中彩網通控股有限公司
China Netcom Technology Holdings Limited

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

Annual Report 2013

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Independent Non-executive Directors

Mr. Cai Wei Lun
Mr. Qi Ji
Ms. Xuan Hong (appointed on 3 December 2013)

COMPANY SECRETARY

Mr. Wong Ka Bong (appointed on 30 September 2013)

COMPLIANCE OFFICER

Mr. Leung Ngai Man

AUTHORISED REPRESENTATIVES

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

AUDIT COMMITTEE

Ms. Xuan Hong *(Chairman)*
(appointed on 3 December 2013)
Mr. Cai Wei Lun
Mr. Qi Ji

REMUNERATION COMMITTEE

Ms. Xuan Hong *(Chairman)*
(appointed on 3 December 2013)
Mr. Cai Wei Lun
Mr. Qi Ji
Mr. Leung Ngai Man

NOMINATION COMMITTEE

Mr. Leung Ngai Man *(Chairman)*
Mr. Cai Wei Lun
Mr. Qi Ji
Ms. Xuan Hong (appointed on 3 December 2013)

AUDITORS

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

PRINCIPAL BANKERS

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

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT IN THE CAYMAN ISLANDS

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

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Tengis Limited

Before 31 March 2014
26th Floor, Tesbury Centre
28 Queen's Road East
Hong Kong

With effect from 31 March 2014
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

STOCK CODE

8071

WEBSITE

www.chinanetcomtech.com

CHAIRMAN'S STATEMENT

On behalf of the board (the "**Board**") of Directors, I hereby present to our shareholders (the "**Shareholders**") the annual results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2013.

FINANCIAL HIGHLIGHTS

During the year, the revenue of the Group for the year ended 31 December 2013 was approximately HK$1,731,000, representing a decrease of approximately 23% as compared with that in 2012. The revenue was mainly derived from lottery business and trading of computer hardware and software. The loss attributable to owners of the Company was approximately HK$75,325,000 for the year ended 31 December 2013, representing a decrease of approximately 74% as compared with that in 2012.

BUSINESS OVERVIEW

The Group is principally engaged in the trading of computer hardware and software and the provision of lottery system management service and the operation of lottery sales halls in the People's Republic of China (the "**PRC**").

During the year ended 31 December 2013, the Company focused on operating the sales halls for lottery games with high payouts and quick results since the opening of lottery sales halls of "Happy 12" in Shenyang and Dalian of Liaoning Province in the PRC in May 2012.

Lapse of the acquisition agreement and return of deposit

As announced by the Company on 6 February 2013, a conditional agreement dated 2 March 2011 supplemented by a supplemental agreement dated 23 August 2011 (collectively, the "**Acquisition Agreement**") entered into between Greatest Profit Investment Limited (the "**Purchaser**"), an indirect wholly-owned subsidiary of the Company, Century Profit Holdings Limited ("**CPHL**" or the "**Vendor**"), the entire interest of which is beneficially owned by Mr. Lin Zhiwei and the other two beneficial shareholders of CPHL (the "**Warrantors**"), and the Warrantors in respect of the acquisition of the entire issued share capital of both of Carnix Investment Limited and Mutual International Limited, both of which are wholly-owned subsidiaries of CPHL, at the consideration of Renminbi ("**RMB**") 73,500,000 had lapsed as certain conditions for completion of the Acquisition Agreement had not been satisfied or waived on or before the agreed date (the "**Lapse of the Acquisition Agreement**"). The Purchaser, the Vendor and the Warrantors agreed that the full amount of the deposit of RMB7,350,000 (the "**Deposit**") paid by the Purchaser should be returned to the Purchaser before 31 December 2013 in the manner set out in the announcement of the Company dated 6 February 2013 (the "**Return of Deposit**"). On 30 December 2013, the full amount of Deposit had been received by the Purchaser.

CHAIRMAN'S STATEMENT

Disposal of 30% interest in Shenzhen Jingcai Mingtian Technology Company Limited

On 2 April 2013, 深圳環彩普達科技有限公司 (transliterated as Shenzhen Huancai Puda Technology Company Limited) ("**Huancai Puda**"), as vendor, entered into an agreement with (i) the purchaser, a company established in the PRC and principally engaged in software development and holding of 60% equity interest in 深圳市精彩明天科技有限公司 (transliterated as Shenzhen Jingcai Mingtian Technology Company Limited) (the "**Target**"); and (ii) a third party who is a natural person of Chinese nationality holding 10% equity interest in the Target and an employee of Huancai Puda, in relation to the disposal of 30% equity interest in the Target held by Huancai Puda at the consideration of RMB8,571,429 (the "**Disposal**"). Details of the Disposal were set out in the announcement of the Company dated 2 April 2013.

Money lending business

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

INDUSTRY OVERVIEW

China's lottery industry has maintained the strong growth momentum in 2013, with a total sales of lottery amounting to RMB309.33 billion, representing a growth of approximately 18.3% year on year. Welfare Lottery and Sports Lottery contributed approximately RMB176.53 billion and approximately RMB132.80 billion, increased approximately 16.9% and approximately 20.2% year on year respectively. The top three fastest growing lottery types were Welfare Video Lottery, Sports CTG and Sports Single Match Game, which grew approximately 29.1%, 26.2% and 25.4% year on year respectively.

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

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

PROSPECT

Year of 2013 continued to be a strong year for the China lottery industry, with annual sales well over RMB309.3 billion, representing another year of increase of approximately 18%. The Company has been successfully operated the lottery sales halls for "Happy 12" in Liaoning Province in the PRC and will continue to increase the number as well as the efficiency of the sales halls in the coming years. In the meantime, the Group also committed to develop and set up the thematic sales points for "Lucky Farms" in Chongqing at the earliest possible date. The lottery terminal supply agreement with 美彩科技(中國)有限公司 (transliterated as Scientific Games (China) Company Limited) is another integral part of the Company's strategy, as the Company taps on their know-how to introduce various lottery sales terminals in other provinces in the PRC.

CHAIRMAN'S STATEMENT

Looking forward, the Company will continue to expand its strong business relationship and management expertise to continue developing lottery sales halls and outlets in the PRC, striving to become the leading operator of high frequency lottery sales hall and outlets in the PRC. At the same time, the Group will continue to adopt an active and prudent strategy, and keep looking for projects of the PRC's lottery industry (such as possible share acquisition/subscription of a mobile games development corporation and an internet lottery website professional corporation in the Mainland China which is an independent third party) as well as other opportunities in line with China's development of 12th Five-Year Plan.

APPRECIATION

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

Leung Ngai Man
Chairman of the Board

Hong Kong, 20 March 2014

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATIONAL REVIEW

For the year, the Group's audited revenue from continuing operations and the loss attributable to owners of the Company were approximately HK$1,731,000 and HK$75,325,000 respectively, representing a decrease of approximately HK$517,000 and a decrease approximately HK$215,536,000 respectively as compared with the audited revenue from continuing operations of approximately HK$2,248,000 and the loss attributable to owners of the Company of approximately HK$290,861,000 for the year ended 31 December 2012.

FINANCIAL REVIEW

As at 31 December 2013, the Group recorded total assets of approximately HK$533,508,000 (2012: HK$640,087,000), and recorded total liabilities of approximately HK$247,232,000 (2012: HK$255,605,000).

As at 31 December 2013, the Group has cash and bank balances (excluding pledged bank deposit) of approximately HK$33,985,000 (2012: HK$36,072,000). The majority cash and bank balances are denominated in RMB and were placed in short term deposit.

Capital structure

As at 31 December 2013, the Company's total number of issued ordinary shares was 1,854,235,049 ordinary shares of HK$0.005 each (the "**Shares**", each, a "**Share**") (2012: 1,854,235,049 ordinary shares of HK$0.005 each).

As at 31 December 2013, the Company's total number of issued non-redeemable convertible preferred shares was 1,563,333,333 preferred shares of HK$0.005 each (2012: 1,563,333,333 preferred shares of HK$0.005 each).

Business Review

The Group is principally engaged in the trading of computer hardware and software and the provision of lottery system management service and the operation of lottery sales halls in the PRC.

During the year ended 31 December 2013, the Company focused on operating sales halls for lottery games with high payouts and quick results since the opening of lottery sales halls of "Happy 12" in Shenyang and Dalian of Liaoning Province in the PRC in May 2012.

Major and connected transaction – lapse of the acquisition agreement and return of deposit

As announced by the Company on 6 February 2013, a conditional agreement dated 2 March 2011 supplemented by a supplemental agreement dated 23 August 2011 (collectively, the "**Acquisition Agreement**") entered into between Greatest Profit Investment Limited (the "**Purchaser**"), an indirect wholly-owned subsidiary of the Company, Century Profit Holdings Limited ("**CPHL**" or the "**Vendor**"), the entire interest of which is beneficially owned by Mr. Lin Zhiwei and the other two beneficial shareholders of CPHL (the "**Warrantors**"), and the Warrantors in respect of the acquisition of the entire issued share capital of both of Carnix Investment Limited and Mutual International Limited, both of which are wholly-owned subsidiaries of CPHL, at the consideration of RMB73,500,000 had lapsed as certain conditions for completion of the Acquisition Agreement had not been satisfied or waived on or before the agreed date (the "**Lapse of the Acquisition Agreement**"). The Purchaser, the Vendor and the Warrantors agreed that the full amount of the deposit of RMB7,350,000 (the "**Deposit**") paid by the Purchaser should be returned to the Purchaser before 31 December 2013 in the manner set out in the announcement of the Company dated 6 February 2013 (the "**Return of Deposit**"). On 30 December 2013, the full amount of Deposit had been received by the Purchaser. Details of the Acquisition Agreement were set out in the announcements of the Company dated 2 March 2011, 9 March 2011, 31 May 2011, 23 August 2011, 6 March 2012 and 6 February 2013 and the circular of the Company dated 28 October 2011. Details of the Lapse of the Acquisition Agreement and the Return of Deposit were set out in the announcement of the Company dated 6 February 2013.

Discloseable transaction – disposal of 30% interest in Shenzhen Jingcai Mingtian Technology Company Limited

On 2 April 2013, Huancai Puda, as vendor, entered into an agreement with (i) the purchaser, a company established in the PRC and principally engaged in software development and holding of 60% equity interest in 深圳市精彩明天科技有限公司 (transliterated as Shenzhen Jingcai Mingtian Technology Company Limited) (the "**Target**"); and (ii) a third party who is a natural person of Chinese nationality holding 10% equity interest in the Target and an employee of Huancai Puda, in relation to the disposal of 30% equity interest in the Target held by Huancai Puda at the consideration of RMB8,571,429 (the "**Disposal**"). The Disposal constituted a disclosable transaction for the Company under the GEM Listing Rules. Details of the Disposal were set out in the announcement of the Company dated 2 April 2013.

Segment review

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Employee information

As at 31 December 2013, the Group employed a total of 49 (2012: 51) employees. The staff costs, including Directors' remuneration and share-based payment, were approximately HK$18,874,000 (2012: HK$23,208,000) for the year ended 31 December 2013.

The salaries and benefits of the Group's employees are kept at a competitive level and employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus system, which is reviewed annually. The Group also operates a share option scheme adopted by the Company on 29 June 2007 ("**Share Option Scheme**") where options to subscribe for Shares may be granted to the Directors, employees and consultants of the Group. The aim of the Share Option Scheme is to motivate and give incentive to the eligible participants as defined in the Share Option Scheme for their contributions to the Group.

Charge on Group assets

As at 31 December 2013, a fixed deposit of approximately HK$213,000 was pledged for obtaining the corporate card services (2012: HK$212,000).

