong Kong) Limited, where she was involved in several initial public offerings, share placements, mergers and acquisitions, and bond issuances. Her experiences span across different sectors including technology, media, telecommunication, real estate, natural resources and consumer goods. In her capacity as a fund manager, she was in charge of equity investments in listed and unlisted companies in the Greater China region. She has also worked with a diverse portfolio of clients from Europe and the USA including sovereign wealth funds, mutual funds, endowment funds as well as other institutional investors.

LI Zi Kui

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

Mr. Li, aged 50, joined the Group in 2011, is an Executive Director, Vice President and General Manager of the Group's CTG Business Unit. Mr. Li has over twenty-five years of solid management experience in the information technology sector. He had been engaged in the China Welfare lottery space as a chief engineer with technical management responsibility for nearly twenty years, gaining extensive experience with proven track record in various lottery segments including video lottery, computer ticket game and instant lottery. Mr. Li holds a Bachelor's degree in Computer Science and Engineering from The PLA Information Engineering University and an EMBA from Beijing Institute of Technology, as well as a senior engineer qualification.

Biographies of Directors and Senior Management

HOONG Cheong Thard

Non-Executive Director

Mr. Hoong, aged 45, is currently a Non-Executive Director and the Consultant of the Company. Mr. Hoong joined the Group in 2006 and had been an Executive Director and the Chief Executive Officer of the Company until September 2008. Mr. Hoong has over ten years of experience in investment banking and has extensive experience in international capital markets and mergers and acquisitions. Mr. Hoong was a director in Equity Capital Markets at Deutsche Bank responsible for Greater China. He was also previously an executive director in Equity Capital Markets at UBS and has held senior positions in Corporate Finance at Barclays Group and a major international accounting firm where he was involved in auditing. Mr. Hoong is currently the managing director of Far East Consortium International Limited, a company listed in Hong Kong, and the director and president of AGORA Hospitality Group Co., Ltd. (formerly known as "Tokai Kanko Co., Ltd."), a company listed in Tokyo, Japan. Mr. Hoong is also a non-executive director of Dorsett Hospitality International Limited (formerly known as "Kosmopolito Hotels International Limited"), a company listed in Hong Kong and a non-independent and a non-executive director of Land & General Berhad, a company listed in Malaysia. He is a member of the Institute of Chartered Accountants in England and Wales and holds a Bachelor's degree in Mechanical Engineering from Imperial College, University of London.

HUANG Shenglan

Independent Non-Executive Director

Mr. Huang, aged 62, joined the Group in 2002 and is an Independent Non-Executive Director. Mr. Huang was an executive director and the deputy governor of China Everbright Bank, Head Office and was an executive director and the general manager of China Everbright Technology Limited. Mr. Huang holds a Diploma in Arts from Huazhong Normal University and in International Economics from Huadong Normal University and a certificate in International Economic Law from Xiamen University and in Advanced Management Programme from the Harvard Business School, USA. Mr. Huang is also an independent non-executive director of Burwill Holdings Limited and Symphony Holdings Limited and a non-executive director of China Fortune Investments (Holding) Limited, which are listed companies in Hong Kong. Mr. Huang was an independent director of Chongqing Road & Bridge Co. Limited, a company listed in Shanghai, in the previous three years.

CHAN Ming Fai

Independent Non-Executive Director

Mr. Chan, aged 52, joined the Group in 2006 and is an Independent Non-Executive Director of the Company. He is currently the chief executive officer of City Green Holdings Limited and is primarily responsible for the formulation and execution of the Group's strategy. Prior to that, he was the chief executive officer of Full Seas Technology Group and the president of Dandelion Capital Group, which is a private financial advisory company. He has over twenty years of experience in investment banking and asset management. Mr. Chan had worked for Jardine Fleming Investment Management with a major responsibility to market unit trusts and asset management products in Hong Kong and subsequently in various Asian markets, and was particularly instrumental in the establishment of Jardine Fleming's investment trust operation in Japan, Korea and Indonesia. Mr. Chan also cofounded the KGI Group, which is a pan-Asian investment bank with shareholders including major investors and institutions in Asia, where he was the head of the asset management operation which managed about USD400 million in hedge funds and other portfolios, and was also a member of the management committee of KGI Group. Mr. Chan received a Bachelor's degree in Social Sciences with a major in Economics from the University of Hong Kong. Mr. Chan is also an independent non-executive director of Burwill Holdings Limited, a company listed in Hong Kong. During the period from May 2009 to September 2010, Mr. Chan was a non-executive director of Advanced Engine Components Limited, a company listed in Australia.

Biographies of Directors and Senior Management

CUI Shuming

Independent Non-Executive Director

Mr. Cui, aged 76, joined the Group in 2008 and is an Independent Non-Executive Director of the Company. He graduated from People's University of China. He was the deputy head of the Bank of China, Jiangsu branch, the executive director of The National Commercial Bank, Ltd. and the general manager of its Hong Kong branch, a director and the executive vice president of The Ka Wah Bank Limited and an independent non-executive director of two public listed companies in Hong Kong, namely, Cheung Tai Hong Holdings Limited (currently known as ITC Properties Group Limited) and Wah Sang Gas Holdings Limited. Mr. Cui is currently an independent non-executive director of Burwill Holdings Limited and Yue Da Mining Holdings Limited, both are listed companies in Hong Kong. He has over forty years of experience in international finance and corporate planning and management.

SENIOR MANAGEMENT

LAN Jianzhang

Mr. Lan, aged 42, joined the Group in 2009. He is currently the Senior Vice President of the Group and General Manager of the Group's New Type Lottery Business Unit. Mr. Lan previously held a senior position at China Lottery Online Technology Co., Ltd, and was responsible for the strategy, product and business development. He has extensive and proven experience in the lottery industry including video lottery segment. Mr. Lan has over fifteen years' experience in the information technology and internet sector. He previously held management positions at leading companies in the sector including the PKU Founder Group, where he was responsible for the development of high-end information technology and household appliances. Mr. Lan holds a Bachelor's degree from Beijing University of Aeronautics & Astronautics, a Master's degree in Physics from Chinese Academy of Sciences, and an EMBA from Beijing Institute of Technology.

HE Ying

Ms. He, aged 44, joined the Group in 2007. She is currently the Senior Vice President of the Group, General Manager of the Group's Mobile and Internet Services Business Unit and General Manager of the Marketing Department. Ms. He had been the general manager of the marketing department at Founder Technology Group Corporation and vice general manager at Hisense Cyber Product Limited. Ms. He has been engaged in the information technology industry for fifteen years, and has extensive experience in marketing and corporate management. Ms. He holds a Bachelor's degree in Computer Science from the Beijing University of Technology.

CHEN Hengben

Mr. Chen, aged 74, joined the Group in 2008. He is currently the Vice President of the Group and the Chairman of the Group's CTG Business in Guangdong Province. Mr. Chen, who is among the pioneers in China engaged in the development of lottery systems and equipment, has over 40 years of practical experience in computer science and electronic engineering. He was a member of the Guangdong Provincial Committee of the Chinese People's Political Consultative Conference, a senior engineer for the Research Institute of China Ordnance Industry and the vice president covering technology for the Computer Center of Guangdong Provincial Science and Technology Commission; In 1992, he took part in establishing the Guangzhou Horse Racecourse and assumed the position of vice chief commander for the project construction of the Real Time Racing Lottery Bidding System for Guangzhou Horse Racecourse. In 1999, he was appointed as chief commander for the project construction of Macau the Greyhound Racing Club Real Time Lottery Bidding System. Afterwards he founded Guangzhou San Huan Yong Xin Technology Company Limited and Guangzhou Lottnal Terminal Technology Company Limited. Mr. Chen holds a Bachelor's degree in Computer Science from South China University of Technology.

JI Youjun

Mr. Ji, aged 41, joined the Group in 2007. He is currently the Vice President of the Group and the General Manager of the Research & Development Center of the Group. Mr. Ji had been the head of household product development at Founder Technology Group Corporation and vice general manager at Hisense Cyber Product Limited. Mr. Ji has extensive experience in the development and management of information technology hardware and software products. He holds a Bachelor's degree from Harbin University of Science and Technology.

Biographies of Directors and Senior Management

CHONG Ming, John
Mr. Chong, aged 42, joined the Group in 2001. He is Currently the Vice President of the Group and Director of Investor Relations, with over 10 years of solid experience in corporate management and sino-foreign cooperation. Mr. Chong was an officer with the legal aid department of the Department of Justice and the Legislative Council Secretariat of Hong Kong respectively. Mr. Chong holds a degree in Translation and Interpretation from the City University of Hong Kong, and is currently completing a Juris Doctoral degree with the Chinese University of Hong Kong.

ZHU Xinxin, Sandy
Ms. Zhu, aged 34, joined the Group in 2008. She is currently the Vice President of the Group and Director of Human Resource and Administrative Department (China). Ms. Zhu had been the operation manager of Protiviti Independent Risk Consulting, China, a global business consulting and internal audit firm. Ms. Zhu had also worked in Accenture, a global leading management consulting, technology services and outsourcing company. At Accenture, she participated in various projects including the CNOOC SAP implementation project, Robert Half International PeopleSoft Implementation project and BP Finance & Accounting Outsourcing project. Ms. Zhu holds a Bachelor's degree in Business and Finance from the University of Westminster and a Master's degree in Development Finance from the University of Manchester.

TAN Yung Kai, Richard
Mr. Tan, aged 42, joined the Group in 2000. He is currently the Financial Controller of the Group, responsible for the overall compliance and financial accounting of the Company. Mr. Tan has over ten years of experience in the audit and the accounting fields. He had worked for Deloitte Touche Tohmatsu, an international accounting firm involved in the various auditing and due diligence activities. He holds a Bachelor's degree in Commerce from McGill University, Canada and a Master's degree in Corporate Finance from the Hong Kong Polytechnic University. Mr. Tan is a member of the Hong Kong Institute of Certified Public Accountants and American Institution of Certified Public Accountants.

SONG Xiaojun
Ms. Song, aged 47, joined the Group in 2007. She is currently the Head of the Legal Department of the Group. Ms. Song obtained her lawyer qualification certificate in mainland China and has over seventeen years of experience in legal areas, specialising in business matters, dispute resolutions and intellectual property. Ms. Song has worked at the China University of Politics and Law, law firms in Mainland China and Hong Kong respectively. Ms. Song holds a Bachelor's degree in Law from the China University of Politics and Law and a Master's degree (Magister Juris) in European and Comparative Law from Oxford University.

ZHANG Yi
Mr. Zhang, aged 37, joined the Group in 2008. He is currently the Financial Controller (China) of the Group, responsible for the overall financing and investment management of the Group's China region. Prior to joining the Group, Mr. Zhang had previously been the Investment Head of Investment Development Department of Fosun Group. Fosun Group is one of the largest non-state-owned corporations in China with operations in pharmaceutical, property development, steel, mining, retail, services and strategic investment. Mr. Zhang had also worked for Yongjin Group and Jiuzhitang Co., Ltd, both of which are famous corporations in China. Mr. Zhang has nearly fifteen years of experience in the financial management and investment management fields. Mr. Zhang holds an international MBA and Bachelor's degree in Economics from Peking University's Guanghua School of Management. Mr. Zhang is also a non-practicing member of the Chinese Institute of Certified Public Accountants (CICPA) and a member of the Association of Chartered Certified Accountants (ACCA).

WONG Hiu Wong
Mr. Wong, aged 30, joined the Group in 2009. He is currently the Company Secretary of the Company, responsible for the overall compliance matters within the Group and providing advice to its corporate exercise and adaptation of latest corporate governance policies. Prior to joining the Group, Mr. Wong had worked for a Hong Kong listed group, responsible for the compliance issues of its companies listed on Main Board and GEM Board respectively. Mr. Wong is an associate member of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries and a member of The Hong Kong Institute of Directors. He holds a Master's degree in Corporate Governance and Directorship from the Hong Kong Baptist University and a Bachelor's degree in Business from LSE, the University of London.

Report of the Directors

The board of Directors of the Company (the "Board") presents to the shareholders their report together with the audited financial statements of the Group for the year ended 31 December 2013.

FINANCIAL RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 31 December 2013 are set out in the consolidated statement of profit or loss on page 36.

No interim dividend was paid during the year.

The Board has recommended the payment of a final dividend of 0.24 HK cents (2012: 0.18 HK cents) per share for the year ended 31 December 2013 to the shareholders whose names appear on the register of members of the Company on 9 June 2014. The proposed final dividend is subject to approval of shareholders at the Annual General Meeting to be held on Tuesday, 27 May 2014.

PRINCIPAL ACTIVITIES AND SEGMENT INFORMATION

The principal activity of the Company is investment holding.

The Group is principally engaged in the business of provision of technology and services for lottery systems, terminal equipment, gaming products and their operations in China's lottery market. The principal businesses of the Group cover various lottery products ranging from video lottery, computer-generated ticket games and high frequency lottery to new media lottery.

Analysis of the Group's turnover and segment information for the year ended 31 December 2013 are set out in note 5 to the consolidated financial statements.

MAJOR SUPPLIERS AND CUSTOMERS

The Group's five largest customers accounted for about 94% of its turnover for the year. In addition, the largest customer of the Group accounted for about 83% of the Group's turnover.

The percentage of the Group's purchases attributable to the Group's five largest suppliers was about 61%. In addition, the largest supplier of the Group accounted for about 31% of the Group's purchases.

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

PROPERTY, PLANT AND EQUIPMENT

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

SUBSIDIARIES

The particulars of the Company's principal subsidiaries as at 31 December 2013 are set out in note 18(a) to the consolidated financial statements.

SHARE CAPITAL

Details of movements in share capital during the year are set out in note 32 to the consolidated financial statements.

Report of the Directors

TRANSFER OF LISTING FROM THE GEM TO THE MAIN BOARD OF THE STOCK EXCHANGE

On 25 March 2013, the Company made an application to The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the transfer of listing of the shares of the Company from the Growth Enterprise Market of the Stock Exchange ("GEM") to the Main Board pursuant to the transfer of listing procedures under Chapter 9A of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") (the "Transfer of Listing").

On 4 October 2013, the approval-in-principle for the Transfer of Listing was granted by the Stock Exchange. The last day of dealings in the shares of the Company on GEM was 15 October 2013. Dealing in the shares of the Company on the Main Board (under stock code: 1371) commenced at 9:00 a.m. on 16 October 2013 following the Transfer of Listing. The Company has adopted "CHINA LOTSYN" as its English stock short name and "華彩控股" as its Chinese stock short name for trading purpose on the Main Board. The Transfer of Listing has not involved any issue of new shares by the Company. No change has been made to the existing share certificates, the trading currency and the share registrar of the shares of the Company in connection with the Transfer of Listing.

The Board believes that the listing of the shares of the Company on the Main Board can help enhance the profile of the Group and increase the trading liquidity of the shares of the Company by attracting more institutional and retail investors. The Board considers that the Transfer of Listing can be beneficial to the financing flexibility, future growth and business development of the Group.

CHANGE IN BOARD LOT SIZE

The board lot size of the shares of the Company for trading on the Stock Exchange has been changed from 4,000 Shares to 20,000 Shares with effect from 30 October 2013 (the "Change in Board Lot Size"). The Change in Board Lot Size will not affect any of the relevant rights of the shareholders of the Company.

NAME CHANGE OF SHARE REGISTRAR

The name of principal share registrars of the Company has been changed from Butterfield Fulcrum Group (Bermuda) Limited to MUFG Fund Services (Bermuda) Limited.

REGULAR PUBLICATION OF RESULTS

After the Transfer of Listing, the Company will follow the relevant requirements of the Listing Rules which include publishing its interim results and annual results within two months and three months from the end of the relevant periods or financial year ends, respectively and that no quarterly reporting of financial results is required.