Future plans for material investments or capital assets

Save as disclosed in this annual report, there was no specific plan for material investments and acquisition of material capital assets as at 31 December 2013. However, the Group will continue to seek new business development opportunities especially in the sector of the PRC lottery market.

Gearing ratio

As at 31 December 2013, the gearing ratio of the Group was 36% (2012: 24%), based on the total borrowings of approximately HK$102,323,000 (2012: HK$91,118,000) and the total equity of approximately HK$286,276,000 (2012: HK$384,482,000).

Exposure to fluctuation in exchange rates

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

Contingent liabilities

As at 31 December 2013, the Group had no significant contingent liabilities (2012: Nil).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Leung Ngai Man, aged 53, joined the Group on 2 April 2007 as executive Director and was appointed as the chief executive officer of the Company on 29 June 2007 and subsequently re-designated as the chairman of the Board on 31 March 2008. Mr. Leung is also the compliance officer, an authorized representative, the chairman of each of the senior management committee and the nomination committee, a member of the remuneration committee and director of various subsidiaries of the Company. He has over 27 years' experience in the areas of trading, property development and management in the PRC. Mr. Leung has established an extensive business and social network and relationship with numerous PRC companies. He commenced business in the property development sector in the 1990s. Mr. Leung is also the chairman of the board, an executive director and a member of the remuneration committee of Sino Prosper (Group) Holdings Limited (formerly known as Sino Prosper State Gold Resources Holding Limited) (stock code: 766) ("**Sino Prosper**").

Mr. Ng Kwok Chu, Winfield, aged 55, joined the Group as executive Director on 16 October 2007. Mr. Ng is also an authorized representative, a member of the senior management committee of the Company and directors of various subsidiaries of the Company. He has over 25 years' experience in consumer and commercial finance in the markets of Hong Kong and the PRC. Currently. Mr. Ng is also an executive Director of Sino Prosper and an independent non-executive director, a member of each of the audit committee and the nomination committee and the chairman of the remuneration committee of China Uptown Group Company Limited (stock code: 2330). He was the independent non-executive director of Long Success International (Holdings) Limited (stock code: 8017) during the period from January 2006 to October 2012.

Ms. Wu Wei Hua, aged 43, joined the Group on 11 December 2007 as executive Director. Ms. Wu is also a member of the senior management committee of the Company. She graduated from Donghua University in the PRC and obtained a Bachelor Degree in Textile Engineering. Ms. Wu has been working in the industry of finance and administration management in the PRC since 1995 and has gained extensive management experience throughout these years. She is currently the finance director of Sino Prosper group in the PRC.

Independent Non-executive Directors

Mr. Cai Wei Lun, aged 58, joined the Group on 11 August 2009 as independent non-executive Director. Mr. Cai is also a member of each of the audit committee, the remuneration committee and the nomination committee of the Company. He has over 24 years' experience in the property development sector in the PRC. Mr. Cai is also an independent non-executive director and a member of each of the audit committee and the remuneration committee of Sino Prosper.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Qi Ji, aged 26, joined the Group on 29 February 2012 as independent non-executive Director. Mr. Qi is also a member of each of the audit committee, the remuneration committee and the nomination committee of the Company. He graduated from Changchun University of Technology with a degree in Computer Network Technology. Mr. Qi has been engaged in computer software and hardware development and programming. He has extensive experience in web design, website production and management.

Ms. Xuan Hong, aged 49, join the Group on 3 December 2013 as independent non-executive Director. Ms. Xuan is also a chairman of each of the audit committee and remuneration committee and a member of nomination committee of the Company. She has the qualifications of certified public accountant in the PRC and is a senior accountant, and has worked in several accounting firms. She has extensive working experience in accounting, auditing and taxation, and has substantial experience in accounting policy, tax law and judicial accounting sectors. Currently, Ms. Xuan is an independent non-executive director and the chairman of each of the audit committee and the remuneration committee of Sino Prosper.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Senior Management

Mr. Lin Zhi Wei, aged 40, the chief technology officer of the Group. Mr. Lin graduated from Tsinghua University in the PRC majoring in automatic control. He was a senior engineer of Chinese Academy of Sciences and was appointed as one of the first batch of expert members of the National E-Government Consultant and Training Expert Committee (國家電子政務諮詢培訓專家委員會) where he took charge of various major government informatisation construction projects, and developed the first 彩證通 (selling lotteries on securities trading platforms) and 銀彩通 (selling lotteries on banking platforms) systems of the PRC. Mr. Lin has rich experience in lottery operation and major information system construction. In 2002, he was engaged in establishing Shenzhen Bozone IT Co. Ltd., and served as its chief operating officer. Besides, Mr. Lin was also the first one to bring forward the conception of selling lotteries on mobile phone, digital television, movable termination and internet. He focuses on developing and using new public platforms to expand lottery-related businesses.

Mr. Ji Feng Qing, aged 48, the chief executive officer of Huancai Puda. Mr. Ji graduated from Nankai University in the PRC and obtained a Bachelor Degree in History. Currently, he is studying for the Master of Finance in Nankai University. Mr. Ji has been working in the industry of lottery business operation and information technology in the PRC since 1993 and has gained extensive management experience throughout these years. He has over 20 years' experience in the areas of marketing, sales, finance and management in the information technology industry. Mr. Ji was one of the founders of Huancai Puda.

Mr. Wu Bin, aged 39, the chief technology officer of Huancai Puda. Mr. Wu graduated from Tsinghua University in the PRC and obtained a Master Degree in Electrical Engineering. He has been working in the industry of lottery business operation and electrical engineering in the PRC since 2001 and has gained extensive management experience throughout these years. Mr. Wu has over 13 years' experience in the areas of marketing, sales, and management in the electrical engineering and information technology industry. He was one of the founders of Huancai Puda.

REPORT OF THE DIRECTORS

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

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of its principal subsidiaries were set out in note 17 to the consolidated financial statements. An analysis of the Group's performance for the year ended 31 December 2013 by business segments was set out in note 6 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The Group's loss for the year ended 31 December 2013 and the state of affairs of the Group and of the Company as at that date were set out in the consolidated financial statements on pages 35 to 129.

The Directors do not recommend the payment of any dividend in respect of the year ended 31 December 2013 (2012: Nil).

SHARE CAPITAL, SHARE OPTIONS, UNLISTED WARRANTS AND CONVERTIBLE BONDS

Details of the movements in the Company's share capital, share options, unlisted warrants and convertible bonds during the year, together with the reasons thereof, were set out in notes 30, 34, 33 and 28 to the consolidated financial statements respectively.

RESERVES

Details of the movements in the reserves of the Company and the Group during the year were set out in note 32 to the consolidated financial statements and the consolidated statement of changes in equity respectively.

DISTRIBUTABLE RESERVES

In accordance with the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium account is distributable to the Shareholders provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be able to pay its debts as they fall due in the ordinary course of business. As at 31 December 2013, the Company did not have any reserves available for distribution (2012: Nil).

PROPERTY, PLANT AND EQUIPMENT

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

PRE-EMPTIVE RIGHTS

Under the Company's articles of association ("**Articles**"), in the event that the Company shall at any time issue to holders of new ordinary shares securities convertible into ordinary shares, the Company shall not be obliged to offer such shares or securities to the holders of preferred shares.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the published results and the assets and liabilities of the Group for the last five financial years as extracted from the audited consolidated financial statements of the Group was set out on page 130 of the annual report of the Company for the year ended 31 December 2013 ("**Annual Report**"), of which this report forms part.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

MAJOR CUSTOMERS AND SUPPLIERS

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

		Percentage of total purchases
(1)	**Purchases**	
	– the largest supplier	12.51%
	– the five largest suppliers combined	13.72%
		Percentage of total sales
(2)	**Sales**	
	– the largest customer (Note)	63.89%
	– the five largest customers combined	100%

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

Note: The largest customers are 遼寧省彩票發行中心 and 大連永大宏安工程造價咨詢有限公司 which accounted for approximately 63.89% and 26.05% respectively of the total sales of the Group.

REPORT OF THE DIRECTORS

DIRECTORS

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

Executive Directors

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

Non-executive Director

Mr. Gao Shikui	(retired on 28 June 2013)

Independent Non-executive Directors

Mr. Cai Wei Lun	
Mr. Qi Ji	
Mr. Niu Zhihui	(resigned on 3 December 2013)
Ms. Xuan Hong	(appointed on 3 December 2013)

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

In accordance with articles 87 (1) and (2) of the Articles, Ms. Wu Wei Hua and Mr. Qi Ji will retire as Directors by rotation and, being eligible, offer themselves for re-election as Directors at the AGM.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

DIRECTORS' BIOGRAPHIES

Biographical details of the Directors are set out on pages 10 to 11 of this report.

DIRECTORS' SERVICE CONTRACTS

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

Each of the Executive Directors, Mr. Leung Ngai Man, Mr. Ng Kwok Chu, Winfield and Ms. Wu Wei Hua had entered into a service contract with the Company for a term of two years commencing from June 2012, December 2013 and February 2014 respectively, which may be terminated by one month prior notice in writing served by either party to the other one.

Each of the Independent Non-executive Directors, Mr. Cai Wei Lun, Mr. Qi Ji and Ms. Xuan Hong had entered into a service contract with the Company for a term of one year commencing from August 2013, February 2014 and December 2013 respectively, which may be terminated by one month prior notice in writing served by either party to the other one.

DIRECTOR'S INTERESTS IN CONTRACTS

Save as disclosed in note 40 to the consolidated financial statements, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

INTERESTS AND SHORT POSITIONS OF THE DIRECTORS AND CHIEF EXECUTIVE OF THE COMPANY IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS

As at 31 December 2013, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**") as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings in securities by directors of listed issuer as referred to in rule 5.46 of the GEM Listing Rules (the "**Required Standard of Dealings**"), were as follows:

Long position in the Shares and underlying Shares

Name of Director	Number of Shares: Personal interest	Number of Shares: Corporate interest	Equity derivatives	Total	Approximate percentage of issued share capital (Note 9)
Mr. Leung Ngai Man ("**Mr. Leung**")	536,335,000 (Note 1)	294,880 (Notes 1 & 2)	1,683,416,666 (Notes 3, 4 & 5)	2,220,046,546	119.73%
Mr. Ng Kwok Chu, Winfield ("**Mr. Ng**")	94,500 (Note 1)	–	5,000,000 (Notes 6 & 7)	5,094,500	0.27%
Ms. Wu Wei Hua ("**Ms. Wu**")	–	–	2,000,000 (Note 8)	2,000,000	0.11%

Notes:

1. As a result of the 2012 Share Consolidation (as defined below), these Shares were adjusted.

2. These Shares were held by Speedy Well Investments Limited ("**Speedy Well**") which was wholly and beneficially owned by Mr. Leung. By virtue of the SFO, Mr. Leung was deemed to be interested in the Shares held by Speedy Well.

3. These equity derivatives comprise 120,083,333 Shares to be issued upon exercise of conversion rights attaching to the Convertible Bonds (as defined below) issued by the Company on 27 August 2010 and 1,563,333,333 Convertible Preferred Shares (as defined below) were allotted and issued by the Company on 17 December 2012.

4. The convertible bonds in an aggregate principal amount of HK$797,500,000 at a conversion price of HK$0.24 per share were issued to Mr. Leung on 27 August 2010 (the "**Convertible Bonds**"). Upon full conversion of the Convertible Bonds, a maximum of 3,322,916,666 shares of HK$0.001 each in the share capital of the Company will be issued to Mr. Leung. As at 31 December 2013, the Convertible Bonds in the amount of HK$144,100,000 remains outstanding. As a result of the consolidation of every five shares of HK$0.001 each in both issued and unissued share capital of the Company into one consolidated Share of HK$0.005 each which became effective on 27 February 2012 (the "**2012 Share Consolidation**"), the relevant conversion price was adjusted from HK$0.24 to HK$1.20 per Share and the number of Shares falling to be issued under the outstanding Convertible Bonds was adjusted from 600,416,666 shares of HK$0.001 each in the share capital of the Company to 120,083,333 consolidated Shares. Such interests constituted a long position of the Director in a physically settled equity derivatives for the purpose of the SFO.

5. 1,563,333,333 convertible preferred shares at an issue price of HK$0.60 per convertible preferred share (the "**Convertible Preferred Shares**") were issued to Mr. Leung on 17 December 2012 to capitalise the outstanding amount of approximately HK$938,000,000 due by the Company to Mr. Leung pursuant to the promissory note issued by the Company to Mr. Leung on 27 August 2010 as part of the consideration for the acquisition of the entire equity interest in Pearl Sharp Limited. Such interests constituted a long position of the Director in a physically settled equity derivatives for the purpose of the SFO.

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

7. On 21 May 2013, Mr. Ng was further granted share options pursuant to the Share Option Scheme to subscribe for a total of 3,000,000 Shares at an exercise price of HK$0.063 per Share. Such share options would be exercisable during the period from 21 May 2013 to 29 June 2017. Such interests constituted a long position of the Director in a physically settled equity derivatives for the purpose of the SFO.

8. On 10 July 2008, Ms. Wu was granted share options pursuant to the Share Option Scheme to subscribe for a total of 20,000,000 shares of HK$0.001 each in the share capital of the Company at an exercise price of HK$0.1328 per share. Such share options would be exercisable during the period from 10 July 2008 to 29 June 2017. As a result of the 2008 Share Consolidation, the relevant subscription price was adjusted from HK$0.1328 to HK$0.2656 per consolidated share and the number of consolidated shares falling to be issued under the outstanding share options was adjusted from 20,000,000 shares to 10,000,000 consolidated shares. As a result of the 2012 Share Consolidation, the relevant subscription price was further adjusted from HK$0.2656 to HK$1.3280 per Share and the number of Shares falling to be issued under the outstanding share options was adjusted from 10,000,000 consolidated shares to 2,000,000 Shares. Such interests constituted a long position of the Director in a physically settled equity derivatives for the purpose of the SFO.

9. The percentage is calculated on the basis of 1,854,235,049 Shares in issue as at 31 December 2013.

Save as disclosed above, as at 31 December 2013, none of the Directors and the chief executive of the Company had any interests or short positions in any Shares, underlying Shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Required Standard of Dealings.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

Save as disclosed above, as at 31 December 2013, the Company had not been notified by any person or company, other than the Directors or the chief executive of the Company whose interest are set out in the section headed "INTERESTS AND SHORT POSITIONS OF THE DIRECTORS AND CHIEF EXECUTIVE OF THE COMPANY IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS" in this report, who had 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.

RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the sections "INTERESTS AND SHORT POSITIONS OF THE DIRECTORS AND CHIEF EXECUTIVE OF THE COMPANY IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS" above and "SHARE OPTIONS SCHEME" below in this report, at no time during the year and up to the date of this report, was the Company or any of its subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executive of the Company or their respective associates (as defined in the GEM Listing Rules) to have any right to subscribe for securities of the Company or any of its associated corporation as defined in the SFO or to acquire benefits by means of acquisition of Shares in, or debentures of, the Company or any other body corporate.

SHARE OPTION SCHEME

Details of the Share Option Scheme which replaced its old share option scheme adopted on 29 June 2007 are set out in note 34. Details of the share options granted under the Share Option Scheme and remain outstanding as at 31 December 2013 are as follow:

		Movements of share options (adjusted) during the period								
Name or category of participant	Share Option type	As at 1 January 2013	Granted	Exercised	Lapsed/ Cancelled/ Forfeited	As at 31 December 2013	Date of grant	Exercise price *HK$*	Exercise period	Closing price of Shares immediately before the date of grant of options *HK$*
Directors										
– Mr. Ng	2008	2,000,000*	–	–	–	2,000,000*	10 July 2008	1.328*	10 July 2008 – 29 June 2017	0.258
	2013(a)	–	3,000,000	–	–	3,000,000	21 May 2013	0.063	21 May 2013 – 29 June 2017	0.063
– Ms. Wu	2008	2,000,000*	–	–	–	2,000,000*	10 July 2008	1.328*	10 July 2008 – 29 June 2017	0.258
Sub-total		**4,000,000***	**3,000,000**	**–**	**–**	**7,000,000***				
Other Participants	2007(a)	9,600,000*	–	–	–	9,600,000*	9 July 2007	1.425*	9 July 2007 – 29 June 2017	0.248
	2007(b)	8,200,000*	–	–	–	8,200,000*	22 August 2007	2.030*	22 August 2007 – 29 June 2017	0.364
	2008	7,200,000*	–	–	–	7,200,000*	10 July 2008	1.328*	10 July 2008 – 29 June 2017	0.258
	2013(b)	–	16,000,000	–	–	16,000,000	10 October 2013	0.087	10 October 2013 – 29 June 2017	0.086
Sub-total		**25,000,000***	**16,000,000**	**–**	**–**	**41,000,000***				
Continuous Contract Employees	2013(a)	–	27,000,000	–	–	27,000,000	21 May 2013	0.063	21 May 2013 – 29 June 2017	0.063
Sub-total		**–**	**27,000,000**	**–**	**–**	**27,000,000**				
Total		**29,000,000***	**46,000,000**	**–**	**–**	**75,000,000***				
Weighted average exercise price		**HK$1.5586***	**HK$0.0713**	**-**	**-**	**HK$0.6464***				

Note:

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

CONTRACT OF SIGNIFICANCE

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

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

CONNECTED AND RELATED PARTY TRANSACTIONS

Details of the related party transactions for the year are set out in note 40 to the consolidated financial statements and such related party transactions do not fall under the definition of "connected transaction" or "continuing connected transaction" in chapter 20 of the GEM Listing Rules.

COMPETITION AND CONFLICT OF INTERESTS

During the year under review, none of the Directors or controlling Shareholders or any of their respective associates (as defined in the GEM Listing Rules) has any interest in a business which causes or may cause any significant competition with the business of the Group.

SUFFICIENCY OF PUBLIC FLOAT

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

EVENTS AFTER THE REPORTING PERIOD

Completion of placing of existing Shares and top-up subscription of new Shares

On 7 January 2014, an aggregate of 232,800,000 Shares were successfully placed by Mr. Leung (the "**Subscriber**") to not less than six placees who are independent third parties at the placing price of HK$0.320 per placing share (the "**Placing Share**"). The completion of the subscription took place on 15 January 2014 whereby 232,800,000 subscription shares (equivalent to the number of Placing Shares placed) were allotted and issued to the Subscriber at the subscription price of HK$0.320 per subscription shares. The net proceeds from the subscription are approximately HK$72.6 million. The net price for the subscription was approximately HK$0.312 per Share. The Company intends to utilise the net proceeds from the subscription for general working capital of the Group.

Issue of Shares under the Share Option Scheme

On 22 January 2014, the Company allotted and issued 18,000,000 Shares to a staff of the Group due to the exercise of share options at an exercise price of HK$0.063 per share which were granted on 21 May 2013.

On 23 January 2014, the Company allotted and issued 9,000,000 Shares to a staff of the Group due to the exercise of share options at an exercise price of HK$0.063 per share which were granted on 21 May 2013.

REPORT OF THE DIRECTORS

Framework agreement in relation to a possible acquisition

On 11 November 2011 a subsidiary of the Company (the "**Subsidiary**") entered into a framework agreement (the "**Framework Agreement**") with, among others, an independent third party (the "**Potential Vendor**") in relation to a possible acquisition by the Subsidiary of equity interests in a company principally engaged in the provision of services for an instant lottery game in the PRC from the Potential Vendor. Details of the Framework Agreement were set out in the Company's announcement dated 14 November 2011. Pursuant to supplemental agreements to the Framework Agreement, the period during which the Subsidiary had the exclusive right to negotiate with the Potential Vendor in relation to such possible acquisition expired on 28 February 2014 and the Framework Agreement was terminated on 4 March 2014.

AUDIT COMMITTEE

The Company has established an audit committee (the "**Audit Committee**") with written terms of reference in compliance with the GEM Listing Rules. During the year, the composition of the Audit Committee was changed as a result of the appointment of Ms. Xuan Hong and the resignation of Mr. Niu Zhihui as independent non-executive Director in December 2013. As at the date of this report, the Audit Committee comprises three independent non-executive Directors, namely Ms. Xuan Hong (chairman of the Audit Committee), Mr. Cai Wei Lun and Mr. Qi Ji.

The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control of the Group. During the year, the Audit Committee held four meetings. The annual results of the Group for the year ended 31 December 2013 have been reviewed by the Audit Committee which is of the opinion that the preparation of such results complied with the applicable accounting standards, the GEM Listing Rules and the legal requirements, and that adequate disclosures have been made.

CORPORATE GOVERNANCE

A report detailed corporate governance was set out on pages 22 to 32 in the annual report.

AUDITORS

The accounts for the year ended 31 December 2013 were audited by HLB Hodgson Impey Cheng Limited whose term of office will expire upon the AGM. A resolution for the re-appointment of HLB Hodgson Impey Cheng Limited as the auditors of the Company for the subsequent year is to be proposed at the AGM. The accounts for the year ended 31 December 2012 were audited by HLB Hodgson Impey Cheng Limited and the accounts for the year ended 31 December 2011 were audited by HLB Hodgson Impey Cheng. In March 2012, the practice of HLB Hodgson Impey Cheng was reorganised as HLB Hodgson Impey Cheng Limited. Save for the above, there has been no other change in the auditors of the Company in any of the preceding three years.

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

Hong Kong, 20 March 2014

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

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

During the financial year under review, the Company has complied with all the code provisions in the Corporate Governance Code (the "**CG Code**") as set out in Appendix 15 to the GEM Listing Rules except for the following:

Chairman and chief executive officer

Code provision A.2.1 of the CG Code stipulates that the role of chairman and chief executive should be separate and should not be performed by the same individual.

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

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

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

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct for securities transactions by Directors (the "**Code**") which is on terms no less exacting than the Required Standard of Dealings. The Company was made specific enquiry with all Directors and has not been notified of any non-compliance with the Required Standard of Dealings and the Code by the Directors during the year.