ISSUANCE OF CONSIDERATION SHARES

Pursuant to the terms and conditions of a Transfer Agreement entered into by the Company's subsidiary as mentioned in the announcement of the Company dated 2 November 2011, 43,360,000 consideration shares (subject to adjustment if the vendors cannot fulfill the Profit Guarantee for 2011 and Profit Guarantee for 2012) would be conditionally allotted and issued by the Company at an issue price of HK$0.45 per consideration share as partial settlement of the relevant acquisition. The Company has allotted and issued the total of 13,008,000 shares of the Company, as the first batch, on 3 April 2012 in accordance with the terms of that Transfer Agreement. In addition, since the actual profit before tax of the Target Group, as defined in the abovementioned announcement, in 2012 was RMB2,928,358.81, which was less than the Profit Guarantee for 2012 (in amount of RMB10,000,000) guaranteed by the Vendors, therefore, pursuant to the terms under the Transfer Agreement, adjustment has been made to the number of second batch of consideration shares proportionally (by dividing the actual profit before tax of the Target Group in 2012 by the Profit Guarantee for 2012). 8,888,154 consideration shares, being the second batch of the consideration shares, have been allotted and issued on 9 April 2013.

RESERVES

Details of movements in reserves during the year are set out in note 34 to the consolidated financial statements.

Report of the Directors

DISTRIBUTABLE RESERVES

As at 31 December 2013, the distributable reserves to the shareholders in accordance with the Company's Bye-laws was approximately HK$27,522,000 (As at 31 December 2012: HK$34,807,000).

PRE-EMPTIVE RIGHTS

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

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year ended 31 December 2013.

SHARE OPTION SCHEME

As at 31 December 2013, there were options for 156,000,000 shares granted by the Company pursuant to the option scheme, as adopted by the shareholders of the Company on 30 July 2002 (the "2002 Option Scheme"), which were valid and outstanding. At the annual general meeting of the Company held on 18 May 2012, an ordinary resolution has be passed for the Company to terminate the operation of the 2002 Share Option Scheme in accordance with its terms (such that no further options could thereafter be offered under the 2002 Option Scheme but in all other respects the provisions of the 2002 Option Scheme shall remain in full force and effect and all options granted prior to such termination and not exercised at the date of termination shall remain valid) and a new share option scheme (the "2012 Option Scheme") has been adopted by the shareholders of the Company at the same day. As at 31 December 2013, there were options for 271,600,000 shares granted by the Company pursuant to the 2012 Option Scheme which were valid and outstanding.

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

(i) Purpose of the Option Scheme

The purpose of the 2012 Option Scheme is to provide incentives to Participants (as stated in paragraph (ii)) to contribute to the Group and to enable the Group to recruit high-calibre employees and attract resources that are valuable to the Group.

(ii) Participants

Any person being an employee, officer, buying agent, selling agent, consultant, sales representative, marketing representative, business representative of, or supplier or provider of goods or services to, the Group or its holding company or subsidiary, including any executive or non-executive director of the Group or its holding company or subsidiary.

(iii) Maximum number of shares

The limit on the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2012 Option Scheme and any other share option schemes of the Company and/or its holding company and/or its subsidiary must not exceed 30% of the number of issued shares from time to time. The total number of Shares available for issue under the 2012 Option Scheme as at the date of this report is 328,258,466 Shares, representing approximately 4.30% of the issued share capital of the Company as of that date.

(iv) Maximum entitlement of each Participant

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

Report of the Directors

SHARE OPTION SCHEME *(Cont'd)*

(v) Option period

An option may be exercised in accordance with the terms of the 2012 Option Scheme at any time during a period of not exceeding 10 years to be notified by the Board to the grantee, such period to commence on the date of grant or such later date as the Board may determine and expiring on the last day of the said period. Under the 2012 Option Scheme, the Board may, at its discretion, prescribe a minimum period for which an option must be held before it can be exercised.

(vi) Payment on acceptance of option

HK$1.00 in cash is payable by the Participant who accepts the grant of an option in accordance with the terms of the 2012 Option Scheme on acceptance of the grant of an option.

(vii) Subscription price

The subscription price for the shares under the options to be granted under the 2012 Option Scheme will be a price determined by the Board and notified to a Participant at the time the grant of the options is made to (and subject to acceptance by) the Participant and will be at least the highest of: (a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheets on the date of the grant (subject to acceptance) of the option, which must be a business day; (b) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of the grant (subject to acceptance) of the option; and (c) the nominal value of the shares.

(viii) The life of the Option Scheme

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

Report of the Directors

SHARE OPTION SCHEME *(Cont'd)*

Movements of share options granted under the 2002 Option Scheme and 2012 Option Scheme during the year ended 31 December 2013:

	Date of grant	Exercise price per Share HK$	Exercise period from	until	outstanding at the beginning of the year	No. of Shares under the options: granted during the year	exercised during the year	cancelled during the year	lapsed during the year	outstanding at the end the year	Closing price per Share at the date of grant of the options during the year HK$
2002 Option Scheme											
(i) Name of Directors											
WU Jingwei	04/07/2007	0.975	01/01/2012	31/12/2013	800,000	–	–	–	–	800,000	–
	25/08/2008	0.500	25/08/2011	24/08/2013	2,000,000	–	–	–	(2,000,000)	–	–
	25/08/2008	0.500	25/08/2012	24/08/2013	2,000,000	–	–	–	(2,000,000)	–	–
	02/10/2009	0.500	01/09/2011	31/08/2014	3,400,000	–	–	–	–	3,400,000	
	02/10/2009	0.500	01/09/2012	31/08/2014	3,400,000	–	–	–	–	3,400,000	–
	02/10/2009	0.500	01/09/2013	31/08/2014	3,400,000	–	–	–	–	3,400,000	–
	13/05/2011	0.216	13/05/2011	12/05/2013	11,500,000	–	–	–	(11,500,000)	–	–
LI Zi Kui	17/08/2009	0.500	17/02/2010	16/08/2014	5,000,000	–	–	–	–	5,000,000	–
	17/08/2009	0.500	17/08/2010	16/08/2014	5,000,000	–	–	–	–	5,000,000	–
HOONG Cheong Thard	30/06/2006	0.285	16/08/2007	29/06/2016	17,600,000	–	–	–	–	17,600,000	–
	30/06/2006	0.285	16/08/2008	29/06/2016	17,600,000	–	–	–	–	17,600,000	–
	13/05/2011	0.216	13/05/2011	12/05/2013	2,000,000	–	–	–	(2,000,000)	–	–
HUANG Shenglan	13/05/2011	0.216	13/05/2011	12/05/2013	2,000,000	–	–	–	(2,000,000)	–	–
CHAN Ming Fai	13/05/2011	0.216	13/05/2011	12/05/2013	2,000,000	–	–	–	(2,000,000)	–	–
CUI Shuming	13/05/2011	0.216	13/05/2011	12/05/2013	2,000,000	–	–	–	(2,000,000)	–	–
(ii) Continuous contract employees	11/05/2007	0.775	02/05/2008	01/05/2014	1,800,000	–	–	–	–	1,800,000	–
	11/05/2007	0.775	02/05/2009	01/05/2014	1,800,000	–	–	–	–	1,800,000	–
	11/05/2007	0.775	02/05/2010	01/05/2014	1,800,000	–	–	–	–	1,800,000	–
	11/05/2007	0.775	02/05/2011	01/05/2014	1,800,000	–	–	–	–	1,800,000	–
	11/05/2007	0.775	02/05/2012	01/05/2014	1,800,000	–	–	–	–	1,800,000	–
	11/05/2007	0.775	02/05/2013	01/05/2014	3,000,000	–	–	–	–	3,000,000	–
	25/08/2008	0.500	11/03/2009	10/03/2013	600,000	–	–	–	(600,000)	–	–
	25/08/2008	0.500	11/03/2010	10/03/2013	600,000	–	–	–	(600,000)	–	–
	25/08/2008	0.500	11/03/2011	10/03/2013	600,000	–	–	–	(600,000)	–	–
	25/08/2008	0.500	11/03/2012	10/03/2013	600,000	–	–	–	(600,000)	–	–
	25/08/2008	0.500	25/08/2009	24/08/2013	2,400,000	–	–	–	(2,400,000)	–	–
	25/08/2008	0.500	25/08/2010	24/08/2013	2,400,000	–	–	–	(2,400,000)	–	–
	25/08/2008	0.500	25/08/2011	24/08/2013	2,400,000	–	–	–	(2,400,000)	–	–
	25/08/2008	0.500	25/08/2012	24/08/2013	2,400,000	–	–	–	(2,400,000)	–	–
	09/04/2009	0.500	17/08/2009	16/08/2013	400,000	–	–	–	(400,000)	–	–
	09/04/2009	0.500	17/08/2010	16/08/2013	400,000	–	–	–	(400,000)	–	–
	09/04/2009	0.500	17/08/2011	16/08/2013	400,000	–	–	–	(400,000)	–	–
	09/04/2009	0.500	17/08/2012	16/08/2013	400,000	–	–	–	(400,000)	–	–
	15/06/2009	0.500	15/06/2010	14/06/2015	5,000,000	–	–	–	–	5,000,000	–
	15/06/2009	0.500	15/06/2011	14/06/2015	5,000,000	–	–	–	–	5,000,000	–
	17/08/2009	0.500	17/02/2010	16/08/2014	36,000,000	–	–	–	–	36,000,000	–
	17/08/2009	0.500	17/08/2010	16/08/2014	36,000,000	–	–	–	–	36,000,000	–
	02/10/2009	0.500	01/09/2010	31/08/2014	1,450,000	–	–	–	–	1,450,000	–
	02/10/2009	0.500	01/09/2011	31/08/2014	1,450,000	–	–	–	–	1,450,000	–
	02/10/2009	0.500	01/09/2012	31/08/2014	1,450,000	–	–	–	–	1,450,000	–
	02/10/2009	0.500	01/09/2013	31/08/2014	1,450,000	–	–	–	–	1,450,000	–
	13/05/2011	0.216	13/05/2011	12/05/2013	63,000,000	–	–	–	(63,000,000)	–	–
(iii) Other participants	25/08/2008	0.500	25/08/2009	24/08/2013	150,000	–	–	–	(150,000)	–	–
	25/08/2008	0.500	25/08/2010	24/08/2013	150,000	–	–	–	(150,000)	–	–
	25/08/2008	0.500	25/08/2011	24/08/2013	150,000	–	–	–	(150,000)	–	–
	25/08/2008	0.500	25/08/2012	24/08/2013	150,000	–	–	–	(150,000)	–	–
	13/05/2011	0.216	13/05/2011	12/05/2013	47,700,000	–	–	–	(47,700,000)	–	–
	30/05/2011	0.250	30/05/2011	29/05/2013	296,000,000	–	–	–	(296,000,000)	–	–
Total:					600,400,000	–	–	–	(444,400,000)	156,000,000	

Report of the Directors

SHARE OPTION SCHEME *(Cont'd)*

	Date of grant	Exercise price per Share HK$	Exercise period from	until	No. of Shares under the options outstanding at the beginning of the year	granted during the year	exercised during the year	cancelled during the year	lapsed during the year	outstanding at the end the year	Closing price per Share at the date of grant of the options during the year HK$
2012 Option Scheme											
(i) Name of Directors											
LAU Ting	13/11/2012	0.109	13/05/2013	12/05/2015	3,500,000	–	(3,500,000)	–	–	–	–
	13/11/2012	0.109	13/05/2014	12/05/2016	3,500,000	–	–	–	–	3,500,000	–
WU Jingwei	13/11/2012	0.109	13/05/2013	12/05/2015	24,000,000	–	(24,000,000)	–	–	–	–
	13/11/2012	0.109	13/05/2014	12/05/2016	24,000,000	–	–	–	–	24,000,000	–
CHAN Tan Na, Donna	13/11/2012	0.109	13/05/2013	12/05/2015	20,000,000	–	(20,000,000)	–	–	–	–
	13/11/2012	0.109	13/05/2014	12/05/2016	20,000,000	–	–	–	–	20,000,000	–
LI Zi Kui	13/11/2012	0.109	13/05/2013	12/05/2015	7,500,000	–	(7,500,000)	–	–	–	–
	13/11/2012	0.109	13/05/2014	12/05/2016	7,500,000	–	–	–	–	7,500,000	–
HOONG Cheong Thard	13/11/2012	0.109	13/05/2013	12/05/2015	2,500,000	–	(2,500,000)	–	–	–	–
	13/11/2012	0.109	13/05/2014	12/05/2016	2,500,000	–	–	–	–	2,500,000	–
HUANG Shenglan	13/11/2012	0.109	13/05/2013	12/05/2015	2,500,000	–	(2,500,000)	–	–	–	–
	13/11/2012	0.109	13/05/2014	12/05/2016	2,500,000	–	–	–	–	2,500,000	–
CHAN Ming Fai	13/11/2012	0.109	13/05/2013	12/05/2015	2,500,000	–	(2,500,000)	–	–	–	–
	13/11/2012	0.109	13/05/2014	12/05/2016	2,500,000	–	–	–	–	2,500,000	–
CUI Shuming	13/11/2012	0.109	13/05/2013	12/05/2015	2,500,000	–	(2,500,000)	–	–	–	–
	13/11/2012	0.109	13/05/2014	12/05/2016	2,500,000	–	–	–	–	2,500,000	–
(ii) Continuous contract employees	13/11/2012	0.109	13/05/2013	12/05/2015	92,000,000	–	(53,900,000)	–	–	38,100,000	–
	13/11/2012	0.109	13/05/2014	12/05/2016	92,000,000	–	–	–	–	92,000,000	–
	20/11/2012	0.109	20/05/2013	19/05/2015	1,500,000	–	(1,500,000)	–	–	–	–
	20/11/2012	0.109	20/05/2014	19/05/2016	1,500,000	–	–	–	–	1,500,000	–
(iii) Other participants	13/11/2012	0.109	13/05/2013	12/05/2015	25,000,000	–	(25,000,000)	–	–	–	–
	13/11/2012	0.109	13/05/2014	12/05/2016	25,000,000	–	–	–	–	25,000,000	–
	20/11/2012	0.109	20/05/2013	19/05/2015	25,000,000	–	–	–	–	25,000,000	–
	20/11/2012	0.109	20/05/2014	19/05/2016	25,000,000	–	–	–	–	25,000,000	–
Total:					417,000,000	–	(145,400,000)	–	–	271,600,000	

Note: The options are recognised as expenses in the accounts in accordance with Hong Kong Financial Reporting Standard 2. Other details of share options granted by the Company are set out in note 33 to the consolidated financial statements.

Report of the Directors

DIRECTORS

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

Executive Directors:

Ms. LAU Ting
Mr. WU Jingwei
Ms. CHAN Tan Na, Donna
Mr. LI Zi Kui

Non-Executive Director:

Mr. HOONG Cheong Thard

Independent Non-Executive Directors:

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

In accordance with bye-law 99 of the Bye-laws of the Company, Ms. CHAN Tan Na, Donna, Mr. LI Zi Kui and Mr. HOONG Cheong Thard shall retire from office by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

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

SENIOR MANAGEMENT

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

Report of the Directors

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

As at 31 December 2013, the interests and short positions of the Directors and chief executive of the Company (including those interests and short positions which were taken or deemed to have interests and short positions under the provisions of the Securities and Futures Ordinance (the "SFO")) in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

(1) Interests in Shares of the Company

	Number of shares				
Name of Directors	Beneficial interests	Family interests	Corporate interests	Total	Approximate percentage of the Company's issued share capital
LAU Ting	263,474,373(L)	389,286,426(L)	867,762,948(L) 23,093,192(S)	1,520,523,747(L) 23,093,192(S) *(Note 1)*	19.99%(L) 0.30%(S)
WU Jingwei	44,000,000(L)	–	–	44,000,000(L)	0.58%(L)
CHAN Tan Na, Donna	20,000,000(L)	–	–	20,000,000(L)	0.26%(L)
LI Zi Kui	16,500,000(L)	–	–	16,500,000(L)	0.22%(L)
HUANG Shenglan	5,500,000(L)	–	–	5,500,000(L)	0.07%(L)
CUI Shuming	2,500,000(L)	–	–	2,500,000(L)	0.03%(L)

Notes:

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

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

Report of the Directors

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

(2) Interests in Underlying Shares

As at 31 December 2013, the interests of the Directors and chief executive of the Company in options for Shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standards of dealing by directors of the listed issuer as referred to in the Model Code, were as disclosed in the previous section headed "Share Option Scheme" of this report.

Save as otherwise disclosed above, as at 31 December 2013, none of the Directors or chief executive of the Company had, or were deemed under the SFO to have, any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) which were required to be recorded in the register kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standards of dealing by directors of listed issuer as referred to the Model Code.

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

As at 31 December 2013, according to the register required to be kept by the Company under Section 336 of the SFO, the following persons (other than the Directors and chief executive of the Company) had interests and short positions in the shares and underlying shares of the Company:

(1) Interests in Shares

	Number of shares					Approximate percentage interest in the Company's issued share capital
Name of Shareholder	Beneficial interests	Family Interest	Investment Manager	Corporate interests	Total	
CHAN Shing	389,286,426(L)	263,474,373(L)	–	867,762,948(L) 23,093,192(S)	1,520,523,747(L) 23,093,192(S) *(Note 1)*	19.99%(L) 0.30%(S)
Atlantis Capital Holdings Limited	–	–	–	440,000,000(L)	440,000,000(L) *(Note 2)*	5.90%(L)
LIU Yang	–	–	–	440,000,000(L)	440,000,000(L) *(Note 2)*	5.90%(L)
Favor King Limited	–	–	–	582,864,906(L)	582,864,906(L) *(Note 1)*	7.66%(L)

Report of the Directors

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

(1) Interests in Shares *(Cont'd)*

Notes:

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

2. These shares represent the same block of interest held by Atlantis Capital Holdings Limited and Ms. LIU Yang. Atlantis Investment Management (Hong Kong) Limited was interested in 440,000,000 shares among these shares. Atlantis Investment Management (Ireland) Limited and Atlantis Investment Management Limited were interested in 190,000,000 shares respectively among these shares. The above three companies were wholly-owned by Atlantis Capital Holdings Limited, which in turn was wholly-owned by Ms. LIU Yang.

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

(2) Interests in Underlying Shares

As at 31 December 2013, the interests of Ms. LAU Ting in options for shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, which were disclosed in the previous section headed "Share Option Scheme" of this report, were deemed to be the interests of Mr. CHAN Shing in underlying Shares.

Save as disclosed above, as at 31 December 2013, there was no person (other than the Directors and chief executive of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and/or who were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in the financial statements, there were no contracts of significance (as defined in Rule 15 of Appendix 16 of the Listing Rules) in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which any Directors of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONTRACTS WITH DIRECTORS

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

FINANCIAL SUMMARY

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

Report of the Directors

EMPLOYEE RETIREMENT BENEFIT

Details of the retirement benefit schemes of the Group and the employee retirement benefit costs charged to the consolidated statement of profit or loss for the year are set out in note 38.

COMPETING INTERESTS

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

PUBLIC FLOAT

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

CONTROL CONTRACTS

History and background

In early 2008, with the objective of expanding into the New Media Business, the Group acquired 北京網人互聯科技有限公司 ("OPCO A") and 北京華彩贏通科技有限公司 ("OPCO B") (collectively "OPCOs") in the form of loans extended to Ms. HE Ying and Mr. JI Youjun (collectively the "Nominees") and entered into the Control Contracts with the Nominees to control and extract all economic benefits from OPCOs for the benefit of the Group. The Nominees were appointed as directors of OPCOs or their subsidiaries respectively to oversee its operation under the instruction of the Company. The New Media Business, as the prospective business of OPCO A and the current business of OPCO B, involves mobile value-added telecommunications business activities. According to the relevant PRC laws and regulations, a wholly foreign-owned enterprise is prohibited from engaging in any value-added telecommunications business. Therefore, a wholly foreign-owned enterprise is ineligible to apply for and obtain a value-added telecommunications business operation permit. The Control Contracts were entered into in order for the Group to manage and operate the business of OPCOs, under which all the business, financial and operating activities of OPCOs are managed by the Group and all economic benefits and risks arising from the business, financial and operating activities of OPCOs are transferred to the Group by means of consulting fees payable by OPCOs.

Principal terms of the agreements under the Control Contracts

The Control Contracts comprise (i) the Loan Agreements; (ii) the Equity Pledge Agreements; (iii) the Exclusive Equity Transfer Agreements; (iv) the Consulting and Servicing Agreements; and (v) the Agency Agreements. The principal terms of which are set out below:

Loan Agreements

Pursuant to the Loan Agreements, 華彩世紀科技發展(北京)有限公司 (renamed to 北京中大彩訊科技有限公司； "WFOE A") and 華彩之家科技發展(北京)有限公司 (renamed to 北京優昌源科技有限公司； "WFOE B") (collectively "WFOE") (as lenders) provided loans to the Nominees (as borrowers) respectively. Pursuant to the Loan Agreements, among others:

— the Nominees were required to pledge their equity interests in OPCO A and OPCO B to WFOE A and WFOE B, respectively;

— the loans have a term of 20 years;

— under any circumstances, the repayment of the loans by the Nominees (in part or in full) can only be satisfied by the transfer of the equity interests in the respective OPCOs (in part or in full) to the WFOEs (or the nominees of the WFOEs). For avoidance of doubt, regardless of whether the repayment is made upon the expiry of the loans, upon the request of the WFOEs or under any other circumstances, save for the aforesaid repayment method, any other repayment methods adopted by the Nominees shall be invalid;

Report of the Directors

CONTROL CONTRACTS *(Cont'd)*

Loan Agreements *(Cont'd)*

— the Nominees do not have the right to repay the loans prior to its expiry without the written consent of the WFOEs; and

— in the event that the consideration for the transfer of the equity interests in the OPCOs (please refer to the Exclusive Equity Transfer Agreements) is not more than the aggregated principal amount of the loans extended to the respective Nominees, the loans will be interest-free. However, if the consideration exceeds the aggregated principal amount of the loans extended to the respective Nominees, the interest of the loans shall be the difference between the consideration and the aggregated principal amount of the loans. Upon the completion of the transfer of the equity interests in the OPCOs, the Nominees shall be deemed to have satisfied all of their repayment obligations under the Loan Agreements.

Equity Pledge Agreements

Pursuant to the OPCO A Equity Pledge Agreement entered into by the Nominees, OPCO A and WFOE A, among others:

— the Nominees (as the pledgors) have pledged whole of the equity interest in OPCO A owned by them to WFOE A to guarantee the Nominees' obligations and liabilities owed to WFOE A, including those under the OPCO A Loan Agreements; and

— WFOE A can exercise its rights under the OPCO A Equity Pledge Agreement and enforce the right to the equity pledge, including, in the event of a breach, requiring the Nominees to dispose of the equity interest in OPCO A, or asking the Nominees to transfer the equity interest in OPCO A to WFOE A to discharge the Nominees' obligations and liabilities towards WFOE A if agreed by the parties.

The OPCO B Equity Pledge Agreement entered into by the Nominees, OPCO B and WFOE B, has similar terms as those set out in the OPCO A Equity Pledge Agreement.

Exclusive Equity Transfer Agreements

Pursuant to the OPCO A Exclusive Equity Transfer Agreement entered into by the Nominees, OPCO A and WFOE A, among others:

— the Nominees and OPCO A irrevocably grant the WFOE A with the exclusive right to acquire or to designate a qualified entity to acquire, the equity interest in OPCO A (in part or in whole) or the assets owned by the OPCO A (in part or in whole) at any time. Subject to the full compliance of the relevant PRC laws and regulations, WFOE A has the full discretion over the exercise time, manner and exercise price of the aforesaid purchase option. Shareholders of OPCO A shall not grant any parties, other than WFOE A or the designated entity, the same or similar rights;

— subject to the full compliance of the relevant PRC laws and regulations, upon the exercise of the rights attached to the purchase option, WFOE A or the designated entity has the right to acquire the entire equity interest in OPCO A or all the assets owned by OPCO A, and the consideration for the transfer will be offset against the total outstanding amount of loans under the OPCO A Loan Agreements (details of which are set out above); and

— in the event that, subject to the relevant PRC laws, the consideration for the entire equity interest in OPCO A or all the assets owned by OPCO A exceeds the outstanding amount of the loans, the loans shall bear interest and the consideration shall be offset against the principal of the loans and the accrued interest.

Report of the Directors

CONTROL CONTRACTS *(Cont'd)*

Exclusive Equity Transfer Agreements *(Cont'd)*

The OPCO B Exclusive Equity Transfer Agreement has similar terms as those set out in the OPCO A Exclusive Equity Transfer Agreement. However, pursuant to the OPCO B Exclusive Equity Transfer Agreement, the consideration under the purchase option is RMB50 million.

Consulting and Servicing Agreements

OPCO A and WFOE A entered into the OPCO A Consulting and Servicing Agreement. Pursuant to which, among others:

— OPCO A engages WFOE A to provide exclusive sales and consultancy services for a period of 20 years with an automatic extension for a further 10 years in absence of a written termination notice from WFOE A;

— unless WFOE A consents in writing, OPCO A shall not accept sales and consultancy services provided by any third party;

— OPCO A warrants that OPCO A will not transfer, dispose, lease, encumber its assets (including tangible and intangible, existing and assets to be acquired), unless it is within the normal course of business of OPCO A; and

— OPCO A shall not distribute any dividend to its shareholders.

The OPCO B Consulting and Servicing Agreement was entered into by WFOE B (as the service provider) and OPCO B (as the service consumer) has similar terms as those set out in OPCO A Consulting and Servicing Agreement.

Agency Agreements

Pursuant to the OPCO A Agency Agreement between OPCO A, the Nominees and WFOE A, the Nominees unconditionally and irrevocably authorise the natural persons designated by WFOE A to exercise the rights of the Nominees as the shareholders of OPCO A, including but not limited to, the right to attend shareholders' meetings and exercise the voting rights attached to the equity interest in OPCO A held by the Nominees. The Nominees also agree to appoint the personnel recommended by WFOE A as director(s), general manager, finance director and other senior management of the OPCO A. The Nominees also agree to act on the recommendations of the aforesaid appointees. In addition, the Nominees and OPCO A shall grant to WFOE A the rights to manage all the assets of OPCO A in the event of liquidation, termination of business, deregistration and any business termination related procedures. The OPCO A Agency Agreement has a term of 20 years with an automatic extension for a further one year. WFOE A can terminate the Agency Agreements by serving a 30-day prior written notice. The OPCO B Agency Agreement entered into by WFOE B, the Nominees and OPCO B has similar terms as those set out in OPCO A Agency Agreement.

Dispute resolution

Each of the Control Contracts is governed by PRC laws and provides for the resolution of disputes through arbitration in accordance with the arbitration rules of the China International Economic and Trade Arbitration Commission (中國國際經濟貿易仲裁委員會). The arbitration shall take place in Beijing and the outcome of the arbitration shall be final and binding. The Control Contracts provide that arbitrators may award remedies in rem over the equity interests in or assets of OPCOs in arbitration. They also provide that courts in the places where the parties of the Control Contracts are located shall have the power to grant interim remedies (such as property reservation and evidence reservation) in support of the arbitration pending formation of the arbitral tribunal or on appropriate time. The PRC Legal Adviser has also advised that the tribunal has no power to grant injunctive relief or winding up order under the PRC laws. Therefore, the dispute resolution provisions of the Control Contracts do not include the provision that an arbitral tribunal has the power to grant injunctive relief as remedy.

Report of the Directors

CONTROL CONTRACTS *(Cont'd)*

Succession

As advised by the PRC Legal Adviser, the provisions set out in the Control Contracts are also binding on the Nominees' successors. Under the succession law of the PRC, the statutory successors include the spouse, children, parents, brothers, sisters, paternal grandparents and the maternal grandparents and any breach by the successors would be deemed to be a breach of the Control Contracts. In case of a breach, the Group can enforce its rights against the successors. Therefore, the PRC Legal Adviser is of the view that (i) the Control Contracts are sufficient for the protection of the Group even in the event of death of any Nominee; and (ii) the death of any Nominee would not affect the validity of the Control Contracts, and the Group can enforce its right under the Control Contracts against the successors of the Nominees. The PRC Legal Adviser also confirmed that under the PRC law, a natural person cannot declare bankruptcy. Furthermore, pursuant to the Exclusive Equity Transfer Agreements, the WFOEs can exercise the purchase option to acquire or to designate a qualified entity to acquire, the equity interest in the OPCOs (in part or in whole) or the assets owned by the OPCOs (in part or in whole) at any time. Subject to the full compliance of the relevant PRC laws and regulations, the WFOEs shall have the full discretion over the exercise time, manner and exercise price of the aforesaid purchase option.

Financial Information of OPCOs

The revenue, profit/loss and net assets attributable to the OPCOs are set out in note 18(d) to the consolidated financial statements.

Independent non-executive Directors' confirmation

Independent non-executive Directors have reviewed the Control Contracts and confirm that:

— the transactions carried out during the year have been entered into in accordance with the relevant provisions of the Control Contracts, so that the profits generated by the OPCOs have been retained by WFOEs;

— no dividends or other distributions have been made by the OPCOs to the holders of their respective equity interests which are not otherwise subsequently assigned or transferred to the Group; and

— any new contracts entered into, renewed or reproduced between the Group and the OPCOs during the relevant financial period are fair and reasonable, or advantageous, so far as the Group is concerned and in the interests of the Shareholders as a whole;

AUDITORS

The practice of HLB Hodgson Impey Cheng, the former auditors of the Group, was reorganized as HLB Hodgson Impey Cheng Limited due to its internal corporate reorganization. HLB Hodgson Impey Cheng resigned as the auditors of the Group with effect from 27 January 2014. HLB Hodgson Impey Cheng Limited has been appointed as the auditors of the Group with effect from 27 January 2014 to fill the casual vacancy following the resignation of HLB Hodgson Impey Cheng until the conclusion of the forthcoming annual general meeting of the Company.

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

On behalf of the Board
LAU Ting
Chairperson

Hong Kong, 25 March 2014

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

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

In the opinion of the Directors, the Company, at each applicable time, has complied with all the applicable code provisions of the Code on Corporate Governance Practices as set out in Appendix 15 of the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and in Corporate Governance Code as set out in Appendix 14 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the "Listing Rules") (collectively the "Code") for the financial year ended 31 December 2013, except for the deviations as disclosed in this report.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules as its code of conduct for dealings in securities of the Company by the Directors (the "Code of Conduct"). Having made specific enquiry of all Directors, all Directors confirmed that they had complied with the required standard of dealings set out in the Code of Conduct throughout the financial year ended 31 December 2013.