CORPORATE GOVERNANCE REPORT

THE BOARD OF DIRECTORS AND MEETINGS

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

Executive Directors:

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

Non-executive Directors:

Mr. Gao Shikui (retired on 28 June 2013)

Independent Non-executive Directors:

Mr. Cai Wei Lun
Mr. Qi Ji
Ms. Xuan Hong (appointed on 3 December 2013)
Mr. Niu Zhihui (resigned on 3 December 2013)

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

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

The Board meets regularly (at least four times a year at quarterly intervals) for reviewing and approving the financial and operating performance, considering and approving the overall strategies and policies of the Company. Additional meetings are convened as and when the Board considers necessary. 10 Board meetings (four of which were regular Board meetings) were held during the year. The Directors attended those meetings in person, by phone or through other electronic means of communication. The attendance record of each Director at the meeting of the Board and Board Committees (as defined below) and general meetings during the year is set out below:

		Attendance/Number of Meetings				
Name of Directors	Notes	**Board**	**Audit Committee**	**Nomination Committee**	**Remuneration Committee**	**General Meeting**
Executive Directors						
Mr. Leung Ngai Man		10/10	2/4	1/1	1/1	1/1
Mr. Ng Kwok Chu, Winfield		10/10	–	–	–	1/1
Ms. Wu Wei Hua		10/10	–	–	–	1/1
Non-executive Director						
Mr. Gao Shikui	(1)	2/6	–	–	–	–
Independent Non-executive Directors						
Mr. Cai Wei Lun		10/10	4/4	1/1	1/1	1/1
Mr. Qi Ji		10/10	4/4	1/1	1/1	1/1
Mr. Niu Zhihui	(2)	10/10	4/4	1/1	1/1	1/1
Ms. Xuan Hong	(3)	–	–	–	–	–

Notes:

(1) Retired on 28 June 2013
(2) Resigned on 3 December 2013
(3) Appointed on 3 December 2013

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

The senior management committee was established on 27 June 2005 and of its members are Mr. Leung (chairman of the committee), Mr. Ng and Ms. Wu, all are the executive Directors.

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

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

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

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

The board committees, including the audit committee, the remuneration committee and the nomination committee (the "**Board Committee**") save all adopted the applicable practices and procedures used in the Board meetings for all committee meetings.

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

CONTINUOUS PROFESSIONAL DEVELOPMENT OF THE DIRECTORS

In order to comply with the code provision A.6.5 of the CG Code, the Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. According to the confirmation/records provided by the Directors, all the Directors have participated in the continuous professional developments for the year ended 31 December 2013. During the year, the Directors have participated in the continuous professional developments in the following manners:

Directors	Attending in-house briefings	Attending talks	Attending relevant business training conducted by professional parties	Reading materials relevant to director's duties and responsibilities
Executive Directors				
Mr. Leung Ngai Man	✓		✓	✓
Mr. Ng Kwok Chu, Winfield		✓	✓	✓
Ms. Wu Wei Hua				✓
Independent Non-executive Directors				
Mr. Cai Wei Lun	✓	✓		✓
Mr. Qi Ji				✓
Ms. Xuan Hong				✓

CHAIRMAN AND CHIEF EXECUTIVE

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

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

BOARD COMMITTEES

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

Nomination Committee

The Company has established a nomination committee with written terms of reference on 23 March 2012 in order to comply with the CG Code. The terms of reference have been reviewed and revised with reference to the changes to the CG Code during the year. The committee is chaired by Mr. Leung, the Chairman of the Company and executive Director, and other members include Mr. Cai Wei Lun, Mr. Qi Ji and Ms. Xuan Hong (all are independent non-executive Directors).

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

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

The nomination committee held one meeting during the year ended 31 December 2013. Individual attendance records of each member of the nomination committee were set out in the table on page 24 of this report.

Board Diversity Policy

The Board has adopted a board diversity policy (the "**Policy**") and measurable objectives which are set for the purpose of implementing the policy with effect from 30 August 2013.

Summary of the Board Diversity Policy

The Company recognized and embraced the benefits of having a diverse Board to the quality of its performance. The Policy aimed to sets out the approach to achieve diversity on the Board. In designing the Board's composition, Board diversity has been considered from a numbers of measurable aspects including skills, experience, knowledge, expertise, culture, independence, age and gender. All Board appointments will be based on merit while taking into account diversity (including gender diversity).

Measurable Objectives

The measurable objectives for the purpose of implementation of the Policy including the independence, educational background, professional qualifications and years of experience in the industry he/she is specialised in.

The nomination committee will review the Policy to ensure its effectiveness and report annually, in the corporate governance report, on the Board's composition under diversified perspectives, and monitor the implementation on this policy.

Remuneration Committee

The Company has established a remuneration committee on 27 June 2005 with written terms of reference in compliance with the GEM Listing Rules, comprising all the independent non-executive Directors and the chairman of the Board. The committee is currently chaired by Ms. Xuan Hong, other members include Mr. Cai Wei Lun, Mr. Qi Ji, all are independent non-executive directors and Mr. Leung, the chairman of the Board and an executive Director.

The role and functions of the remuneration committee include the determination of the specific remuneration packages of all Directors, which include benefits in kind, pension rights and compensation payments, comprising any compensation payable for loss or termination of their office or appointment.

The remuneration committee also considers factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration. The remuneration committee collects and reviews the remuneration plan and policy of all Directors and the senior management of the Group by reference to the prevailing rate which other companies listed on GEM adopt.

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

During the year ended 31 December 2013, one meeting of the remuneration committee were held. Individual attendance records of each member of the remuneration committee were set out in the table on page 24 of this report.

Audit Committee and Accountability

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

Name	Service period
Mr. Niu Zhihui	From 1 January 2013 to 3 December 2013
Mr. Cai Wei Lun	From 1 January 2013 to 31 December 2013
Mr. Qi Ji	From 1 January 2013 to 31 December 2013
Ms. Xuan Hong	From 3 December 2013 to 31 December 2013

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

The works done by the audit committee during the year ended 31 December 2013 were set out as follows:

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

(b) discussing the application of the new accounting policy;

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

(d) reviewing the internal control procedures and system and to make recommendation to the Board for improvement.

The audit committee is provided with sufficient resources enabling it to discharge its duties. For the financial year ended 31 December 2013, the audit committee held four meetings. Individual attendance records of each member of the audit committee were set out in the table on page 24 of this report. The company secretary of the Company (the "**Company Secretary**") keeps full minutes of all meetings of the audit committee. In line with practices of the meetings of the Board and other Board Committees, draft and final versions of the minutes of the meetings of the audit committee are circulated to all members of the audit committee for comments, approval and record as soon as practicable after each meeting.

The accounts for the year ended 31 December 2013 were audited by HLB Hodgson Impey Cheng Limited whose term of office will expire upon the AGM. The audit committee has recommended to the Board that HLB Hodgson Impey Cheng Limited be re-appointed as the auditors of the Company at the AGM.

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

AUDITORS' REMUNERATION

During the year ended 31 December 2013, the remuneration payable to the external auditors in respect of the audit and non-audit services are as follows:

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

DIRECTORS' AND AUDITORS' ACKNOWLEDGEMENT

All Directors acknowledged their responsibility for preparing the accounts for the year ended 31 December 2013 which give a true and fair view of the financial position of the Group. The Directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern. The statement of the auditors of the Company about their reporting responsibilities on the consolidated financial statements for the year ended 31 December 2013 was set out in the section "Independent Auditors' Report" of this report.

INTERNAL CONTROL

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

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

The Group is committed to maintaining and upholding good corporate governance practices and internal control system. In respect of the year ended 31 December 2013, the Group has engaged external consultant, CT Partners Consultants Limited, to review the effectiveness of the Group's internal control system on the lottery business under COSO 2013 Framework and make recommendations for improvement and strengthening of its internal control system. Based on the report on the findings from the external consultant, the Board was satisfied that the Group has operated an effective internal control system.

COMPANY SECRETARY

Mr. Wong Ka Bong ("**Mr. Wong**") was appointed as the Company Secretary on 30 September 2013 to fill the casual vacancy following the resignation of Miss Man Tsz Sai, Lavender on the same date.

Mr. Wong is responsible for facilitating the Board process, as well as communication among Board members of the Company. In accordance with rule 5.15 of the GEM Listing Rules, he undertook no less than 15 hours of the relevant professional training during the year ended 31 December 2013. Mr. Wong is also directly responsible for the Group's compliance with the continuing obligation of the GEM Listing Rules, Codes on Takeovers and Mergers and Share Repurchases, Companies Ordinance, SFO and other applicable laws, rules and regulations.

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

SHAREHOLDERS' RIGHTS

Procedures for the Shareholders to convene an extraordinary general meeting

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

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

Procedures for the Shareholders to put their enquiries to the Board

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

The Company endeavor to maintain two way communications with the Shareholders through various channels. The Shareholders are encouraged to put their enquiries about the Group through the Company's email at investorrelations@chinanetcomtech.com or by mail to the address of the Company's principle place of business in Hong Kong at Unit 1006, 10th Floor, Tower One Lippo Centre, 89 Queensway, Hong Kong. All the enquiries are dealt with in timely manner.

The Shareholders are also encouraged to attend the AGM and the EGM and to put their enquiries to the Board directly. Notices are duly circulated to the Shareholders in order to ensure each Shareholder is informed to attend the AGM and the EGM. The Chairman of the Board, the chairman of each of the remuneration committee, nomination committee and audit committee and the senior management attend the aforesaid meetings and respond to the Shareholders' enquiries in a promptly manner. Pursuant to the GEM Listing Rules, voting by poll is mandatory at all general meetings.

The detailed procedures for conducting a poll are set out in the proxy forms and will be explained by the chairmen of the AGM and the EGM orally at the beginning of the aforesaid meetings. The poll results will be posted on the websites of the Stock Exchange and the Company after the AGM and the EGM.

INVESTOR RELATIONS

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

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

During the year ended 31 December 2013, there is no significant change in the Company's memorandum and articles of association.

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

Hong Kong, 20 March 2014

INDEPENDENT AUDITORS' REPORT

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 NETCOM TECHNOLOGY HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Netcom Technology Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 35 to 129, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

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

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Hui Chun Keung, David
Practising Certificate Number: P05447

Hong Kong, 20 March 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2013

	Notes	**2013 HK$'000**	2012 HK$'000
Continuing operations			
Revenue	5	**1,731**	2,248
Cost of sales		**(3,293)**	(3,574)
Gross loss		**(1,562)**	(1,326)
Other income and gains	7	**5,872**	16,958
Administrative expenses		**(27,130)**	(36,323)
Impairment loss of goodwill	18	**–**	(32,940)
Impairment loss of other intangible assets	20	**(93,200)**	(137,355)
Loss on early redemption of promissory note		**–**	(32,130)
Finance costs	8	**(11,205)**	(108,295)
Other operating expenses		**(15,031)**	(17,073)
Share of losses of associates	21	**(484)**	(364)
Loss before tax		**(142,740)**	(348,848)
Income tax credit/(expense)	9	**23,924**	(34,849)
Loss for the year from continuing operations	10	**(118,816)**	(383,697)
Discontinued operations			
Loss for the year from discontinued operations	11	**–**	(2,910)
Loss for the year		**(118,816)**	(386,607)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		**19,513**	4,150
Reclassification adjustment relating to foreign operations disposed of during the year		**(74)**	(1,190)
Share of other comprehensive income/(expense) of associates	21	**165**	(38)
Other comprehensive income for the year		**19,604**	2,922
Total comprehensive expense for the year		**(99,212)**	(383,685)
Loss attributable to:			
Owners of the Company		**(75,325)**	(290,861)
Non-controlling interests		**(43,491)**	(95,746)
		(118,816)	(386,607)
Total comprehensive expense attributable to:			
Owners of the Company		**(65,324)**	(289,890)
Non-controlling interests		**(33,888)**	(93,795)
		(99,212)	(383,685)
Loss per share	14		
From continuing and discontinued operations – Basic and diluted (HK cents per share)		**(4.1)**	(15.7)
From continuing operations – Basic and diluted (HK cents per share)		**(4.1)**	(15.5)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
Non-current assets			
Property, plant and equipment	16	**2,517**	3,985
Other intangible assets	20	**490,067**	578,369
Interests in associates	21	**–**	7,191
		492,584	589,545
Current assets			
Inventories	22	**1,612**	110
Prepayments, deposits and other receivables	23	**4,873**	13,914
Amount due from a non-controlling interest of a subsidiary	24	**241**	234
Pledged bank deposit	25	**213**	212
Cash and bank balances	25	**33,985**	36,072
		40,924	50,542
Current liabilities			
Trade and other payables	26	**15,227**	10,822
Amount due to a non-controlling interest of a subsidiary	27	**228**	221
Amount due to an associate	21	**–**	66
Current tax liabilities		**1**	1
		15,456	11,110
Net current assets		**25,468**	39,432
Total assets less current liabilities		**518,052**	628,977
Non-current liabilities			
Convertible bonds	28	**102,323**	91,118
Deferred tax liabilities	29	**129,453**	153,377
		231,776	244,495
Net assets		**286,276**	384,482
Capital and reserves			
Share capital – ordinary shares	30	**9,271**	9,271
Share capital – non-redeemable convertible preferred shares	31	**7,817**	7,817
Reserves		**88,413**	152,731
Equity attributable to owners of the Company		**105,501**	169,819
Non-controlling interests		**180,775**	214,663
Total equity		**286,276**	384,482

The consolidated financial statements on pages 35 to 129 were approved and authorised for issue by the board of directors on 20 March 2014 and signed on its behalf by:

Leung Ngai Man
Director

Ng Kwok Chu, Winfield
Director

STATEMENT OF FINANCIAL POSITION

At 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
Non-current assets			
Property, plant and equipment	16	**–**	–
Investments in subsidiaries	17	**54,276**	321,276
		54,276	321,276
Current assets			
Prepayments and other receivables	23	**103**	62
Amounts due from subsidiaries	17	**164,655**	157,815
Bank balances	25	**23,272**	28,906
		188,030	186,783
Current liabilities			
Other payables and accruals	26	**1,314**	1,319
Amounts due to subsidiaries	17	**26,599**	22,931
		27,913	24,250
Net current assets		**160,117**	162,533
Total assets less current liabilities		**214,393**	483,809
Non-current liabilities			
Convertible bonds	28	**102,323**	91,118
Deferred tax liabilities	29	**6,936**	8,785
		109,259	99,903
Net assets		**105,134**	383,906
Capital and reserves			
Share capital – ordinary shares	30	**9,271**	9,271
Share capital – non-redeemable convertible preferred shares	31	**7,817**	7,817
Reserves	32	**88,046**	366,818
Total equity		**105,134**	383,906

Leung Ngai Man
Director

Ng Kwok Chu, Winfield
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

	Attributable to owners of the Company												
	Share capital – ordinary shares HK$'000	Share capital – non-redeemable convertible preferred shares HK$'000	Share premium account HK$'000	Warrants reserve HK$'000	Capital redemption reserve HK$'000 (Note 32)	Convertible bonds equity reserve HK$'000	Share options reserve HK$'000	Foreign currency translation reserve HK$'000	Other reserve HK$'000 (Note 32)	Accumulated losses HK$'000	Subtotal HK$'000	Attributable to non-controlling interests HK$'000	Total HK$'000
Balance at 1 January 2012	9,271	–	2,608,610	–	1	66,267	14,571	111,435	(49)	(2,964,483)	(154,377)	304,940	150,563
Loss for the year	–	–	–	–	–	–	–	–	–	(290,861)	(290,861)	(95,746)	(386,607)
Other comprehensive income for the year	–	–	–	–	–	–	–	971	–	–	971	1,951	2,922
Total comprehensive income/ (expense) for the year	–	–	–	–	–	–	–	971	–	(290,861)	(289,890)	(93,795)	(383,685)
Capital contribution by non-controlling interests of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	604	604
Issue of unlisted warrants (Note 33)	–	–	–	1,810	–	–	–	–	–	–	1,810	–	1,810
Transaction costs attributable to issue of unlisted warrants	–	–	–	(70)	–	–	–	–	–	–	(70)	–	(70)
Issue of non-redeemable convertible preferred shares (Note 31)	–	7,817	604,529	–	–	–	–	–	–	–	612,346	–	612,346
Released upon disposal of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	2,914	2,914
Release of reserve upon share options forfeited	–	–	–	–	–	–	(1,230)	–	–	1,230	–	–	–
Balance at 31 December 2012	9,271	7,817	3,213,139	1,740	1	66,267	13,341	112,406	(49)	(3,254,114)	169,819	214,663	384,482

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

	Attributable to owners of the Company												
	Share capital – ordinary shares HK$'000	Share capital – non-redeemable convertible preferred shares HK$'000	Share premium account HK$'000	Warrants reserve HK$'000	Capital redemption reserve HK$'000 (Note 32)	Convertible bonds equity reserve HK$'000	Share options reserve HK$'000	Foreign currency translation reserve HK$'000	Other reserve HK$'000 (Note 32)	Accumulated losses HK$'000	Subtotal HK$'000	Attributable to non-controlling interests HK$'000	Total HK$'000
Balance at 1 January 2013	9,271	7,817	3,213,139	1,740	1	66,267	13,341	112,406	(49)	(3,254,114)	169,819	214,663	384,482
Loss for the year	–	–	–	–	–	–	–	–	–	(75,325)	(75,325)	(43,491)	(118,816)
Other comprehensive income for the year	–	–	–	–	–	–	–	10,001	–	–	10,001	9,603	19,604
Total comprehensive income/ (expense) for the year	–	–	–	–	–	–	–	10,001	–	(75,325)	(65,324)	(33,888)	(99,212)
Recognition of equity-settled share-based payments	–	–	–	–	–	–	1,006	–	–	–	1,006	–	1,006
Balance at 31 December 2013	9,271	7,817	3,213,139	1,740	1	66,267	14,347	122,407	(49)	(3,329,439)	105,501	180,775	286,276

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
Cash flows from operating activities			
Loss for the year			
From continuing operations		**(118,816)**	(383,697)
From discontinued operations		**–**	(2,910)
Adjustments for:			
Income tax (credit)/expense recognised in profit or loss		**(23,924)**	34,849
Share of losses of associates		**484**	364
Finance costs recognised in profit or loss		**11,205**	108,295
Interest income		**(753)**	(1,602)
Loss on disposal of property, plant and equipment		**720**	213
Gain on disposal of other assets		**–**	(7,501)
Net gain on disposal of subsidiaries	37	**–**	(5,289)
Gain recognised on disposal/deregistration of associates		**(3,781)**	–
Loss on early redemption of promissory note		**–**	32,130
Depreciation of property, plant and equipment		**1,072**	1,696
Amortisation of other intangible assets		**14,311**	16,657
Impairment loss of goodwill		**–**	32,940
Impairment loss of other intangible assets		**93,200**	137,355
Expense recognised in respect of equity-settled share-based payments		**1,006**	–
		(25,276)	(36,500)
Movements in working capital			
Increase in trade and other receivables		**(197)**	(201)
Decrease in amount due from a non-controlling interest of a subsidiary		**–**	262
(Increase)/decrease in inventories		**(1,502)**	378
Increase/(decrease) in trade and other payables		**4,405**	(4,042)
Increase in amount due to a non-controlling interest of a subsidiary		**–**	1
Increase in amount due to an associate		**–**	66
Net cash used in operating activities		**(22,570)**	(40,036)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
Cash flows from investing activities			
Interest received		**753**	1,602
Increase in pledged bank deposit		**(1)**	(2)
Decrease in short-term bank deposits with maturity more than three months		**–**	124,948
Payments for property, plant and equipment		**(230)**	(4,640)
Proceed from disposal of property, plant and equipment		**18**	270
Proceed from disposal of an associate		**10,513**	–
Proceed from disposal of available-for-sale investment		**–**	118
Net cash inflow on disposal of subsidiaries	37	**–**	9,425
Return of deposit for acquisition of non-controlling interest of a subsidiary		**9,238**	–
Net cash generated by investing activities		**20,291**	131,721
Cash flows from financing activities			
Proceed from issue of unlisted warrants		**–**	1,810
Payment for transaction cost attributable to issue of unlisted warrants		**–**	(70)
Repayment of promissory note		**–**	(93,000)
Capital contribution by non-controlling interests of subsidiaries		**–**	604
Interest paid		**–**	(1,529)
Net cash used in financing activities		**–**	(92,185)
Net decrease in cash and cash equivalents		**(2,279)**	(500)
Cash and cash equivalents at the beginning of year		**36,072**	36,507
Effect of foreign exchange rate changes, net		**192**	65
Cash and cash equivalents at the end of year		**33,985**	36,072
Analysis of the balances of cash and cash equivalents			
Cash and bank balances		**33,985**	36,072

1. GENERAL INFORMATION

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

During the year ended 31 December 2013, the Company and its subsidiaries (together referred to as the "Group") were involved in the following principal activities:

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

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

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

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

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

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

Amendments to HKFRS 7 *Disclosures – Offsetting Financial Assets and Financial Liabilities*

The Group has applied the amendments to HKFRS 7 *Disclosures – Offsetting Financial Assets and Financial Liabilities* for the first time in the current year. The amendments to HKFRS 7 require entities to disclose information about:

a) recognised financial instruments that are set off in accordance with HKAS 32 *Financial Instruments: Presentation*; and

b) recognised financial instruments that are subject to an enforceable master netting agreement or similar agreement, irrespective of whether the financial instruments are set off in accordance with HKAS 32.

As the Group does not have any offsetting arrangements or any master netting agreements in place, the application of the amendments has had no material impact on the disclosures or on the amounts recognised in these consolidated financial statements.

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

In the current year, the Group has applied for the first time the package of five standards on consolidation, joint arrangements, associates and disclosures comprising HKFRS 10 *Consolidated Financial Statements*, HKFRS 11 *Joint Arrangements*, HKFRS 12 *Disclosure of Interests in Other Entities*, HKAS 27 (as revised in 2011) *Separate Financial Statements* and HKAS 28 (as revised in 2011) *Investments in Associates and Joint Ventures*, together with the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 regarding transitional guidance.

HKAS 27 (as revised in 2011) is not applicable to the Group as it deals only with separate financial statements.

HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements and HK(SIC) Int–12 *Consolidation – Special Purpose Entities*. HKFRS 10 changes the definition of control such that an investor has control over an investee when a) it has power over the investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in HKFRS 10 to explain when an investor has control over an investee. Some guidance included in HKFRS 10 that deals with whether or not an investor that owns less than 50% of the voting rights in an investee has control over the investee is relevant to the Group.

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

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

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures*, and the guidance contained in a related interpretation, HK(SIC) - Int 13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers*, has been incorporated in HKAS 28 (as revised in 2011). HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified and accounted for. Under HKFRS 11, there are only two types of joint arrangements – joint operations and joint ventures. The classification of joint arrangements under HKFRS 11 is determined based on the rights and obligations of parties to the joint arrangements by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, and, when relevant, other facts and circumstances. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint venturers) have rights to the net assets of the arrangement. Previously, HKAS 31 contemplated three types of joint arrangements – jointly controlled entities, jointly controlled operations and jointly controlled assets. The classification of joint arrangements under HKAS 31 was primarily determined based on the legal form of the arrangement (e.g. a joint arrangement that was established through a separate entity was accounted for as a jointly controlled entity).

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

HKFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of HKFRS 12 has resulted in more extensive disclosures in the consolidated financial statements.