BOARD OF DIRECTORS

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

Executive Directors

Ms. LAU Ting
Mr. WU Jingwei
Ms. CHAN Tan Na, Donna
Mr. LI Zi Kui

Non-Executive Director

Mr. HOONG Cheong Thard

Independent Non-Executive Directors

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

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

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

Corporate Governance Report

BOARD OF DIRECTORS *(Cont'd)*

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

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

The Board considers that each Independent Non-Executive Director of the Company is independent in character and judgement. The Company has received from each Independent Non-executive Director a written confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. To the best knowledge of the Directors, there is no financial, business and family relationship among the members of the Board except that Ms. CHAN Tan Na, Donna is the daughter of Ms. LAU Ting.

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

	Number of meetings attended/eligible to attend				
	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	Annual General Meeting
Executive Directors					
Ms. LAU Ting	4/4	–	1/1	–	1/1
Mr. WU Jingwei	4/4	–	–	–	1/1
Ms. CHAN Tan Na, Donna	3/4	–	–	–	1/1
Mr. LI Zi Kui	4/4	–	–	–	1/1
Non-Executive Director					
Mr. HOONG Cheong Thard	4/4	–	–	–	1/1
Independent Non-Executive Directors					
Mr. HUANG Shenglan	3/4	3/4	1/1	–	1/1
Mr. CHAN Ming Fai	4/4	4/4	1/1	–	1/1
Mr. CUI Shuming	4/4	4/4	–	–	1/1

Corporate Governance Report

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

NON-EXECUTIVE DIRECTORS

Although more than half of the Non-executive Directors of the Company are not appointed for a specific term as is stipulated in Code provision A.4.1, all of them are subject to retirement by rotation in accordance with the Bye-laws of the Company. The Board will ensure the retirement of each Director, other than the one who holds the office as Chairperson or Managing Director, by rotation at least once every three years. The Chairperson is not subject to retirement by rotation as is stipulated in Code provision A.4.2 as the Board considers that the continuity of office of the Chairperson provides the Group a strong and consistent leadership and is of great importance to the smooth operations of the Group. Ms. CHAN Tan Na, Donna, Mr. LI Zi Kui and Mr. HOONG Cheong Thard are subject to retirement by rotation at the forthcoming annual general meeting in accordance with the Company's Bye-laws.

REMUNERATION COMMITTEE

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

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

Corporate Governance Report

NOMINATION COMMITTEE

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

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

No meeting of the Nomination Committee was held during the year as there is no proposed appointment or removal of directors after its establishment.

AUDIT COMMITTEE

The Audit Committee was established in 2001 and currently comprises three members, Mr. HUANG Shenglan, Mr. CHAN Ming Fai and Mr. CUI Shuming. All of them are Independent Non-Executive Directors. The chairman of the Audit Committee is Mr. HUANG Shenglan. The Board considers that each Audit Committee member has broad commercial experience and there is a suitable mix of expertise in business, accounting and financial management in the Audit Committee.

The Audit Committee's functions include:

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

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

The Audit Committee has reviewed and discussed with the management the accounting principles and practices adopted by the Group and auditing, internal controls and financial reporting matters. The audited financial results of the Group for the financial year ended 31 December 2013 have been reviewed by the Audit Committee. The terms of reference of the Audit Committee has been posted on the Company's website and is made available on request.

SENIOR MANAGEMENT'S REMUNERATION

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

	Number of Employee(s)
From HK$0 to HK$1,000,000	7
From HK$1,000,001 to above	3

Corporate Governance Report

AUDITORS' REMUNERATION

For the year ended 31 December 2013, the Group had engaged the Group's external auditors, HLB Hodgson Impey Cheng Limited, to provide the following services and their respective fees charged are set out as below:

	Fee charged for the year ended 31 December	
	2013	2012
	HK$	HK$
Types of Services		
Audit for the Group	**880,000**	800,000

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR ACCOUNTS

The Directors' responsibilities for the accounts and the responsibilities of the external auditors to the shareholders are set out on page 34.

CORPORATE GOVERNANCE FUNCTION

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

	Training Records Received*
Executive Directors	
Ms. LAU Ting	✓
Mr. WU Jingwei	✓
Ms. CHAN Tan Na, Donna	✓
Mr. LI Zi Kui	✓
Non-Executive Director	
Mr. HOONG Cheong Thard	✓
Independent Non-Executive Directors	
Mr. HUANG Shenglan	✓
Mr. CHAN Ming Fai	✓
Mr. CUI Shuming	✓

**Note:* Finished the professional development programs including those provided by the Company in relation to the Corporate Management, Board's Duties and Case Study

Corporate Governance Report

INTERNAL CONTROL

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

INVESTOR RELATIONS

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

Pursuant to Section 74 of the Bermuda Companies Act 1981, the Board, notwithstanding anything in its Bye-laws shall, on the requisition of members of the Company holding at the date of the deposit of the requisition not less than one-tenth of such of the paid-up capital of the Company as at the date of the deposit carrying the right of voting at general meetings of the Company, forthwith proceed duly to convene a special general meeting of the Company. The requisition must state the purposes of the meeting, and must be signed by the requisitionists and deposited at the registered office of the Company, and may consist of several documents in like form each signed by one or more requisitionists. The Company arranges for the notice to its shareholders to be sent at least 10 clear business days before each of the general meetings of the Company in accordance with Code Provision E.1.3 of the Code. To put forward proposals at an annual general meeting or a special general meeting, the shareholders shall submit a written notice of those proposals with the detail contact information to the Company Secretary at the Principal Place of Business. The request will be verified with the Company's Branch Share Registrars and Transfer Office in Hong Kong and upon its confirmation that the request is proper and in order, the Company Secretary will ask the Board to include the resolution in the agenda for the general meeting.

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

Independent Auditors' Report

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

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

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

We have audited the consolidated financial statements of China LotSynergy Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 36 to 106, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

Independent Auditors' Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Hui Chun Keung, David
Practising Certificate Number: P05447

Hong Kong, 25 March 2014

Consolidated Statement of Profit or Loss

For the year ended 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
Turnover	5	**743,756**	607,255
Costs of sales and services		**(199,775)**	(124,749)
Gross profit		**543,981**	482,506
Other income	6	**20,171**	17,587
Other gains — net	7	**4,298**	2,752
General and administrative expenses		**(182,513)**	(176,566)
Impairment of accounts receivable		**–**	(29,789)
Share option expenses		**(7,031)**	(1,015)
Operating profit	8	**378,906**	295,475
Finance costs	9	**(22,656)**	(19,825)
Share of losses of joint ventures	19	**(7,048)**	(4,121)
Profit before income tax		**349,202**	271,529
Income tax expense	10	**(87,000)**	(69,196)
Profit for the year		**262,202**	202,333
Profit attributable to:			
Owners of the Company		**88,556**	67,513
Non-controlling interests		**173,646**	134,820
		262,202	202,333
Earnings per share attributable to owners of the Company for the year			
— basic	12	**1.18 HK cents**	0.91 HK cents
— diluted	12	**1.17 HK cents**	0.90 HK cents

		2013 HK$'000	2012 HK$'000
Dividends	15	**18,319**	13,415

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
Profit for the year		**262,202**	202,333
Other comprehensive income:			
Items that may be reclassified to profit or loss			
Fair value gain on available-for-sale financial assets	*21*	**4,410**	2,266
Reclassification adjustment on disposal of available-for-sale financial assets		**(3,755)**	–
Currency translation differences		**21,625**	164
Other comprehensive income for the year		**22,280**	2,430
Total comprehensive income for the year		**284,482**	204,763
Attributable to:			
Owners of the Company		**102,551**	69,943
Non-controlling interests		**181,931**	134,820
Total comprehensive income for the year		**284,482**	204,763

Consolidated Statement of Financial Position

At 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
Non-current assets			
Property, plant and equipment	16	635,111	495,864
Intangible assets	17	435,792	413,763
Investments in joint ventures	19	95,705	99,782
Available-for-sale financial assets	21	35,538	31,128
Deferred income tax assets	31	8,401	17,176
Prepaid rentals		1,299	2,257
		1,211,846	1,059,970
Current assets			
Inventories	22	28,168	28,682
Accounts receivable	23	83,607	65,867
Prepayments, deposits and other receivables	24	195,141	106,728
Amounts due from joint ventures	19	79	401
Amount due from a related company	25	21,564	21,564
Income tax receivable		–	1,490
Cash and bank balances	26	841,129	713,606
		1,169,688	938,338
Total assets		2,381,534	1,998,308
Current liabilities			
Accounts payable	27	7,638	46,195
Accruals and other payables		36,884	22,852
Amounts due to joint ventures	19	5,365	6,173
Income tax payable		28,058	15,474
Financial liabilities at fair value through profit or loss	28	–	1,093
Bank borrowings	29	797,243	612,855
		875,188	704,642
Net current assets		294,500	233,696
Total assets less current liabilities		1,506,346	1,293,666

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

At 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
Non-current liabilities			
Deferred income tax liabilities	31	50,170	39,121
Net assets		1,456,176	1,254,545
Equity attributable to owners of the Company			
Share capital	32	19,017	18,631
Reserves	34	886,497	866,477
Retained profits		289,091	196,344
		1,194,605	1,081,452
Non-controlling interests		261,571	173,093
Total equity		1,456,176	1,254,545

LAU TING
Director

CHAN TAN NA, DONNA
Director

Statement of Financial Position

At 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
Non-current assets			
Property, plant and equipment	16	–	39
Investments in subsidiaries	18	9	9
		9	48
Current assets			
Prepayments, deposits and other receivables		1,115	1,112
Amounts due from subsidiaries	18	831,369	831,966
Cash and bank balances	26	1,253	1,149
		833,737	834,227
Total assets		833,746	834,275
Current liabilities			
Accruals and other payables		448	344
Amounts due to subsidiaries	18	8	8
		456	352
Net current assets		833,281	833,875
Net assets		833,290	833,923
Equity attributable to owners of the Company			
Share capital	32	19,017	18,631
Reserves	34	802,960	796,694
Retained profits	35	11,313	18,598
		833,290	833,923

LAU TING
Director

CHAN TAN NA, DONNA
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2013

	Attributable to owners of the Company				
	Share capital HK$'000 *(Note 32)*	Reserves HK$'000 *(Note 34)*	Retained profits HK$'000	Non-controlling interests HK$'000	Total HK$'000
Balance at 1 January 2012	18,530	877,478	109,896	211,634	1,217,538
Comprehensive income					
Profit for the year	–	–	67,513	134,820	202,333
Other comprehensive income:					
Release of revaluation reserve upon depreciation of leasehold land and building	–	(302)	302	–	–
Fair value gain on available-for-sale financial assets	–	2,266	–	–	2,266
Currency translation differences	–	164	–	–	164
Total other comprehensive income	–	2,128	302	–	2,430
Total comprehensive income	–	2,128	67,815	134,820	204,763
Issue of consideration shares	101	4,489	–	–	4,590
Release of convertible note equity reserve upon redemption of convertible note at maturity	–	(11,670)	11,670	–	–
Share option scheme:					
— value of employee services	–	730	–	–	730
— value of other participants' services	–	285	–	–	285
— vested share options forfeited and expired	–	(6,963)	6,963	–	–
Total contributions by and distributions to owners of the Company, recognised directly in equity	101	(13,129)	18,633	–	5,605
Dividends paid to non-controlling interests	–	–	–	(173,361)	(173,361)
Total transactions with owners, recognised directly in equity	101	(13,129)	18,633	(173,361)	(167,756)
Balance at 31 December 2012	18,631	866,477	196,344	173,093	1,254,545

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

For the year ended 31 December 2013

	Attributable to owners of the Company				
	Share capital HK$'000 *(Note 32)*	Reserves HK$'000 *(Note 34)*	Retained profits HK$'000	Non-controlling interests HK$'000	Total HK$'000
Balance at 1 January 2013	18,631	866,477	196,344	173,093	1,254,545
Comprehensive income					
Profit for the year	–	–	88,556	173,646	262,202
Other comprehensive income:					
Release of revaluation reserve upon depreciation of leasehold land and building	–	(241)	241	–	–
Fair value gain on available-for-sale financial assets	–	4,410	–	–	4,410
Reclassification adjustments on disposal of available-for-sale financial assets	–	(3,755)	–	–	(3,755)
Currency translation differences	–	13,340	–	8,285	21,625
Total other comprehensive income	–	13,754	241	8,285	22,280
Total comprehensive income	–	13,754	88,797	181,931	284,482
Issue of consideration shares	22	1,115	–	–	1,137
Share option scheme:					
— value of employee services	–	5,354	–	–	5,354
— value of other participants' services	–	1,677	–	–	1,677
— share options exercised	364	15,485	–	–	15,849
— vested share options expired	–	(17,365)	17,365	–	–
Dividends relating to 2012	–	–	(13,415)	–	(13,415)
Total contributions by and distributions to owners of the Company, recognised directly in equity	386	6,266	3,950	–	10,602
Dividends paid to non-controlling interests	–	–	–	(93,453)	(93,453)
Total transactions with owners, recognised directly in equity	386	6,266	3,950	(93,453)	(82,851)
Balance at 31 December 2013	19,017	886,497	289,091	261,571	1,456,176

Consolidated Statement of Cash Flows

For the year ended 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
Cash flows from operating activities			
Operating cash flows before changes in working capital	36	456,352	350,619
Changes in working capital	36	(107,346)	69,385
Cash generated from operation	36	349,006	420,004
Income tax paid		(54,002)	(61,227)
Net cash generated from operating activities		295,004	358,777
Cash flows from investing activities			
Purchase of property, plant and equipment		(217,677)	(253,065)
Proceeds from disposal of property, plant and equipment		547	9
Purchase of intangible assets		(25,613)	(24,159)
Repayment from a joint venture		322	56
Interest income from bank deposits		8,693	11,383
Increase in pledged time deposits with maturity of more than three months		(54,365)	(202,470)
Decrease in restricted bank deposits		–	49,383
Net cash used in investing activities		(288,093)	(418,863)
Cash flows from financing activities			
Redemption of convertible note		–	(71,250)
Interest paid		(23,635)	(15,904)
Proceeds from issue of shares		15,849	–
Repayment of bank borrowings		(288,447)	(74,161)
Proceeds from bank borrowings		467,724	306,414
Dividends paid to non-controlling interests		(93,453)	(173,361)
Dividends paid to Company's shareholders		(13,415)	–
Net cash generated from/(used in) financing activities		64,623	(28,262)
Net increase/(decrease) in cash and cash equivalents		71,534	(88,348)
Cash and cash equivalents at beginning of the year		266,692	355,040
Effect of foreign exchange rate changes		1,624	–
Cash and cash equivalents at end of the year *(Note)*	26	339,850	266,692

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

1. GENERAL INFORMATION

China LotSynergy Holdings Limited (the "Company") was incorporated in Bermuda on 13 September 2000 as an exempted company with limited liability under the Companies Act of Bermuda. The addresses of its registered office and principal place of business are disclosed in the corporate information section to the annual report.

The Company and its subsidiaries (together the "Group") are technology and operation service providers of lottery systems, terminal equipment and game products in the lottery market in China. The principal businesses of the Group cover various lottery products ranging from video lottery, computer ticket game and high frequency lottery, to new media lottery.

The Company's shares are currently listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Dealings in the shares on the Main Board commenced on 16 October 2013 pursuant to the approval granted by the Stock Exchange for the transfer of listing of the shares from the Growth Enterprise Market ("GEM") to the Main Board of the Stock Exchange.

These consolidated financial statements are presented in Hong Kong dollars ("HK$"), unless otherwise stated. These consolidated financial statements were approved and authorised for issue by the board of directors of the Company (the "Board") on 25 March 2014.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

Changes in accounting policy and disclosures

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

The following standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2013 and have a material impact on the Group:

Amendment to HKAS 1, 'Financial statement presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments).