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

HKFRS 13 *Fair Value Measurement*

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

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

HKFRS 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the standard in comparative information provided for periods before the initial application of the standard. In accordance with these transitional provisions, the Group has not made any new disclosures required by HKFRS 13 for the 2012 comparative period. Other than the additional disclosures, the application of HKFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

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

The Group has applied the amendments to HKAS 1 *Presentation of Items of Other Comprehensive Income*. The amendments introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, the "statement of comprehensive income" is renamed as the "statement of profit or loss and other comprehensive income" and the "income statement" is renamed as the "statement of profit or loss". The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

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

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

New and revised HKFRSs in issue but not yet effective

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

HKFRS 9	*Financial Instruments* [3]
HKFRS 14	*Regulatory Deferral Accounts* [6]
Amendments to HKFRS 9 and HKFRS 7	*Mandatory Effective Date of HKFRS 9 and Transition Disclosures* [3]
Amendments to HKFRS 9, HKFRS 7 and HKAS 39	*Hedge Accounting and amendments to HKFRS 9, HFKRS 7 and HKAS 39* [5]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	*Investment Entities* [1]
Amendments to HKAS 19	*Defined Benefit Plans: Employee Contributions* [2]
Amendments to HKAS 32	*Offsetting Financial Assets and Financial Liabilities* [1]
Amendments to HKAS 36	*Recoverable Amount Disclosures for Non-Financial Assets* [1]
Amendments to HKAS 39	*Novation of Derivatives and Continuation of Hedge Accounting* [1]
Amendments to HKFRSs	*Annual Improvements to HKFRSs 2010 – 2012 Cycle* [4]
Amendments to HKFRSs	*Annual Improvements to HKFRSs 2011 – 2013 Cycle* [2]
HK(IFRIC) – Int 21	*Levies* [1]

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

[2] Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted.

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

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

[5] No mandatory effective date yet determined but is available for adoption.

[6] Effective for annual periods beginning on or after 1 January 2016.

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

HKFRS 9 *Financial Instruments*

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

Key requirements of HKFRS 9 are described below:

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

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

The directors anticipate that the adoption of HKFRS 9 in the future may have a significant impact on the amounts reported in respect of the Group's financial assets and financial liabilities, however, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

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

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 *Investment Entities*

The amendments to HKFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its financial statements.

To qualify as an investment entity, a reporting entity is required to:

- obtain funds from one or more investors for the purpose of providing them with professional investment management services;
- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to HKFRS 12 and HKAS 27 to introduce new disclosure requirements for investment entities.

The directors of the Company do not anticipate that the investment entities amendments will have any effect on the Group's consolidated financial statements as the Company is not an investment entity.

Amendments to HKAS 32 *Offsetting Financial Assets and Financial Liabilities*

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

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

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

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

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

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

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

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

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

HK (IFRIC) – Int 21 *Levies*

HK (IFRIC) – Int 21 Levies addresses the issue of when to recognise a liability to pay a levy. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

The directors of the Company anticipate that the application of HK (IFRIC) – Int 21 will have no effect on the Group's consolidated financial statements as the Group does not have any levy arrangements.

Annual Improvements to HKFRSs 2010 – 2012 Cycle and HKFRSs 2011 – 2013 Cycle

The Annual Improvements to HKFRSs 2010 – 2012 Cycle and the Annual Improvements to HKFRSs 2011 – 2013 Cycle issued in January 2014 sets out amendments to a number of HKFRSs. The directors have not yet performed a detailed analysis of the impact of the application of these standards and hence have not yet quantified the extent of the impact.

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

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below.

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

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation

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

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

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

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

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

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

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

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

Changes in the Group's ownership interests in existing subsidiaries

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

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

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

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

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

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

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

Subsidiaries

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in associates (Continued)

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

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

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing

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

The Group as lessor

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

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

The Group as lessee

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

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

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

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

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

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

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

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

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

Goodwill and fair value adjustments to identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

Borrowing costs

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

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

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

Retirement benefit costs

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Retirement benefit costs (Continued)

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

Share-based payment arrangements

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

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

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

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

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

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

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received, unless that fair value cannot be reliably measured, in which case the goods or services received are measured by reference to the fair value of the share options granted. The fair values of the goods or services received are recognised as expenses immediately, unless the goods or services qualify for recognition as assets. Corresponding adjustment has been made to equity (share options reserve).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation

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

Current tax

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

Deferred tax

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

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

Depreciation is recognised so as to write off the cost of assets less their residual values over their useful lives, using the straight-line method as follows:

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Intangible assets acquired in a business combination

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

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment of tangible and intangible assets other than goodwill

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of tangible and intangible assets other than goodwill (Continued)

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

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

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

Inventories

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

Cash and cash equivalents

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

Provisions

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

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

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

Financial assets

Financial assets are classified into the following specified categories: financial assets "at fair value through profit or loss" (FVTPL), "held-to-maturity" investments, "available-for-sale" (AFS) financial assets and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intention and ability to hold to maturity other than:

a) those that the entity upon initial recognition designates as at fair value through profit or loss;

b) those that the entity designates as available for sale; and

c) those that meet the definition of loans and receivables.

Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment (see the accounting policy in respect of impairment losses on financial assets below).

AFS financial assets

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

Equity and debt securities held by the Group that are classified as AFS financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to interest income calculated using the effective interest method and dividends on AFS equity investments are recognised in profit or loss. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Loans and receivables

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

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

Impairment of financial assets

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

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

Convertible bonds

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments **(Continued)**

Financial liabilities at FVTPL

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

A financial liability is classified as held for trading if:

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

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

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

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

Other financial liabilities

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Effective interest method

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

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

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

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

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

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

or

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

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Key sources of estimation uncertainty

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

Estimated impairment of goodwill

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

Estimated impairment of other intangible assets – concession rights

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

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

Key sources of estimation uncertainty (Continued)

Estimated impairment of other intangible assets – concession rights **(Continued)**

As at 31 December 2013, the carrying amount of concession rights related to lottery business is approximately HK$490,067,000 (2012: HK$578,369,000), after deducting the accumulated amortisation and impairment of approximately HK$2,071,899,000 (2012: HK$1,900,494,000) as detailed in note 20.

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

5. REVENUE

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

	2013	2012
	HK$'000	HK$'000
Sale of lottery equipment	**10**	17
Sale of computer hardware and software	**451**	540
Provision of management, marketing, and operating services for lottery system and lottery halls	**1,270**	1,691
	1,731	2,248

6. SEGMENT INFORMATION

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

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

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

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

6. SEGMENT INFORMATION (Continued)

Segment revenue and results

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

	Trading of computer hardware and software		Lottery business		Total	
	2013	2012	**2013**	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:						
Sales to external customers	**451**	540	**1,280**	1,708	**1,731**	2,248
Segment loss	**(642)**	(493)	**(122,211)**	(321,933)	**(122,853)**	(322,426)
Interest and other income					**2,091**	2,218
Central administration costs					**(21,978)**	(28,640)
Loss before tax (continuing operations)					**(142,740)**	(348,848)

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current year (2012: Nil).

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

6. SEGMENT INFORMATION (Continued)

Segment assets and liabilities

	Trading of computer hardware and software		Lottery business		Total	
	2013	2012	**2013**	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment assets	**705**	1,490	**500,980**	593,042	**501,685**	594,532
Corporate and unallocated assets					**31,823**	45,499
Total segment assets					**533,508**	640,031
Assets relating to staff secondment (now discontinued)					**–**	56
Consolidated assets					**533,508**	640,087
Segment liabilities	**60**	85	**239,029**	252,708	**239,089**	252,793
Corporate and unallocated liabilities					**8,143**	2,812
Total segment liabilities and consolidated liabilities					**247,232**	255,605

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

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

6. SEGMENT INFORMATION (Continued)

Other segment information

Continuing operations

	Trading of computer hardware and software		Lottery business		Total	
	2013	2012	**2013**	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Depreciation	**34**	34	**1,010**	1,523	**1,044**	1,557
Unallocated depreciation					**28**	139
Total depreciation					**1,072**	1,696
Loss on disposal of property, plant and equipment	**–**	–	**720**	258	**720**	258
Unallocated gain on disposal of property, plant and equipment					**–**	(47)
Total loss on disposal of property, plant and equipment – net					**720**	211
Share of losses of associates	**–**	–	**484**	364	**484**	364
Loss on early redemption of promissory note	**–**	–	**–**	32,130	**–**	32,130
Effective interest on convertible bonds	**–**	–	**11,205**	11,235	**11,205**	11,235
Effective interest on promissory note	**–**	–	**–**	97,060	**–**	97,060
Amortisation of other intangible assets	**–**	–	**14,311**	16,657	**14,311**	16,657
Impairment loss of goodwill	**–**	–	**–**	32,940	**–**	32,940
Impairment of other intangible assets	**–**	–	**93,200**	137,355	**93,200**	137,355
Additions to non-current assets	**–**	4	**211**	4,585	**211**	4,589
Unallocated					**19**	51
Total additions to non-current assets					**230**	4,640

6. SEGMENT INFORMATION (Continued)

Geographical information

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

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

	Revenue from external customers		Non-current assets*	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
PRC	**1,731**	2,248	**492,535**	589,487
Hong Kong	**–**	–	**49**	58
	1,731	2,248	**492,584**	589,545

* Non-current assets excluding those relating to staff secondment.

Information about major customers

For the year ended 31 December 2013, there were two customers with revenue of approximately HK$451,000 and HK$1,106,000 respectively which accounted for more than 10% of the total revenue related to trading of computer hardware and software and lottery business segments.

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

7. OTHER INCOME AND GAINS

	2013 **HK$'000**	2012 HK$'000
Continuing operations		
Bank interest income	**753**	1,602
Net foreign exchange gain	**1,179**	279
Gain on disposal/deregistration of associates	**3,781**	–
Gain on disposal of subsidiaries	**–**	7,519
Gain on disposal of other assets	**–**	7,501
Sundry income	**159**	57
	5,872	16,958

8. FINANCE COSTS

	2013 **HK$'000**	2012 HK$'000
Continuing operations		
Effective interest on convertible bonds	**11,205**	11,235
Effective interest on promissory note	**–**	97,060
	11,205	108,295

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

Income tax recognised in profit or loss

	2013 **HK$'000**	2012 HK$'000
Current tax		
PRC Enterprise Income Tax	**–**	–
Deferred tax	**(23,924)**	34,849
Total income tax (credit)/expense recognised in profit or loss	**(23,924)**	34,849

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

Income tax recognised in profit or loss (Continued)

Hong Kong Profits Tax is calculated at 16.5% (2012: 16.5%) of the estimated assessable profit for both years. No provision for Hong Kong Profits Tax had been made as the Group had no assessable profits arising in or derived from Hong Kong for both years.

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

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

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

	2013 **HK$'000**	2012 HK$'000
Loss before tax (from continuing operations)	**(142,740)**	(348,848)
Tax at the Hong Kong Profits Tax rate of 16.5% (2012: 16.5%)	**(23,552)**	(57,560)
Tax effect of share of losses of associates	**80**	60
Tax effect of expenses not deductible for tax purpose	**1,795**	37,779
Tax effect of income not taxable for tax purpose	**(1,499)**	(3,106)
Tax effect on different tax rate of group entities operating in other jurisdictions	**(748)**	(161)
Effect on deferred tax balances resulting from a change in tax rate	**–**	57,837
Income tax (credit)/expense for the year (relating to continuing operations)	**(23,924)**	34,849

10. LOSS FOR THE YEAR FROM CONTINUING OPERATIONS

	2013 **HK$'000**	2012 HK$'000
Loss for the year from continuing operations has been arrived at after charging:		
Cost of inventories recognised as an expense (included in cost of sales)	**420**	495
Auditors' remuneration	**900**	900
Employee benefits expense (excluding directors' emoluments) (Note (i)):		
– Salaries and other benefits	**5,292**	14,288
– Contributions to retirement benefits schemes	**186**	317
Directors' emoluments	**13,396**	8,139
Total staff costs	**18,874**	22,744
Minimum lease payments paid under operating leases in respect of land and buildings	**1,554**	2,398
Depreciation of property, plant and equipment	**1,072**	1,696
Expense in relation to share options granted to consultants	**418**	–
Amortisation of other intangible assets (Note (ii))	**14,311**	16,657
Loss on disposal of property, plant and equipment (Note (ii))	**720**	211

Notes:

(i) Employee benefits expense (excluding directors' emoluments) included equity-settled share-based payments of approximately HK$529,000 (2012: Nil) disclosed above.