HKFRS 10, 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control whether there is difficult to assess.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

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

2.1 Basis of preparation *(Cont'd)*

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

(a) New and amended standards adopted by the Group (Cont'd)

HKFRS 11, 'Joint arrangements' focuses on the rights and obligations of the parties to the arrangement rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where the investors have rights to the assets and obligations for the liabilities of an arrangement. A joint operator accounts for its share of the assets, liabilities, revenue and expenses. Joint ventures arise where the investors have rights to the net assets of the arrangement; joint ventures are accounted for under the equity method. Proportional consolidation of joint arrangements is no longer permitted.

HKFRS 12, 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off balance sheet vehicles.

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

(b) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

HKFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. HKFRS 9 was issued in November 2009 and October 2010. It replaces the parts of HKAS 39 that relate to the classification and measurement of financial instruments. HKFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the HKAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess HKFRS 9's full impact. The Group will also consider the impact of the remaining phases of HKFRS 9 when completed by the Board.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

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

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) *Business combinations*

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

Acquisition-related costs are expensed as incurred.

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

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

The excess of the consideration transferred, the amount of any non-controlling interest in the acquire and the acquisition-date fair value of any previous equity interest in the acquire over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of profit or loss (Note 2.7).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

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

2.2 Subsidiaries *(Cont'd)*

2.2.1 Consolidation (Cont'd)

(a) *Business combinations (Cont'd)*

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. When necessary, amounts reported by subsidiaries have been adjusted to confirm with the Group's accounting policies.

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

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

(c) *Disposal of subsidiaries*

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

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

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

2.3 Joint arrangements

Under HKFRS 11 Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

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

2.4 Segment reporting

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

2.5 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

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

(c) Group companies

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

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

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

- all resulting currency translation differences are recognised in other comprehensive income.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

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

2.5 Foreign currency translation *(Cont'd)*

(c) Group companies (Cont'd)

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

(d) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate the includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

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

2.6 Property, plant and equipment

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

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

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

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the statement of profit or loss.

2.7 Intangible assets

(a) CLO Contract

The acquired CLO Contract (Note 17) has a finite useful life and is carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of the CLO Contract over the period of the contract.

(b) Goodwill

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

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

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

(c) Development costs

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

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

2.8 Impairment of non-financial assets

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

2.9 Financial assets

2.9.1 Classification

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

(a) *Loans and receivables*

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

(b) *Available-for-sale financial assets*

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

2.9.2 Recognition and measurement

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

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

2.10 Offsetting financial instruments

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

2.11 Impairment of financial assets

(a) Assets carried at amortised cost

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

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

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

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

(b) Assets classified as available-for-sale

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

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

2.12 Inventories

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

2.13 Trade and other receivables

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

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

2.14 Cash and cash equivalents

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

2.15 Share capital

Ordinary shares are classified as equity.

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

2.16 Trade payables

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

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

2.17 Borrowings

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

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

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

2.18 Borrowing costs

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

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

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

2.19 Current and deferred income tax

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

(a) Current income tax

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

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

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

(b) Deferred income tax

Inside basis differences

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

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

Outside basis differences

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

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary differences can be utilised.

(c) Offsetting

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

2.20 Employee benefits

(a) Employee leave entitlements

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

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

(b) Bonus plans

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

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

2.20 Employee benefits *(Cont'd)*

(c) Retirement benefits

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

(d) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits: and (b) when the entity recognises costs for a restructuring that is within the scope of HKAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

2.21 Share-based payments

(a) Equity-settled share-based payment transactions

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

- including any market performance conditions (for example, an entity's share price);

- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and

- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

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

2.21 Share-based payments *(Cont'd)*

(a) Equity-settled share-based payment transactions (Cont'd)

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

(b) Share-based payment transactions among group entities

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

2.22 Provisions

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

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

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

2.23 Revenue recognition

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

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

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

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

(d) Rental income is recognised on a straight-line basis over the period of the lease.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

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

2.24 Interest income

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

2.25 Dividend income

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

2.26 Operating leases

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

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

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

(a) Market risk

(i) Foreign exchange risk

The Group's foreign exchange risk arising from future commercial transactions, recognised assets and liabilities is considered to be insignificant. This is due to the Group's transactions being generally denominated in the functional currency of the respective group entities.

The Group manages the foreign exchange exposure arising from its normal course of business activities and investments in foreign operations by funding its local operations and investments through cash flow generated from business transactions locally. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure closely and will consider hedging significant foreign currency exposure should the need arise.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

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

3.1 Financial risk factors *(Cont'd)*

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

(i) Foreign exchange risk (Cont'd)

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the Renminbi ("RMB") exchange rate, with all other variables held constant, of the Group's profit after tax and the Group's equity, mainly as a result of foreign exchange gains/losses on translation of the foreign operations' net assets to the Group's HK$ reporting currency.

	Increase/ (decrease) in RMB %	**Increase/ (decrease) in profit after income tax HK$'000**	**Increase/ (decrease) in equity HK$'000**
2013			
If HK$ weakens against RMB	**5**	**8,968**	**37,634**
If HK$ strengthens against RMB	**(5)**	**(8,989)**	**(34,369)**

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

(ii) Price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group is exposed to equity price risk arising from individual equity investments classified as available-for-sale financial assets (Note 21) at 31 December 2013.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

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

3.1 Financial risk factors *(Cont'd)*

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

(ii) Price risk (Cont'd)

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

	Increase/ (decrease) in equity HK$'000
2013	
5% increase in equity price	**1,777**
5% decrease in equity price	**(1,777)**

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

(iii) Cash flow and fair value interest rate risk

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

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

3.1 Financial risk factors *(Cont'd)*

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

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

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

	Increase/ (decrease) in interest rate %	Increase/ (decrease) in profit after income tax HK$'000	Increase/ (decrease) in equity HK$'000
2013			
HK$ and US$	**5**	**(573)**	**(573)**
HK$ and US$	**(5)**	**573**	**573**

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

(b) *Credit risk*

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

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

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. At the end of the reporting period, the Group had certain concentrations of credit risk as 72% (2012: 72%) and 86 (2012: 97%) of the Group's accounts receivable were due from the Group's largest customer and the five largest customers, respectively.

Further quantitative data in respect of the Group's exposure to credit risk arising from accounts receivable are disclosed in Note 23 to the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

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

3.1 Financial risk factors *(Cont'd)*

(c) Liquidity risk

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

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

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

	Group				
	Carrying amount as per consolidated statement of financial position HK$'000	**Total contractual undiscounted cash flows HK$'000**	**On demand or less than 1 month HK$'000**	**Between 1 and 3 months HK$'000**	**Between 3 months and 1 year HK$'000**
2013					
Accounts payable	**7,638**	**7,638**	**7,638**	**–**	**–**
Accruals and other payables	**32,111**	**32,111**	**32,111**	**–**	**–**
Amounts due to joint ventures	**5,365**	**5,365**	**5,365**	**–**	**–**
Bank borrowings	**797,243**	**799,941**	**695,940**	**1,160**	**102,841**
	842,357	**845,055**	**741,054**	**1,160**	**102,841**

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

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

3.1 Financial risk factors *(Cont'd)*

(c) Liquidity risk (Cont'd)

	Company		
	Carrying amount as per statement of financial position HK$'000	**Total contractual undiscounted cash flows HK$'000**	**On demand or within 1 month HK$'000**
2013			
Accruals and other payables	**448**	**448**	**448**
Amounts due to subsidiaries	**8**	**8**	**8**
	456	**456**	**456**

	Company		
	Carrying amount as per statement of financial position HK$'000	Total contractual undiscounted cash flows HK$'000	On demand or within 1 month HK$'000
2012			
Accruals and other payables	344	344	344
Amounts due to subsidiaries	8	8	8
	352	352	352

Bank loans with a repayment on demand clause are included in the "on demand or within 1 month" time band in the above maturity analysis. At 31 December 2013, the aggregate undiscounted principal amounts of these bank loans amounted to approximately HK$605,428,000 (2012: HK$522,245,000). Taking into account the Group's financial position, the directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

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

3.2 Capital risk management

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

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

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

The debt-to-adjusted capital ratios at 31 December 2013 and 2012 are as follows:

	2013 **HK$'000**	2012 HK$'000
Total debt	**847,130**	688,075
Adjusted capital	**1,456,176**	1,254,545
Debt-to-adjusted capital ratio	**58.2%**	54.8%

3.3 Fair value estimation

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

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

3.3 Fair value estimation *(Cont'd)*)

The following table presents the Group's financial assets that are measured at fair value at 31 December 2013.

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Assets				
Available-for-sale financial assets				
— Unlisted fund investments	–	35,538	–	35,538

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

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

There were no transfers between levels 1 and 2 during the year.

(a) *Financial instruments in level 1*

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

(b) *Financial instruments in level 2*

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

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

3.3 Fair value estimation *(Cont'd)*)

(b) Financial instruments in level 2 (Cont'd)

Level 2 fair values for fund investments have been determined based on brokers' quotes or net asset value of the relevant fund investments.

(c) Financial instruments in level 3

The following table presents the changes in level 3 instruments for the year ended 31 December 2013.

	Contingent consideration in a business combination HK$'000
Opening balance	**1,093**
Loss recognised in profit or loss	**44**
Settlements	**(1,137)**
Closing balance	**–**
Total gains or losses for the year included in profit or loss for liabilities held at the end of the year	**–**
Changes in unrealised gains or losses for the year included in profit or loss at the end of the year	**–**

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

	Contingent consideration in a business combination HK$'000
Opening balance	9,155
Gain recognised in profit or loss	(3,472)
Settlements	(4,590)
Closing balance	1,093
Total gains or losses for the year included in profit or loss for liabilities held at the end of the year	2,822
Changes in unrealised gains or losses for the year included in profit or loss at the end of the year	2,822

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

5. TURNOVER AND SEGMENT INFORMATION

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

	2013 HK$'000	2012 HK$'000
Turnover		
Income from provision of lottery terminals and lottery sales channels	728,201	600,034
Income from sales of equipment	15,197	6,091
Income from provision of consultancy services	358	1,130
	743,756	607,255

Segment information

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

Geographical information

(a) Revenue from external customers

	2013 HK$'000	2012 HK$'000
People's Republic of China ("PRC") (country of domicile)	743,756	603,567
Russia	–	57
Vietnam	–	3,631
	743,756	607,255

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

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

Geographical information *(Cont'd)*

(b) Non-current assets

	2013		2012	
	Total assets HK$'000	Additions to non-current assets HK$'000	Total assets HK$'000	Additions to non-current assets HK$'000
PRC	**993,227**	**233,039**	834,480	232,765
Hong Kong	**174,680**	**11,562**	177,186	45,882
	1,167,907	**244,601**	1,011,666	278,647

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

Information about major customers

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

	2013 HK$'000	2012 HK$'000
Customer A	**43,771**	69,236
Customer B	**618,041**	470,613

6. OTHER INCOME

	2013 HK$'000	2012 HK$'000
Interest income from bank deposits	**20,171**	17,587

7. OTHER GAINS — NET

	2013 HK$'000	2012 HK$'000
Fair value adjustment of contingent consideration	**(44)**	3,472
Reclassification adjustment on disposal of available-for-sale financial assets	**3,755**	–
Gain/(Loss) on disposal of property, plant and equipment	**71**	(62)
Foreign exchange gains/(losses)	**516**	(658)
	4,298	2,752

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

8. OPERATING PROFIT

The Group's operating profit is arrived at after charging:

	2013 **HK$'000**	2012 HK$'000
Costs of sales and services		
— Depreciation of lottery terminals	**80,083**	30,543
— Business tax	**38,376**	30,933
— Cost of inventories recognised as expense	**8,820**	3,668
— Repairs and maintenance	**6,270**	7,150
— Commission and handling changes	**57,597**	37,608
— Other costs of sales and services	**8,629**	14,847
	199,775	124,749
Operating lease rentals in respect of land and buildings	**8,782**	8,759
Auditors' remuneration	**880**	800
Amortisation of intangible assets		
— CLO Contract *(included in general and administrative expenses) (Note 17)*	**6,528**	6,528
Depreciation of other items of property, plant and equipment	**7,757**	8,266

9. FINANCE COSTS

	2013 **HK$'000**	2012 HK$'000
Interest expense on bank borrowings wholly repayable within five years	**22,656**	16,883
Imputed interest expense on convertible note *(Note 30)*	**–**	2,942
	22,656	19,825

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

10. INCOME TAX EXPENSE

Hong Kong Profits Tax has been provided at the rate of 16.5% (2012: 16.5%) on the estimated assessable profits for the year. No provision for Hong Kong Profits Tax has been made for the years ended 31 December 2013 and 2012 as the Group had no assessable profits arising in or derived from Hong Kong during the years.

Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

	2013 HK$'000	2012 HK$'000
Current tax:		
— PRC Enterprise Income Tax	**67,295**	58,650
— Adjustments in respect of prior years	**40**	(1,549)
Total current tax	**67,335**	57,101
Deferred tax *(Note 31)*:		
— Origination and reversal of temporary differences	**19,665**	12,095
Income tax expense	**87,000**	69,196

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

	2013 HK$'000	2012 HK$'000
Profit before income tax	**349,202**	271,529
Tax calculated at 16.5%	**57,618**	44,802
Income not subject to tax	**(3,365)**	(764)
Expenses not deductible for tax purposes	**4,198**	7,717
Tax losses which no deferred income tax asset recognised	**11,207**	264
Adjustments in respect of prior years	**40**	(1,549)
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	**20,094**	24,819
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(2,792)**	(6,093)
Tax charge	**87,000**	69,196

11. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

The loss attributable to owners of the Company is dealt with in the financial statements of the Company to the extent of approximately HK$11,235,000 (2012: HK$3,980,000).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

12. EARNINGS PER SHARE

(a) Basic

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

	2013	2012
Profit attributable to owners of the Company *(HK$'000)*	**88,556**	67,513
Weighted average number of ordinary shares in issue	**7,478,558,573**	7,452,584,666
Basic earnings per share	**1.18 HK cents**	0.91 HK cents

(b) Diluted

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

	2013	2012
Profit attributable to owners of the Company *(HK$'000)*	**88,556**	67,513
Weighted average number of ordinary shares in issue	**7,478,558,573**	7,452,584,666
Effect of dilutive potential ordinary shares:		
— Share options	**96,288,242**	3,247,022
— Contingent consideration shares	**–**	8,888,154
Weighted average number of ordinary shares for diluted earnings per share	**7,574,846,815**	7,464,719,842
Diluted earnings per share	**1.17 HK cents**	0.90 HK cents

The computation of diluted earnings per share for the year ended 31 December 2012 did not assume the conversion of the convertible note since its exercise would result in an increase in earnings per share.

13. STAFF COSTS

Staff costs (including directors' emoluments) comprise:

	2013 HK$'000	2012 HK$'000
Wages and salaries	**92,610**	74,542
Employee share option benefits	**5,354**	730
Social security costs	**5,533**	4,668
Pension costs — defined contribution plans	**786**	697
Other staff welfare	**3,316**	3,196
	107,599	83,833

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

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

(a) Directors' and chief executive's emoluments

The remuneration of every director and the chief executive of the Company for the year ended 31 December 2013 is set out below:

Name of director	Fees HK$'000	Salaries and allowance HK$'000	Discretionary bonuses HK$'000	Employee share option benefits HK$'000	Employer's contributions to pension scheme HK$'000	Total HK$'000
Executive directors						
Ms. Lau Ting	–	7,830	1,580	112	377	9,899
Mr. Wu Jingwei	–	4,758	2,703	904	15	8,380
Ms. Chan Tan Na, Donna *(Note (i))*	–	2,823	2,291	642	15	5,771
Mr. Li Zi Kui	–	1,065	–	241	15	1,321
Non-executive director						
Mr. Hoong Cheong Thard	522	–	122	17	–	661
Independent non-executive directors						
Mr. Huang Shenglan	439	–	120	80	–	639
Mr. Chan Ming Fai	323	–	115	80	–	518
Mr. Cui Shuming	293	–	113	80	–	486
	1,577	16,476	7,044	2,156	422	27,675

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

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

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

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

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

Notes:

(i) Appointed on 16 February 2012

(ii) Resigned on 16 February 2012

(iii) Resigned on 16 March 2012

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

Neither the chief executive nor any of directors of the Company waived or agreed to waive any emoluments in the years ended 31 December 2013 and 2012.