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

11. DISCONTINUED OPERATIONS

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

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

Analysis of loss for the year from discontinued operations

The combined results of the discontinued operations included in the loss for the year are set out below.

	2013	2012
	HK$'000	HK$'000
Loss for the year from discontinued operations		
Revenue	–	–
Administrative expenses	–	(678)
Loss on disposal of property, plant and equipment included in other operating expenses	–	(2)
Loss before tax	–	(680)
Attributable income tax	–	–
Loss on disposal of discontinued operation (including approximately Nil (2012: HK$857,000) reclassification of foreign currency translation reserve from equity to profit or loss on disposal of the operation)	–	(2,230)
Loss for the year from discontinued operations	–	(2,910)

11. DISCONTINUED OPERATIONS (Continued)

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

	2013	2012
	HK$'000	HK$'000
Loss for the year from discontinued operations attributable to:		
Owners of the Company	–	(2,774)
Non-controlling interest	–	(136)
	–	(2,910)
Loss for the year from discontinued operations include the following:		
Employee benefits expense (excluding directors' emoluments):		
– Salaries and other benefits	–	302
– Contributions to retirement benefits schemes	–	52
Directors' emoluments	–	110
Total staff costs	–	464
Minimum lease payments paid under operating leases in respect of:		
– Land and buildings	–	54
– Office equipment	–	11
Loss on disposal of property, plant and equipment	–	2

Cash flows from discontinued operations

	2013	2012
	HK$'000	HK$'000
Net cash outflows from operating activities	–	(102)
Net cash outflows	–	(102)

12. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the eight (2012: eight) directors were as follows:

	Fees HK$'000	Salaries and other benefits HK$'000	Contributions to retirement benefits schemes HK$'000	Equity-settled share-based payments HK$'000	Discretionary bonuses HK$'000	Total HK$'000
2013						
Executive directors						
Leung Ngai Man	–	6,500	15	–	5,000	11,515
Ng Kwok Chu, Winfield	–	624	15	59	100	798
Wu Wei Hua	–	868	15	–	100	983
Non-executive director						
Gao Shikui (Note (ii))	30	–	–	–	–	30
Independent non-executive directors						
Xuan Hong (Note (iii))	–	–	–	–	–	–
Qi Ji (Note (i))	–	–	–	–	–	–
Cai Wei Lun	70	–	–	–	–	70
Niu Zhihui (Note (iv))	–	–	–	–	–	–
	100	7,992	45	59	5,200	13,396

12. DIRECTORS' EMOLUMENTS (Continued)

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

Notes:

(i) Appointed on 29 February 2012

(ii) Appointed on 1 November 2012 and retired on 28 June 2013

(iii) Appointed on 3 December 2013

(iv) Appointed on 1 November 2012 and resigned on 3 December 2013

(v) Resigned on 1 November 2012

During the years ended 31 December 2012 and 2013, since the appointment of chief executive officer of the Company remains outstanding, no emoluments were paid to the chief executive officer of the Company.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2012: Nil).

13. EMPLOYEES' EMOLUMENTS

Employee benefits expense (excluding directors' emoluments)

	2013 **HK$'000**	2012 HK$'000
Salaries and other benefits	**4,763**	14,590
Equity-settled share-based payments	**529**	–
Contributions to retirement benefits schemes	**186**	369
	5,478	14,959

Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, three (2012: two) were directors of the Company whose emoluments are included in the disclosure in note 12 above. The emoluments of the remaining two (2012: three) individuals were as follows:

	2013 **HK$'000**	2012 HK$'000
Salaries and other benefits	**920**	7,918
Equity-settled share-based payments	**529**	–
Contributions to retirement benefits schemes	**27**	–
Discretionary bonuses	**56**	–
	1,532	7,918

Their emoluments fell within the following bands:

	Number of individuals	
	2013	2012
Emolument bands		
Nil – HK$1,000,000	**1**	–
HK$1,000,001 – HK$1,500,000	**1**	–
HK$2,000,001 – HK$2,500,000	**–**	1
HK$2,500,001 – HK$3,000,000	**–**	2

During the year ended 31 December 2013 and 2012, no emoluments were paid by the Group to any of the five highest paid individuals including directors, as an inducement to join or upon joining the Group or as compensation for loss of office.

14. LOSS PER SHARE

From continuing and discontinued operations

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

	2013 **HK$'000**	2012 HK$'000
Loss		
Loss for the year attributable to owners of the Company for the purposes of basic and diluted loss per share	**(75,325)**	(290,861)

Number of shares

	2013 **'000**	2012 '000
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	**1,854,235**	1,854,235

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

14. LOSS PER SHARE (Continued)

For continuing operations

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

Loss figures are calculated as follows:

	2013 HK$'000	2012 HK$'000
Loss for the year attributable to owners of the Company	**(75,325)**	(290,861)
Add:		
Loss for the year from discontinued operations attributable to owners of the Company	**–**	2,774
Loss for the purposes of basic and diluted loss per share from continuing operations	**(75,325)**	(288,087)

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

For discontinued operations

Basic and diluted loss per share for the discontinued operations is Nil (2012: HK0.15 cents per share), based on the loss for the year from the discontinued operations of Nil (2012: approximately HK$2,774,000) and the denominators detailed above for both basic and diluted loss per share.

15. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

Of the consolidated loss for the year attributable to owners of the Company of approximately HK$75,325,000 (2012: HK$290,861,000), a loss of approximately HK$12,771,000 (2012: HK$145,193,000) has been dealt with in the financial statements of the Company.

16. PROPERTY, PLANT AND EQUIPMENT

Group

	Furniture, fixtures and fittings HK$'000	Computer and office equipment HK$'000	Motor vehicles HK$'000	Leasehold improvements HK$'000	Total HK$'000
Cost					
Balance at 1 January 2012	690	2,419	728	–	3,837
Additions	65	1,617	820	2,138	4,640
Disposals	–	(37)	(419)	(249)	(705)
Derecognised on disposal of subsidiaries	(25)	(63)	(818)	(209)	(1,115)
Effect of foreign currency exchange differences	3	10	(2)	–	11
Balance at 31 December 2012	733	3,946	309	1,680	6,668
Additions	58	172	–	–	230
Disposals	(41)	(119)	–	(1,058)	(1,218)
Effect of foreign currency exchange differences	20	114	–	43	177
Balance at 31 December 2013	770	4,113	309	665	5,857
Accumulated depreciation and impairment					
Balance at 1 January 2012	(133)	(966)	(441)	–	(1,540)
Eliminated on disposals of assets	–	26	196	–	222
Eliminated on disposals of subsidiaries	6	15	104	208	333
Depreciation expense	(471)	(585)	(168)	(472)	(1,696)
Effect of foreign currency exchange differences	–	(2)	–	–	(2)
Balance at 31 December 2012	(598)	(1,512)	(309)	(264)	(2,683)
Eliminated on disposals of assets	9	106	–	365	480
Depreciation expense	(92)	(614)	–	(366)	(1,072)
Effect of foreign currency exchange differences	(17)	(39)	–	(9)	(65)
Balance at 31 December 2013	(698)	(2,059)	(309)	(274)	(3,340)
Carrying amounts					
Balance at 31 December 2013	**72**	**2,054**	**–**	**391**	**2,517**
Balance at 31 December 2012	135	2,434	–	1,416	3,985

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

	Motor vehicle HK$'000
Cost	
Balance at 1 January 2012, 31 December 2012 and 31 December 2013	309
Accumulated depreciation and impairment	
Balance at 1 January 2012	(273)
Depreciation expense	(36)
Balance at 31 December 2012 and 2013	(309)
Carrying amounts	
Balance at 31 December 2013 and 2012	**–**

17. INVESTMENTS IN SUBSIDIARIES

Company

	2013 HK$'000	2012 HK$'000
Unlisted shares, at cost	**–**	–
Capital contributions	**2,661,276**	2,661,276
Impairment losses recognised	**(2,607,000)**	(2,340,000)
	54,276	321,276

An impairment was recognised for certain unlisted investments with a carrying amount of approximately HK$2,661,276,000 (before deducting the impairment loss) (2012: approximately HK$2,661,276,000) because these subsidiaries have been making losses for years.

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

17. INVESTMENTS IN SUBSIDIARIES (Continued)

Particulars of the Company's principal subsidiaries at 31 December 2013 are as follows:

Name of subsidiary	Place of incorporation/ registration/ operations	Particulars of issued and fully paid share capital/ registered capital	Proportion of ownership interest held by the Company		Principal activities
			Directly	Indirectly	
E-silkroad.net Corporation	British Virgin Islands ("BVI")	1 ordinary share of 1 United States dollar ("US$")	100%	–	Investment holding
Easywin International Holdings Limited	BVI	1 ordinary share of US$1	100%	–	Investment holding
Pearl Sharp Limited	BVI	1 ordinary share of US$1	–	100%	Investment holding
E-silkroad.net Online Exhibition Limited	Hong Kong	10,000 ordinary shares of HK$1 each	–	100%	Development of e-commerce business, provision of web page design and website maintenance services and provision of administrative services
Greatest Profit Investment Limited	Hong Kong	1 ordinary share of HK$1	–	100%	Investment holding
大連兆忠科技有限公司 ("Dalian Merit Billion")	PRC*	RMB2,800,000 (2012: RMB2,800,000)	–	100%	Trading of computer hardware and software
Huancai Puda	PRC**	RMB41,819,548 (2012: RMB41,819,548)	–	51%	Development of computer software, hardware and application system, sale of self-developed technology or results and provision of relevant technical consultancy services

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

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

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

17. INVESTMENTS IN SUBSIDIARIES (Continued)

Information about the composition of the Group at the end of the reporting period is as follows:

Principal activities	Place of incorporation/ establishments	Number of subsidiaries 2013	2012
Investment holding or inactive	BVI	**8**	8
Investment holding or inactive	Hong Kong	**8**	9
Development of e-commerce business, provision of web page design and website maintenance services and provision of administrative services	Hong Kong	**2**	2
Provision of loan financing services	Hong Kong	**1**	1
Trading of computer hardware and software	PRC	**1**	1
Development of computer software, hardware and application system, sale of self-developed technology or results and provision of relevant technical consultancy services	PRC	**2**	2
		22	23

17. INVESTMENTS IN SUBSIDIARIES (Continued)

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

Name of subsidiary	Place of incorporation/ establishment and principal place of business	Proportion of ownership interests held by the non-controlling interests		Loss allocated to non-controlling interests		Accumulated non-controlling interests	
		2013	2012	**2013**	2012	**2013**	2012
				HK$'000	HK$'000	**HK$'000**	HK$'000
Huancai Puda	PRC	**49%**	49%	**(43,487)**	(94,879)	**180,813**	214,706
Individually immaterial subsidiary with non-controlling interest						**(38)**	(43)
						180,775	214,663

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

Huancai Puda

	2013	2012
	HK$'000	HK$'000
Current assets	**8,025**	3,182
Non-current assets	**492,419**	589,341
Current liabilities	**(8,333)**	(8,786)
Non-current liabilities	**(122,517)**	(144,592)