During the year, no share options were granted to certain directors of the Company (including the chief executive) under the Company's share option scheme (2012: 130,000,000).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

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

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included three (2012: four) directors of the Company, whose emoluments are set out above. The emoluments payable to the remaining two (2012: one) non-director and non-chief executive highest paid individual during the year are as follows:

	2013 **HK$'000**	2012 HK$'000
Basic salaries, other allowances and benefits in kind	**8,313**	4,999
Discretionary bonuses	**1,626**	–
Employer's contributions to pension schemes	**133**	12
	10,072	5,011

The emoluments fell within the following bands:

	Number of individuals	
	2013	2012
Emolument bands		
HK$3,000,001–HK$3,500,000	**1**	–
HK$5,000,001–HK$5,500,000	**–**	1
HK$6,500,001–HK$7,000,000	**1**	–

(c) No emoluments were paid by the Group to the directors, the chief executive and a non-director and non-chief executive highest paid individual as an inducement to join or upon joining the Group, or as compensation for loss of office during the year (2012: Nil).

15. DIVIDENDS

The dividend paid in 2013 was approximately HK$13,415,000 (0.18 HK cents per share) (2012: Nil). A final dividend in respect of the year ended 31 December 2013 of 0.24 HK cents (2012: 0.18 HK cents) per share, amounting to a total dividend of approximately HK$18,319,000 (2012: HK$13,415,000) is to be proposed at the Annual General Meeting on 27 May 2014. The consolidated financial statements do not reflect this dividend payable.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

16. PROPERTY, PLANT AND EQUIPMENT

	Group									
	Leasehold land held for own use under finance lease HK$'000	Buildings HK$'000	Lottery terminals leased to third parties under operating leases HK$'000	Lottery terminals under construction HK$'000	Leasehold improvements HK$'000	Plant and equipment HK$'000	Computer equipment and software HK$'000	Office equipment and furniture HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2012										
Cost	131,900	9,088	224,694	54,410	9,963	11,019	13,228	3,966	6,487	464,755
Accumulated depreciation	(4,205)	(442)	(151,381)	–	(7,695)	(2,818)	(9,614)	(3,195)	(3,726)	(183,076)
Net book amount	127,695	8,646	73,313	54,410	2,268	8,201	3,614	771	2,761	281,679
Year ended 31 December 2012										
Opening net book amount	127,695	8,646	73,313	54,410	2,268	8,201	3,614	771	2,761	281,679
Additions	40,095	4,258	–	206,008	1,018	540	690	1,408	471	254,488
Transfers	–	–	216,062	(216,062)	–	–	–	–	–	–
Disposals	–	–	–	–	(21)	–	(24)	(13)	(13)	(71)
Depreciation	(3,138)	(338)	(30,543)	–	(1,699)	(1,741)	(1,405)	(358)	(1,010)	(40,232)
Closing net book amount	164,652	12,566	258,832	44,356	1,566	7,000	2,875	1,808	2,209	495,864
At 31 December 2012										
Cost	171,995	13,346	440,756	44,356	10,485	11,559	13,483	5,224	6,688	717,892
Accumulated depreciation	(7,343)	(780)	(181,924)	–	(8,919)	(4,559)	(10,608)	(3,416)	(4,479)	(222,028)
Net book amount	164,652	12,566	258,832	44,356	1,566	7,000	2,875	1,808	2,209	495,864
Year ended 31 December 2013										
Opening net book amount	164,652	12,566	258,832	44,356	1,566	7,000	2,875	1,808	2,209	495,864
Exchange differences	–	28	7,834	1,589	34	229	76	39	57	9,886
Additions	–	–	–	208,567	172	4,504	2,220	857	2,668	218,988
Transfers	–	–	214,391	(214,557)	–	–	166	–	–	–
Disposals	–	–	–	–	–	(10)	(263)	(7)	(196)	(476)
Depreciation	(3,235)	(357)	(80,083)	–	(857)	(2,044)	(1,295)	(532)	(748)	(89,151)
Closing net book amount	161,417	12,237	400,974	39,955	915	9,679	3,779	2,165	3,990	635,111
At 31 December 2013										
Cost	171,995	13,380	670,930	39,955	9,280	16,374	15,048	6,113	7,575	950,650
Accumulated depreciation	(10,578)	(1,143)	(269,956)	–	(8,365)	(6,695)	(11,269)	(3,948)	(3,585)	(315,539)
Net book amount	161,417	12,237	400,974	39,955	915	9,679	3,779	2,165	3,990	635,111

Notes:

(i) Depreciation of lottery terminals leased to third parties under operating leases of approximately HK$80,083,000 (2012: HK$30,543,000) has been charged in costs of sales and services. Depreciation of other items of property, plant and equipment of approximately HK$1,311,000 (2012: HK$1,423,000) has been capitalised in lottery terminals under construction and of approximately HK$7,757,000 (2012: HK$8,266,000) has been charged in general and administrative expenses.

(ii) The Group's leasehold land held for own use under finance lease with a carrying amount of approximately HK$122,384,000 (2012: HK$164,652,000) is held on long-term lease in Hong Kong. The Group's leasehold land held for own use under finance lease with a carrying amount of approximately HK$39,033,000 (2012: Nil) is held on medium-term lease in Hong Kong.

(iii) At 31 December 2013, the Group's leasehold land and buildings with a carrying amount of approximately HK$172,854,000 (2012: HK$176,398,000) was pledged to secure bank borrowings granted to the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

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

	Company			
	Leasehold improvements HK$'000	Computer equipment and Software HK$'000	Office equipment and furniture HK$'000	Total HK$'000
At 1 January 2012				
Cost	260	120	576	956
Accumulated depreciation	(173)	(118)	(567)	(858)
Net book amount	87	2	9	98
Year ended 31 December 2012				
Opening net book amount	87	2	9	98
Depreciation	(52)	(2)	(5)	(59)
Closing net book amount	35	–	4	39
At 31 December 2012				
Cost	260	120	576	956
Accumulated depreciation	(225)	(120)	(572)	(917)
Net book amount	35	–	4	39
Year ended 31 December 2013				
Opening net book amount	**35**	**–**	**4**	**39**
Depreciation	**(35)**	**–**	**(4)**	**(39)**
Closing net book amount	**–**	**–**	**–**	**–**
At 31 December 2013				
Cost	**260**	**120**	**576**	**956**
Accumulated depreciation	**(260)**	**(120)**	**(576)**	**(956)**
Net book amount	**–**	**–**	**–**	**–**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

17. INTANGIBLE ASSETS

	Group			
	Goodwill HK$'000	CLO Contract HK$'000	Development costs HK$'000	Total HK$'000
At 1 January 2012				
Cost	1,177,373	60,382	50,637	1,288,392
Accumulated amortisation and impairment	(854,725)	(37,535)	–	(892,260)
Net book amount	322,648	22,847	50,637	396,132
Year ended 31 December 2012				
Opening net book amount	322,648	22,847	50,637	396,132
Additions	–	–	24,159	24,159
Amortisation charge *(Note (i))*	–	(6,528)	–	(6,528)
Closing net book amount	322,648	16,319	74,796	413,763
At 31 December 2012				
Cost	1,177,373	60,382	74,796	1,312,551
Accumulated amortisation and impairment	(854,725)	(44,063)	–	(898,788)
Net book amount	322,648	16,319	74,796	413,763
Year ended 31 December 2013				
Opening net book amount	**322,648**	**16,319**	**74,796**	**413,763**
Exchange difference	**1,000**	**–**	**1,944**	**2,944**
Additions	**–**	**–**	**25,613**	**25,613**
Amortisation charge *(Note (i))*	**–**	**(6,528)**	**–**	**(6,528)**
Closing net book amount	**323,648**	**9,791**	**102,353**	**435,792**
At 31 December 2013				
Cost	**1,178,373**	**60,382**	**102,353**	**1,341,108**
Accumulated amortisation and impairment	**(854,725)**	**(50,591)**	**–**	**(905,316)**
Net book amount	**323,648**	**9,791**	**102,353**	**435,792**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

17. INTANGIBLE ASSETS *(Cont'd)*

Notes:

(i) Amortisation of the CLO Contract of approximately HK$6,528,000 (2012: HK$6,528,000) is included in general and administrative expenses.

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

(iii) Impairment tests for goodwill

Goodwill is allocated to the CGU as follows:

	2013 HK$'000	2012 HK$'000
Provision of video lottery terminals ("VLT")	95,319	95,319
Provision of traditional computer lottery system and equipment	199,403	199,403
Provision of sales platform for high frequency lottery games	16,294	15,730
Provision of new media sales and marketing platform in telecom value-added business chain	12,632	12,196
	323,648	322,648

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

(a) *Provision of VLT*

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

The value-in-use calculation uses pre-tax cash flow projections based on financial budgets approved by management covering a 5-year period. The key assumptions used for the cash flow projections include the average number of VLT connected and the daily turnover of each VLT during each of the forecasting periods, which are determined by management based on past performance and its expectation of market development. All cash flows are discounted at a discount rate of 16.25% (2012: 14.73%), which reflects the specific risks relating to this CGU.

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

The value-in-use calculation uses pre-tax cash flow projections based on financial budgets approved by management covering a 5-year period. The key assumptions used for the cash flow projections include the budgeted turnover and expenses during each of the forecasting periods, which are determined by management based on past performance and its expectation of market development. All cash flows are discounted at a discount rate of 16.17% (2012: 14.73%), which reflects the specific risks relating to this CGU.

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

The value-in-use calculation uses pre-tax cash flow projections based on financial budgets approved by management covering a 5-year period. The key assumptions used for the cash flow projections include the budgeted turnover and expenses during each of the forecasting periods, which are determined by management based on past performance and its expectation of market development. All cash flows are discounted at a discount rate of 16.25% (2012: 14.73%), which reflects the specific risks relating to this CGU.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

17. INTANGIBLE ASSETS *(Cont'd)*

Notes: (Cont'd)

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

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

The value-in-use calculation uses pre-tax cash flow projections based on financial budgets approved by management covering a 5-year period. The key assumptions used for the cash flow projections include the budgeted turnover and expenses during each of the forecasting periods, which are determined by management based on past performance and its expectation of market development. All cash flows are discounted at a discount rate of 18.71% (2012: 14.61%), which reflects the specific risks relating to this CGU.

No impairment loss has been recognised in respect of goodwill for the year ended 31 December 2013 as the recoverable amounts of the CGUs exceeded their carrying amounts (2012: Nil).

(iv) Impairment test for development costs

The recoverable amount of development costs is based on a value-in-use calculation. The value-in-use calculation uses pre-tax cash flow projections approved by management covering a 5-year period. The key assumptions used for the cash flow projections included the budgeted revenue and expenses during each of the forecasting periods, which are determined by management based on its expectation of market development. All cash flows are discounted at a discount rate of 16.25% (2012: 14.73%). No impairment loss has been recognised in respect of development costs for the year ended 31 December 2013 as the recoverable amount exceeded the carrying amount (2012: Nil).

18. INVESTMENTS IN AND AMOUNTS DUE FROM/TO SUBSIDIARIES

(a) Investments in subsidiaries

	Company	
	2013	2012
	HK$'000	HK$'000
Unlisted shares, at cost	**9**	9

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

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

(a) Investments in subsidiaries *(Cont'd)*

The following is a list of the principal subsidiaries at the end of the reporting period:

Name	Place of incorporation/ establishment, kind of legal entity *(Note (xi))*	Particulars of issued share capital/ registered capital	Interest held 2013	Interest held 2012	Principal activities
Held directly:					
China LotSynergy Limited	British Virgin Islands, Limited liability company	US$100	100%	100%	Investment holding
Flynn Technology Limited	British Virgin Islands, Limited liability company	US$1,000	100%	100%	Investment holding
Onwealth Holdings Limited	British Virgin Islands, Limited liability company	US$1	100%	100%	Investment holding
Held indirectly:					
Champ Mark Investments Limited ("CMIL")	British Virgin Islands, Limited liability company	3,600 issued shares of no par value	100%	100%	Investment holding
Champ Technology Limited ("CTL")	Hong Kong, Limited liability company	HK$1	100%	100%	Investment holding
China LotSynergy Limited	Hong Kong, Limited liability company	US$500,000	100%	100%	Investment holding and provision of management service
China LotSynergy Asset Management Limited	Hong Kong, Limited liability company	US$2	100%	100%	Treasury management
China LotSynergy Development Limited	Hong Kong, Limited liability company	HK$1	100%	100%	Investment holding
China LotSynergy Group Limited ("CLG")	Hong Kong, Limited liability company	HK$1	100%	100%	Investment holding
Corich International Limited ("Corich")	British Virgin Islands, Limited liability company	US$2,000,000	50% *(Note (xii))*	50%	Investment holding
East Grand Enterprises Limited	Hong Kong, Limited liability company	HK$1	50% *(Note (xii))*	50%	Investment holding
Goldwide Limited	Hong Kong, Limited liability company	HK$1	100%	100%	Investment holding
Lottnal Holdings Limited ("LHL")	Hong Kong, Limited liability company	US$350,000	80%	80%	Investment holding
Upmax Investments Limited	British Virgin Islands, Limited liability company	US$1	100%	100%	Investment holding
Willstrong Investments Limited	British Virgin Islands, Limited liability company	US$1	80%	80%	Provision of lottery system and equipment
東莞天意 *(Note (i))*	PRC, Wholly foreign owned enterprise	HK$8,000,000	50% *(Note (xii))*	50%	Provision of VLT

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

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

(a) Investments in subsidiaries *(Cont'd)*

Name	Place of incorporation/ establishment, kind of legal entity *(Note (xi))*	Particulars of issued share capital/ registered capital	Interest held 2013	Interest held 2012	Principal activities
Held indirectly: (Cont'd)					
北京靈彩科技有限公司 ("北京靈彩") *(Note (ii))*	PRC, Wholly foreign owned enterprise	HK$1,200,000	50% *(Note (xii))*	50%	Research and development of lottery system and equipment in the PRC
廣州洛圖終瑞技術有限公司 (Guangzhou Lottnal Terminal Company Limited) ("GZL") *(Note (iii))*	PRC, Wholly foreign owned enterprise	RMB20,274,063	80%	80%	Research and development and manufacturing of lottery ticket scanners and terminal equipment in the PRC and overseas
廣州市三環永新科技有限公司 (Guangzhou San Huan Yong Xin Technology Company Limited) ("GZSH") *(Note (iv))*	PRC, Sino-foreign equity joint venture enterprise	RMB10,000,000	80%	80%	Provision of lottery system and equipment in the PRC
華彩之家科技發展 (北京) 有限公司 ("華彩之家") *(Note (v))*	PRC, Wholly foreign owned enterprise	HK$10,000,000	75%	75%	Research and development of lottery system and equipment in the PRC
華彩世紀科技發展(北京) 有限公司 ("華彩世紀") *(Note (vi))*	PRC, Wholly foreign owned enterprise	HK$10,000,000	75%	75%	Research and development of lottery system and equipment in the PRC
北京網人互聯科技 有限公司 ("網人互聯") *(Note (vii))*	PRC, Limited liability company	RMB50,000,000	75%	75%	Provision of internet information services
北京華彩贏通科技有限公司 ("華彩贏通") *(Note (viii))*	PRC, Limited liability company	RMB50,000,000	75%	75%	Research and development of lottery system and equipment in the PRC
北京贏彩通科技有限公司 ("贏彩通") *(Note (ix))*	PRC, Limited liability company	RMB5,000,000	75%	75%	Research and development of lottery system and equipment in the PRC
成都華彩贏通科技有限公司 ("成都華彩") *(Note (x))*	PRC, Limited liability company	RMB1,000,000	75%	75%	Research and development of lottery system and equipment in the PRC
重慶拓扣網絡科技有限公司 ("重慶拓扣") *(Note (x))*	PRC, Limited liability company	RMB1,665,000	52.5%	52.5%	Research and development and operation of sales platform for high frequency lottery in the PRC
廣州頂尚信息科技有限公司 ("廣州頂尚") *(Note (x))*	PRC, Limited liability company	RMB10,000,000	52.5%	52.5%	Provision of new media sales and marketing platform in telecom value-added business chain in the PRC

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

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

(a) Investments in subsidiaries *(Cont'd)*

Name	Place of incorporation/ establishment, kind of legal entity *(Note (xi))*	Particulars of issued share capital/ registered capital	Interest held 2013	Interest held 2012	Principal activities
Held indirectly: (Cont'd)					
廣州市射頻通訊咨詢有限公司 ("廣州射頻") *(Note (x))*	PRC, Limited liability company	RMB1,000,000	52.5%	52.5%	Provision of new media sales and marketing platform in telecom value-added business chain in the PRC
廣州千訊信息科技有限公司 ("廣州千訊") *(Note (x))*	PRC, Limited liability company	RMB1,000,000	52.5%	52.5%	Provision of new media sales and marketing platform in telecom value-added business chain in the PRC
廣州市天轅信息科技有限公司 ("廣州天轅") *(Note (x)*	PRC, Limited liability company	RMB3,000,000	52.5%	52.5%	Provision of new media sales and marketing platform in telecom value-added business chain in the PRC
廣州博富電子科技有限公司 ("廣州博富") *(Note (x))*	PRC, Limited liability company	RMB1,000,000	52.5%	52.5%	Provision of new media sales and marketing platform in telecom value-added business chain in the PRC

Notes:

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

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

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

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

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

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

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

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

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

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

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

(xii) These companies are consolidated by the Group as the Group owns more than one half of the voting rights in the board of directors of these companies.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

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

(a) Investments in subsidiaries *(Cont'd)*

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

(b) Amounts due from/to subsidiaries

At 31 December 2013, the amounts due from/to subsidiaries as shown on the Company's statement of financial position are unsecured, interest-free and repayable on demand.

At 31 December 2012, the amounts due from/to subsidiaries as shown on the Company's statement of financial position were unsecured and repayable on demand. Except for an amount due from a subsidiary of approximately HK$69,249,000 which was interest bearing at 3% per annum, the amounts due from/to subsidiaries were interest-free.

(c) Material non-controlling interests

The total non-controlling interest for the period approximately HK$261,571,000, of which approximately HK$247,117,000 is for Corich. The remaining non-controlling interests are not material.

Summarised financial information on subsidiaries with material non-controlling interests

Set out below are the summarised financial information for Corich.

Summarised statement of financial position

	Corich	
	2013	2012
	HK$'000	HK$'000
Current		
Assets	**779,011**	664,290
Liabilities	**(686,873)**	(578,924)
Total current net assets	**92,138**	85,366
Non-current		
Assets	**422,005**	290,318
Liabilities	**(47,107)**	(36,424)
Total non-current net assets	**374,898**	253,894
Net assets	**467,036**	339,260

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

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

(c) Material non-controlling interests *(Cont'd)*

Summarised statement of profit or loss and other comprehensive income

	Corich	
	2013	2012
	HK$'000	HK$'000
Revenue	**618,041**	470,613
Profit before income tax	**390,193**	340,792
Income tax expense	**(76,513)**	(78,606)
Profit for the year	**313,680**	262,186
Other comprehensive income	**15,101**	–
Total comprehensive income for the year	**328,781**	262,186
Profit allocated to non-controlling interests	**176,041**	130,685
Dividends paid to non-controlling interests	**93,453**	171,510

Summarised cash flows

	Corich	
	2013	2012
	HK$'000	HK$'000
Cash flows from operating activities		
Cash generated from operations	**486,386**	418,989
Income tax paid	**(54,345)**	(59,041)
Net cash generated from operating activities	**432,041**	359,948
Net cash used in investing activities	**(243,083)**	(341,495)
Net cash used in financing activities	**(90,324)**	(120,441)
Net increase/(decrease) in cash and cash equivalents	**98,634**	(101,988)
Cash and cash equivalents at beginning of year	**61,367**	163,355
Effect of foreign exchange rate changes	**7,722**	–
Cash and cash equivalents at end of year	**167,723**	61,367

The information above is the amount before inter-company eliminations.

(d) Significant restrictions

Cash and short-term deposits of approximately HK$717,887,000 (2012: HK$627,644,000) are held in the PRC and are subject to local exchange control regulations. These local exchange control regulations provide for restrictions on exporting capital from the country, other than through normal dividends.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

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

(e) Aggregate financial information of subsidiaries in which the equity interests are held by individual nominees on behalf of the Group

	2013 HK$'000	2012 HK$'000
Revenue	**64,726**	60,185
Loss for the year	**4,908**	513
Net assets	**101,320**	102,283

19. INVESTMENTS IN AND AMOUNTS DUE FROM/TO JOINT VENTURES

	Group	
	2013 HK$'000	2012 HK$'000
At 1 January	**99,782**	103,739
Share of losses	**(7,048)**	(4,121)
Exchange differences	**2,971**	164
At 31 December	**95,705**	99,782

The amounts due from/to the joint ventures are unsecured, interest-free and repayable on demand.

Particulars of the joint ventures of the Group are as follows:

Name	Particulars of issued shares held	Place of business/ incorporation	Interest held 2013	Interest held 2012	Nature of the relationship	Measurement method
CLS-GTECH Company Limited ("CLS-GTECH")	15,000,000 ordinary shares of US$0.85633 each	PRC/ British Virgin Islands	**50%**	50%	CLS-GTECH's principal activity is development of nationwide unified platform for lottery operation in the PRC	Equity
IGT Synergy Holding Limited ("IGT")	46,254,000 ordinary share of HK$1 each	PRC/ Cayman Islands	**50%**	50%	IGT's principal activity is investment holding	Equity
Asiatic Group Limited ("Asiatic")	1,228,500 ordinary shares of HK$1 each	PRC/ Cayman Islands	**–**	50%	Asiatic's principal activity is investment holding	Equity

The joint ventures listed above are private companies and there is no quoted market price available for their shares.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

19. INVESTMENTS IN AND AMOUNTS DUE FROM/TO JOINT VENTURES *(Cont'd)*

Commitments in respect of joint ventures

The Group has the following commitments relating to its joint ventures.

	2013 HK$'000	2012 HK$'000
Commitment to provide funding if called	–	65,618

Summarised financial information for material joint ventures

Set out below are the summarised financial information for CLS-GTECH and IGT which are accounted for using the equity method.

Summarised statement of financial position

	CLS-GTECH		**IGT**	
	2013 HK$'000	2012 HK$'000	**2013 HK$'000**	2012 HK$'000
Current				
Cash and cash equivalents	**10,415**	11,765	**77,266**	77,634
Other current assets (excluding cash and cash equivalents)	**59,242**	58,979	**848**	437
Total current assets	**69,657**	70,744	**78,114**	78,071
Financial liabilities (excluding trade payables and provisions)	**28,245**	26,973	**627**	445
Other current liabilities (including trade payables and provisions)	**–**	–	**–**	–
Total current liabilities	**28,245**	26,973	**627**	445
Non-current				
Non-current assets	**49,806**	56,764	**586**	976
Non-current financial liabilities	**–**	–	**–**	–
Other non-current liabilities	**–**	–	**–**	–
Total non-current liabilities	**–**	–	**–**	–
Net assets	**91,218**	100,535	**78,073**	78,602

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

19. INVESTMENTS IN AND AMOUNTS DUE FROM/TO JOINT VENTURES *(Cont'd)*

Summarised statement of profit or loss and other comprehensive income

	CLS-GTECH		IGT	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Revenue	**1,603**	4,378	**–**	–
Depreciation and amortisation	**(8,832)**	(8,608)	**(414)**	(406)
Interest income	**5**	11	**76**	121
Interest expense	**–**	–	**–**	–
Profit or loss from continuing operations	**(12,392)**	(9,546)	**(3,606)**	(4,026)
Income tax expense	**–**	–	**–**	–
Post-tax profit or loss from continuing operations	**(12,392)**	(9,546)	**(3,606)**	(4,026)
Post-tax profit from discontinued operations	**–**	–	**–**	–
Other comprehensive income	**3,075**	–	**3,077**	318
Total comprehensive expense	**(9,317)**	(9,546)	**(529)**	(3,708)
Dividends received from joint ventures	**–**	–	**–**	–

The summarised financial information above represents amounts shown in the joint ventures' financial statements prepared in accordance with HKFRS.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

19. INVESTMENTS IN AND AMOUNTS DUE FROM/TO JOINT VENTURES *(Cont'd)*

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its interests in CLS-GTECH and IGT.

	CLS-GTECH		IGT	
	2013 HK$'000	2012 HK$'000	**2013 HK$'000**	2012 HK$'000
Opening net assets	**100,535**	110,081	**78,602**	82,310
Loss for the year	**(12,392)**	(9,546)	**(3,606)**	(4,026)
Other comprehensive income	**3,075**	–	**3,077**	318
Closing net assets	**91,218**	100,535	**78,073**	78,602
Interests in joint ventures @ 50%	**45,609**	50,268	**39,037**	39,301
Goodwill	**13,367**	13,367	**–**	–
Unrealised gain on transaction between the Group and joint ventures	**(2,308)**	(3,303)	**–**	–
Carrying value	**56,668**	60,332	**39,037**	39,301

Aggregate information of joint ventures that are not individually material

	2013 HK$'000	2012 HK$'000
The Group's share of profit from continuing operations	**–**	567
The Group's share of post-tax profit from discontinued operations	**–**	–
The Group's share of other comprehensive income	**–**	5
The Group's share of total comprehensive income	**–**	572

Significant restrictions

Cash and short-term deposits of approximately HK$12,634,000 (2012: HK$13,666,000) are held in the PRC and are subject to local exchange control regulations. These local exchange control regulations provide for restrictions on exporting capital from the country, other than through normal dividends.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

20. FINANCIAL INSTRUMENTS BY CATEGORY

Group

	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
2013			
Financial assets as per consolidated statement of financial position			
Available-for-sale financial assets	–	35,538	35,538
Accounts receivable	83,607	–	83,607
Deposits and other receivables	163,522	–	163,522
Amounts due from joint ventures	79	–	79
Amount due from a related company	21,564	–	21,564
Cash and bank balances	841,129	–	841,129
	1,109,901	35,538	1,145,439

	Financial liabilities at amortised cost HK$'000
2013	
Financial liabilities as per consolidated statement of financial position	
Accounts payable	7,638
Accruals and other payables	32,111
Amounts due to joint ventures	5,365
Bank borrowings	797,243
	842,357

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

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

Group *(Cont'd)*

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

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

Company

	Loans and receivables	
	2013	2012
	HK$'000	HK$'000
Financial assets as per statement of financial position		
Deposits and other receivables	**1,075**	1,075
Amounts due from subsidiaries	**831,369**	831,966
Cash and bank balances	**1,253**	1,149
	833,697	834,190

	Financial liabilities at amortised cost	
	2013	2012
	HK$'000	HK$'000
Financial liabilities as per statement of financial position		
Accruals and other payables	**448**	344
Amounts due to subsidiaries	**8**	8
	456	352

21. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group	
	2013	2012
	HK$'000	HK$'000
At 1 January	**31,128**	28,862
Additions	**14,318**	–
Disposals	**(14,318)**	–
Net gain transferred to equity *(Note 34)*	**4,410**	2,266
At 31 December	**35,538**	31,128

Available-for-sale financial assets including the following:

	Group	
	2013	2012
	HK$'000	HK$'000
Unlisted fund investments, at fair value	**35,538**	31,128

The fair value of the unlisted fund investments is determined based on the brokers' quotes or net asset value of the relevant fund investments.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

22. INVENTORIES

	Group	
	2013	2012
	HK$'000	HK$'000
Raw materials	**18,881**	19,053
Work in progress	**3,669**	1,469
Finished goods	**7,146**	9,635
	29,696	30,157
Provision	**(1,528)**	(1,475)
	28,168	28,682

23. ACCOUNTS RECEIVABLE

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

	Group	
	2013	2012
	HK$'000	HK$'000
Less than 3 months	**82,828**	62,595
Over 3 months but less than 1 year	**728**	3,235
Over 1 year	**51**	37
	83,607	65,867

At 31 December 2013, accounts receivables of approximately HK$10,791,000 (2012: HK$7,098,000) were past due but not impaired. These relate to a number of independent customers for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered. The ageing analysis of these accounts receivables is as follows:

	Group	
	2013	2012
	HK$'000	HK$'000
Less than 3 months	**10,625**	5,618
Over 3 months but less than 1 year	**115**	1,443
Over 1 year	**51**	37
	10,791	7,098

At 31 December 2013, accounts receivables of approximately HK$60,521,000 (2012: HK$47,368,000) were pledged to secure bank borrowings granted to the Group.

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Included in the Group's prepayments, deposits and other receivables at 31 December 2013 are loans receivables of approximately HK$55,214,000 (2012: HK$37,472,000), which are unsecured and repayment on demand. Except for an amount of approximately HK$10,265,000 (2012: HK$9,261,000) which bears interest ranging from 2% to 5% (2012: 2% to 5%) per annum, the remaining loan receivables are interest-free.

25. AMOUNT DUE FROM A RELATED COMPANY

The balance represents an amount due from a subsidiary of Burwill Holdings Limited, a company in which Ms. Lau Ting, the director of the Company and Mr. Chan Shing, the former director of the Company have beneficial interests. The amounts due are unsecured, interest-free and repayable on demand. The maximum amount outstanding during the year was approximately HK$21,564,000 (2012: HK$21,564,000).

26. CASH AND BANK BALANCES

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**222,603**	205,518	**1,253**	1,149
Time deposits	**618,526**	508,088	**–**	–
	841,129	713,606	**1,253**	1,149
Less: Pledged time deposits with maturity of more than 3 months	**(501,279)**	(446,914)	**–**	–
Cash and cash equivalents	**339,850**	266,692	**1,253**	1,149

At 31 December 2013, the Group had cash and bank balances of approximately HK$717,887,000 (2012: HK$627,644,000) which are denominated in RMB. The remittance of these funds out of the PRC is subject to the exchange control restrictions imposed by the PRC government.

At 31 December 2013, pledged time deposits of approximately HK$501,279,000 (2012: HK$446,914,000) were pledged to secure bank borrowings and banking facilities granted to the Group.

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

27. ACCOUNTS PAYABLE

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

	Group	
	2013	2012
	HK$'000	HK$'000
Less than 3 months	**6,980**	45,869
Over 3 months but less than 1 year	**596**	245
Over 1 year	**62**	81
	7,638	46,195

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

28. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2013	2012
	HK$'000	HK$'000
Purchase consideration payables for acquisition of subsidiaries — contingent consideration shares	**–**	1,093

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

	Group	
	2013	2012
	HK$'000	HK$'000
At 1 January	**1,093**	9,155
Fair value adjustment	**44**	(3,472)
Settlements	**(1,137)**	(4,590)
At 31 December	**–**	1,093

29. BANK BORROWINGS

	Group	
	2013	2012
	HK$'000	HK$'000
Current		
Portion of term loans from bank due for repayment within one year	**458,694**	285,518
Portion of term loans from bank due for repayment after one year which contain a repayment on demand clause	**338,549**	327,337
	797,243	612,855

At 31 December 2013, the Group's bank borrowings were due for repayment as follows:

	Group	
	2013	2012
	HK$'000	HK$'000
Portion of term loans due for repayment within one year	**458,694**	285,518
Term loans due for repayment after one year *(Note)*		
After 1 year but within 2 years	**231,188**	254,924
After 2 years but within 5 years	**57,253**	24,329
After 5 years	**50,108**	48,084
	338,549	327,337
	797,243	612,855

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

29. BANK BORROWINGS *(Cont'd)*

The bank borrowings carry interest at rates ranging from 0.96% to 6.9% (2012: 0.98% to 6.56%) per annum.

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

	Group	
	2013	2012
	HK$'000	HK$'000
HK$	**159,033**	97,960
US$	**446,394**	416,130
RMB	**191,816**	98,765
	797,243	612,855

At 31 December 2013, the Group's bank borrowings and banking facilities were secured by:

(i) the Group's leasehold land and buildings with a carrying amount of approximately HK$172,854,000 (2012: HK$176,398,000);

(ii) standby letters of credit issued by bank for an aggregate amount of US$59,000,000 (2012: US$55,000,000);

(iii) the Group's accounts receivable of approximately HK$60,521,000 (2012: HK$47,368,000); and

(iv) the Group's bank deposits amounting to approximately HK$501,279,000 (2012: HK$446,914,000).

30. CONVERTIBLE NOTE

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

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

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

	2013	2012
	HK$'000	HK$'000
At 1 January	**–**	68,308
Interest charge	**–**	2,942
Redeemed during the year	**–**	(71,250)
At 31 December	**–**	–

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

31. DEFERRED INCOME TAX

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

Deferred income tax liabilities:

	Group					Company
	Intangible assets HK$'000	Convertible note HK$'000	Accelerated tax depreciation HK$'000	Withholding tax on dividend income HK$'000	Total HK$'000	Convertible note HK$'000
At 1 January 2012	6,528	486	2,290	5,168	14,472	486
(Credited)/charged to profit or loss	(816)	(486)	1,132	24,819	24,649	(486)
At 31 December 2012	5,712	–	3,422	29,987	39,121	–
(Credited)/charged to profit or loss	(3,264)	–	6,481	7,673	10,890	–
Exchange difference	–	–	159	–	159	–
At 31 December 2013	2,448	–	10,062	37,660	50,170	–

Deferred income tax assets:

	Group		
	Decelerated tax depreciation HK$'000	Tax losses HK$'000	Total HK$'000
At 1 January 2012	100	4,522	4,622
(Charged)/credited to profit or loss	(100)	12,654	12,554
At 31 December 2012	–	17,176	17,176
Charged to profit or loss	–	(8,775)	(8,775)
At 31 December 2013	–	8,401	8,401

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. At 31 December 2013, the Group did not recognise deferred income tax asset in respect of tax losses amounting to approximately HK$158,259,000 (2012: HK$104,407,000) that can be carried forward to offset against future taxable profits. Tax losses amounting to approximately HK$32,634,000 (2012: HK$39,994,000) will expire from 2014 to 2018 (2012: 2013 to 2017).

At 31 December 2013, deferred tax liabilities has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to approximately HK$256,710,000 (2012: HK$176,258,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

32. SHARE CAPITAL

	Authorised ordinary shares of HK$0.0025 each	
	Number of shares	HK$'000
At 1 January 2012, 31 December 2012 and 31 December 2013	**16,000,000,000**	**40,000**

	Issued and fully paid ordinary shares of HK$0.0025 each	
	Number of shares	HK$'000
At 1 January 2012	7,411,964,000	18,530
Issue of consideration shares *(Note (i))*	40,620,666	101
At 31 December 2012	7,452,584,666	18,631
Issue of consideration shares *(Note (ii))*	**8,888,154**	**22**
Share options exercised *(Note (iii))*	**145,400,000**	**364**
At 31 December 2013	**7,606,872,820**	**19,017**

Notes:

(i) Pursuant to the equity interests transfer agreements dated 14 February 2011 and 2 November 2011, the Company allotted and issued 27,612,666 consideration shares of HK$0.0025 each at HK$0.113 and 13,008,000 consideration shares of HK$0.0025 each at HK$0.113 to the vendors on 3 April 2012 as payment of part of the consideration for the acquisition of 70% equity interests in 重慶拓扣 and 廣州頂尚 respectively.

(ii) Pursuant to the equity interests transfer agreement dated 2 November 2011, the Company allotted and issued 8,888,154 consideration shares of HK$0.0025 each at HK$0.128 to the vendors on 9 April 2013 as payment of part of the consideration for the acquisition of 70% equity interest in 廣州頂尚.

(iii) Share options were exercised by optionholders during the year ended 31 December 2013 to subscribe for a total of 145,400,000 shares of HK$0.0025 each by payment of subscription monies of approximately HK$15,849,000, of which approximately HK$364,000 was credited to share capital and the balance of approximately HK$15,485,000 was credited to the share premium account.

33. SHARE OPTION SCHEME

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

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

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

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

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

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

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

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

	2002 Option Scheme		2012 Option Scheme		Total
	Average exercise price (HK$ per share)	Options (thousands)	Average exercise price (HK$ per share)	Options (thousands)	Options (thousands)
At 1 January 2012	0.32	706,700	–	–	706,700
Granted	–	–	0.11	417,000	417,000
Forfeited	0.28	(67,500)	–	–	(67,500)
Expired	0.57	(38,800)	–	–	(38,800)
At 31 December 2012	0.31	600,400	0.11	417,000	1,017,400
Exercisable at 31 December 2012	0.30	592,550	–	–	592,550
At 1 January 2013	**0.31**	**600,400**	**0.11**	**417,000**	**1,017,400**
Exercised	**–**	**–**	**0.11**	**(145,400)**	**(145,400)**
Expired	**0.25**	**(444,400)**	**–**	**–**	**(444,400)**
At 31 December 2013	**0.48**	**156,000**	**0.11**	**271,600**	**427,600**
Exercisable at 31 December 2013	**0.48**	**156,000**	**0.11**	**63,100**	**219,100**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

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

Options exercised in 2013 resulted in 145,400,000 (2012: Nil) shares being issued at a weighted average price of HK$0.11 (2012: Nil) each. The related weighted average share price at the time of exercise was HK$0.27 per share.

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

Expiry date	Exercise price (HK$ per share)	Options (thousands) 2013	2012
2002 Option Scheme			
11 March 2013	0.500	–	2,400
13 May 2013	0.216	–	130,200
30 May 2013	0.250	–	296,000
17 August 2013	0.500	–	1,600
25 August 2013	0.500	–	14,200
1 January 2014	0.975	800	800
2 May 2014	0.775	12,000	12,000
17 August 2014	0.500	82,000	82,000
1 September 2014	0.500	16,000	16,000
15 June 2015	0.500	10,000	10,000
30 June 2016	0.285	35,200	35,200
		156,000	600,400
2012 Option Scheme			
13 May 2015	0.109	38,100	182,000
20 May 2015	0.109	25,000	26,500
13 May 2016	0.109	182,000	182,000
20 May 2016	0.109	26,500	26,500
		271,600	417,000
		427,600	1,017,400

The fair value of the options granted during the year ended 31 December 2012 was approximately HK$9,644,000, of which the Group recognised the share option of approximately HK$1,337,000 during the year ended 31 December 2012.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

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

The fair value of the options granted during the year ended 31 December 2012 was estimated as at the date of grant using the Binominal Options pricing model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

Grant date	20 November 2012	20 November 2012	13 November 2012	13 November 2012
Expiry date	20 May 2015	20 May 2016	13 May 2015	13 May 2016
Risk-free interest rate	0.13	0.15	0.13	0.19
Expected volatility (%)	48	57	48	58
Expected life of options (year)	1	2	1	2
Dividend yield (%)	2	2	2	2
Share price (HK$ per share)	0.106	0.106	0.109	0.109

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

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

At the end of the reporting period, the Company had a total of 427,600,000 (2012: 1,017,400,000) share options outstanding under the 2002 Option Scheme and 2012 Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 427,600,000 (2012: 1,017,400,000) additional ordinary shares of the Company and additional share capital of approximately HK$1,069,000 (2012: HK$2,544,000) and share premium of approximately HK$102,647,000 (2012: HK$228,245,000) (before issue expenses).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

34. RESERVES

	Group							
	Share premium HK$'000	Convertible note HK$'000	Capital reserve HK$'000 *(Note (b))*	Currency translation reserve HK$'000	Share-based compensation reserve HK$'000	Revaluation reserve HK$'000	Available-for-sale investments HK$'000	Total HK$'000
Balance at 1 January 2012	735,484	11,670	15,158	51,591	46,460	11,653	5,462	877,478
Issue of consideration shares	4,489	–	–	–	–	–	–	4,489
Share option scheme:								
— value of employee services	–	–	–	–	730	–	–	730
— value of other participants' services	–	–	–	–	285	–	–	285
— vested share options forfeited and expired	–	–	–	–	(6,963)	–	–	(6,963)
Release of convertible note equity reserve upon redemption of convertible note at maturity	–	(11,670)	–	–	–	–	–	(11,670)
Release of revaluation reserve upon depreciation of leasehold land and building	–	–	–	–	–	(302)	–	(302)
Fair value gain on available-for-sale financial assets *(Note 21)*	–	–	–	–	–	–	2,266	2,266
Currency translation differences								
— overseas joint ventures	–	–	–	164	–	–	–	164
Balance at 31 December 2012	739,973	–	15,158	51,755	40,512	11,351	7,728	866,477
Issue of consideration shares	1,115	–	–	–	–	–	–	1,115
Share option scheme:								
— value of employee services	–	–	–	–	5,354	–	–	5,354
— value of other participants' services	–	–	–	–	1,677	–	–	1,677
— share options exercised	17,959	–	–	–	(2,474)	–	–	15,485
— vested share options expired	–	–	–	–	(17,365)	–	–	(17,365)
Release of revaluation reserve upon depreciation of leasehold land and building	–	–	–	–	–	(241)	–	(241)
Fair value gain on available-for-sale financial assets *(Note 21)*	–	–	–	–	–	–	4,410	4,410
Reclassification adjustment on disposal of available-for-sale financial assets	–	–	–	–	–	–	(3,755)	(3,755)
Currency translation differences								
— overseas subsidiaries	–	–	–	10,369	–	–	–	10,369
— overseas joint ventures	–	–	–	2,971	–	–	–	2,971
Balance at 31 December 2013	759,047	–	15,158	65,095	27,704	11,110	8,383	886,497

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

34. RESERVES *(Cont'd)*

	Company				
	Share premium HK$'000	Convertible note HK$'000	Contributed surplus HK$'000 *(Note (c))*	Share-based compensation reserve HK$'000	Total HK$'000
Balance at 1 January 2012	735,484	11,670	16,209	46,460	809,823
Issue of consideration shares	4,489	–	–	–	4,489
Share option scheme:					
— value of employee services	–	–	–	730	730
— value of other participants' services	–	–	–	285	285
— vested share options forfeited and expired	–	–	–	(6,963)	(6,963)
Release of convertible note equity reserve upon redemption of convertible note	–	(11,670)	–	–	(11,670)
Balance at 31 December 2012	739,973	–	16,209	40,512	796,694
Issue of consideration shares	1,115	–	–	–	1,115
Share option scheme:					
— value of employee services	–	–	–	5,354	5,354
— value of other participants' services	–	–	–	1,677	1,677
— share options exercised	17,959	–	–	(2,474)	15,485
— vested share options expired	–	–	–	(17,365)	(17,365)
Balance at 31 December 2013	759,047	–	16,209	27,704	802,960

Notes:

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

35. RETAINED PROFITS

	Company	
	2013	2012
	HK$'000	HK$'000
At 1 January	**18,598**	3,945
Release of convertible note equity reserve upon redemption of convertible note at maturity	**–**	11,670
Vested share options expired/forfeited	**17,365**	6,963
Loss for the year	**(11,235)**	(3,980)
Dividends relating to 2012	**(13,415)**	–
At 31 December	**11,313**	18,598

36. CASH GENERATED FROM OPERATIONS

	2013	2012
	HK$'000	HK$'000
Cash flows from operating activities		
Profit before income tax	**349,202**	271,529
Adjustments for:		
Depreciation	**87,840**	38,809
Amortisation of intangible assets	**6,528**	6,528
(Gain)/Loss on disposal of property, plant and equipment	**(71)**	62
Share option expenses	**7,031**	1,015
Fair value adjustment of contingent consideration	**44**	(3,472)
Reclassification adjustment on disposal of available-for-sale financial assets	**(3,755)**	–
Interest income from bank deposits	**(20,171)**	(17,587)
Finance costs	**22,656**	19,825
Share of losses of joint ventures	**7,048**	4,121
Impairment of accounts receivable	**–**	29,789
Operating cash flows before changes in working capital	**456,352**	350,619
Changes in working capital:		
— Prepaid rentals	**958**	1,003
— Inventories	**1,514**	1,225
— Accounts receivable	**(15,111)**	81,504
— Prepayments, deposits and other receivables	**(68,523)**	(30,063)
— Accounts payable	**(39,503)**	33,382
— Accruals and other payables	**14,127**	(19,028)
— Amounts due to joint ventures	**(808)**	1,362
	(107,346)	69,385
Cash generated from operation	**349,006**	420,004

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

37. OPERATING LEASE COMMITMENTS

At 31 December 2013, the Group had aggregate future minimum lease payments under non-cancellable operating leases in respect of rented premises as follows:

	Group	
	2013	2012
	HK$'000	HK$'000
Within one year	**10,991**	9,095
In the second to fifth years inclusive	**4,689**	4,439
	15,680	13,534

At 31 December 2013, the Company had no significant operating lease commitments (2012: Nil).

38. EMPLOYEE RETIREMENT BENEFITS

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

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

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

During the year, the aggregate amount of the Group's contributions to the aforementioned schemes was approximately HK$786,000 (2012: HK$697,000), with no (2012: Nil) deduction of forfeited contributions. At 31 December 2013, there was no material forfeited contribution available to reduce the Group's employer contribution payable in future periods.

The Group had no contribution payable at 31 December 2013 (2012: HK$104,000)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

39. FINANCIAL GUARANTEE CONTRACT

At 31 December 2013, the Company provided an unlimited (2012: unlimited) guarantee and a guarantee limited to approximately HK$16,986,000 (2012: HK$16,986,000) to secure bank borrowings granted to subsidiaries. The fair value of the guarantees is not significant and therefore no provision has been made in the financial statements for the guarantees.

40. RELATED PARTY TRANSACTIONS

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

	2013 HK$'000	2012 HK$'000
Consultancy service income from joint ventures	**205**	329

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

Compensation of key management personnel

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

	2013 HK$'000	2012 HK$'000
Short-term employee benefits	**35,036**	26,066
Post-employment benefits	**555**	410
Employee share option benefits	**2,156**	(405)
	37,747	26,071

41. EVENT AFTER THE REPORTING PERIOD

Subsequent to 31 December 2013 and up to the date of approval of these consolidated financial statements, 26,110,000 share options were exercised by optionholders to subscribe for a total of 26,110,000 shares of HK$0.0025 each.