17. INVESTMENTS IN SUBSIDIARIES (Continued)

	Year ended 31 December 2013 HK$'000	Year ended 31 December 2012 HK$'000
Revenue	**1,280**	1,635
Other income and gains	**3,958**	7,549
Expenses	**(93,991)**	(234,022)
Loss for the year	**(88,753)**	(224,838)
Loss attributable to owners of the Company	**(45,266)**	(129,959)
Loss attributable to the non-controlling interests	**(43,487)**	(94,879)
Loss for the year	**(88,753)**	(224,838)
Other comprehensive income for the year	**19,506**	3,995
Total comprehensive expense attributable to owners of the Company	**(35,355)**	(127,908)
Total comprehensive expense attributable to the non-controlling interests	**(33,892)**	(92,935)
Total comprehensive expense for the year	**(69,247)**	(220,843)
Dividends paid to non-controlling interests	**–**	–
Net cash outflow from operating activities	**(7,000)**	(5,000)
Net cash inflow/(outflow) from investing activities	**10,557**	(3,389)
Net cash inflow from financing activities	**–**	1,234
Net increase/(decrease) in cash and cash equivalents	**3,557**	(7,155)

18. GOODWILL

Group

	2013 **HK$'000**	2012 HK$'000
Cost		
Balance at beginning of year	**448,120**	1,670,757
Derecognised on disposal of subsidiaries (Note 37)	**–**	(1,232,146)
Effect of foreign currency exchange differences	**–**	9,509
Balance at end of year	**448,120**	448,120
Accumulated impairment losses		
Balance at beginning of year	**(448,120)**	(1,636,348)
Impairment loss recognised in the year	**–**	(32,940)
Derecognised on disposal of subsidiaries (Note 37)	**–**	1,230,558
Effect of foreign currency exchange differences	**–**	(9,390)
Balance at end of year	**(448,120)**	(448,120)
Carrying amounts		
Balance at 31 December	**–**	–

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

For the year ended 31 December 2013, management has reviewed goodwill and concession rights for impairment testing purpose. The review comprised a comparison of the carrying amounts and value in use of the CGU of lottery business to which goodwill and concession rights have been allocated.

The recoverable amount of the lottery business's CGU has been determined based on value in use calculation. That calculation uses cash flow projections based on most recent financial budgets after taking into account the operation environment and market conditions at that point of time approved by the management covering a five-year period with growth rate of 21.87% (2012: 22.04%) per annum, and pre-tax discount rate of 27.19% (2012: 24.77%). The cash flows beyond the five year period are extrapolated using zero growth rate. The key assumptions for the value in use calculation are those regarding the discount rate, growth in revenue and direct costs during the periods. The management estimates discount rate that reflects current market assessments of the time value of money and the risk specific to the CGU. In performing the impairment testing, the directors of the Company have made reference to a valuation performed by an independent valuer. During the year ended 31 December 2013, the Group recognised impairment losses of approximately HK$93,200,000 (2012: HK$137,355,000) in relation to concession rights allocated to the CGU associated with the lottery business (note 20). During the year ended 31 December 2012, the Group recognised impairment losses of approximately HK$32,940,000 in relation to goodwill allocated to the CGU associated with the lottery business. As at 31 December 2012, the goodwill allocated to the CGU associated with the lottery business was fully written off.

20. OTHER INTANGIBLE ASSETS

Group

	Exploration and evaluation assets HK$'000 (Note (a))	Concession rights HK$'000 (Note (b))	Total HK$'000
Cost			
Balance at 1 January 2012	24,509	2,465,612	2,490,121
Disposal of a subsidiary	(24,650)	–	(24,650)
Effect of foreign currency exchange differences	141	13,251	13,392
Balance at 31 December 2012	–	2,478,863	2,478,863
Effect of foreign currency exchange differences	–	83,103	83,103
Balance at 31 December 2013	–	2,561,966	2,561,966
Accumulated amortisation and impairment			
Balance at 1 January 2012	(24,509)	(1,737,150)	(1,761,659)
Amortisation expense	–	(16,657)	(16,657)
Impairment loss recognised in profit or loss	–	(137,355)	(137,355)
Eliminated on disposal of a subsidiary	24,650	–	24,650
Effect of foreign currency exchange differences	(141)	(9,332)	(9,473)
Balance at 31 December 2012	–	(1,900,494)	(1,900,494)
Amortisation expense	–	(14,311)	(14,311)
Impairment loss recognised in profit or loss	–	(93,200)	(93,200)
Effect of foreign currency exchange differences	–	(63,894)	(63,894)
Balance at 31 December 2013	–	(2,071,899)	(2,071,899)
Carrying amounts			
Balance at 31 December 2013	**–**	**490,067**	**490,067**
Balance at 31 December 2012	–	578,369	578,369

20. OTHER INTANGIBLE ASSETS (Continued)

Group (Continued)

Notes:

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

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

During the year ended 31 December 2012, the Group disposed of its 80% equity interest in Yunnan Western to an independent third party at a consideration of RMB130,000 (equivalent to approximately HK$160,000) (note 37).

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

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

As at 31 December 2013, the recoverable amount of the concession rights was assessed by the directors with reference to the professional valuation as at 31 December 2013 performed by an independent valuer (note 19) and an impairment loss of concession rights of approximately HK$93,200,000 (2012: HK$137,355,000) was charged to the consolidated statement of profit or loss and other comprehensive income.

21. INTERESTS IN ASSOCIATES

Group

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

	2013 HK$'000	2012 HK$'000
Unlisted investments at cost	–	7,921
Share of post-acquisition losses and other comprehensive expense, net of dividends received	–	(730)
	–	7,191

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

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

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

Note:

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

21. INTERESTS IN ASSOCIATES (Continued)

Group (Continued)

In May 2013, the Group disposed of its 30% equity interest in 深圳市精彩明天科技有限公司 to an independent third party at a consideration of approximately RMB8,571,000. The Group realised a gain on disposal of an associate of approximately HK$3,772,000 in the year ended 31 December 2013, within the "other income and gains" line item in the consolidated statement of profit or loss and other comprehensive income (note 7).

During the year ended 31 December 2013, an associate of the Group established in the PRC, 安徽環彩信息科技有限公司, has been deregistered.

Summarised financial information in respect of the Group's associates that are not individually material is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with HKFRSs.

All of these associates are accounted for using the equity method in these consolidated financial statements.

Summarised financial information in respect of the Group's associates

	At 31 December 2013 HK$'000	At 31 December 2012 HK$'000
Total assets	–	35,446
Total liabilities	–	(1,220)
Net assets	–	34,226
Group's share of net assets of associates	–	10,280

21. INTERESTS IN ASSOCIATES (Continued)

Group (Continued)

	Year ended 31 December 2013 HK$'000	Year ended 31 December 2012 HK$'000
The Group's share of losses	**(484)**	(364)
The Group's share of other comprehensive income/(expense)	**165**	(38)
The Group's share of total comprehensive expense	**(319)**	(402)
Aggregate carrying amount of the Group's interests in these associates	**–**	7,191

22. INVENTORIES

Group

	2013 HK$'000	2012 HK$'000
Lottery equipment	**1,612**	110

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**1,045**	1,041	**76**	–
Deposits and other receivables	**3,828**	12,873	**27**	62
	4,873	13,914	**103**	62

Group

Included in the balance of deposits and other receivables of the Group at 31 December 2012 was a refundable deposit of approximately RMB7,350,000 in relation to the acquisition of the additional 49% equity interest in Huancai Puda. Such deposit has been refunded during the year ended 31 December 2013.

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

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

25. CASH AND BANK BALANCES/PLEDGED BANK DEPOSIT

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at banks and in hand	**34,198**	36,284	**23,272**	28,906
Less: Pledged bank deposit	**(213)**	(212)	**–**	–
Cash and cash equivalents	**33,985**	36,072	**23,272**	28,906

25. CASH AND BANK BALANCES/PLEDGED BANK DEPOSIT (Continued)

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

Bank balances carry interest at floating rates based on daily bank deposit rates. The pledged bank deposit carries fixed interest rate of 0.50% (2012: 0.50%) per annum.

Included in cash at banks and in hand of the Group is approximately HK$4,020,000 (2012: HK$964,000) of bank balances denominated in RMB and placed with banks in the PRC. RMB is not freely convertible into other currencies, however, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

26. TRADE AND OTHER PAYABLES

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payables	**4**	13	**–**	–
Other payables and accruals	**8,225**	8,952	**1,303**	1,304
Accrued salaries and other benefits	**6,998**	1,857	**11**	15
	15,227	10,822	**1,314**	1,319

Group

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

	2013	2012
	HK$'000	HK$'000
0 – 60 days	**–**	1
61 – 90 days	**–**	1
Over 90 days	**4**	11
	4	13

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

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

28. CONVERTIBLE BONDS – GROUP AND COMPANY

On 27 August 2010, the Company issued approximately 3,322,900,000 zero-coupon HK dollar denominated convertible bonds at a total principal amount of HK$797.5 million to Mr. Leung Ngai Man ("Mr. Leung"), a substantial shareholder, the chairman and executive director of the Company. The convertible bonds have a maturity period of 5 years from the issue date and can be convertible into ordinary share of the Company at HK$0.005 each for every HK$1.20 convertible bonds at the holder's option (after adjusted for the share consolidation as effected on 27 February 2012). Conversion may occur at any time between 27 August 2010 and 26 August 2015.

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

No convertible bonds were converted during the years ended 31 December 2013 and 2012.

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

	HK$'000
At 1 January 2012	79,883
Effective interest expense charged	11,235
At 31 December 2012 and 1 January 2013	91,118
Effective interest expense charged	11,205
At 31 December 2013	**102,323**

29. DEFERRED TAXATION

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

Group

	Concession rights HK$'000	Convertible bonds HK$'000	Total HK$'000
At 1 January 2012	107,889	10,639	118,528
Charge/(credit) to profit or loss	36,703	(1,854)	34,849
At 31 December 2012 and 1 January 2013	144,592	8,785	153,377
Credit to profit or loss	(22,075)	(1,849)	(23,924)
At 31 December 2013	**122,517**	**6,936**	**129,453**

Under the PRC Enterprise Income Tax Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. At 31 December 2013 and 2012, no deferred tax liabilities for withholding tax have been recognised as the Group's PRC subsidiaries incurred accumulated losses for the period since 1 January 2008.

At the end of the reporting period, the Group had estimated unused tax losses of approximately HK$31,883,000 (2012: HK$42,505,000) arising from subsidiaries operating outside Hong Kong which is available for setting off against future taxable profit of that subsidiary is due to expire within one to five years and estimated unused tax losses of approximately HK$53,048,000 (2012: HK$53,048,000) available for offset against future profits that may be carried forward indefinitely. No deferred tax asset has been recognised in respect of the estimated unused tax losses due to the unpredictability of future profit streams.

Company

	Convertible bonds HK$'000
At 1 January 2012	10,639
Credit to profit and loss	(1,854)
At 31 December 2012 and 1 January 2013	8,785
Credit to profit and loss	(1,849)
At 31 December 2013	**6,936**

30. SHARE CAPITAL – ORDINARY SHARES

	Number of shares '000	Share capital HK$'000
Authorised:		
At 1 January 2012, ordinary shares of HK$0.001 each	100,000,000	100,000
Share consolidation (Note)	(80,000,000)	–
At 31 December 2012 and 2013, ordinary shares of HK$0.005 each	**20,000,000**	**100,000**
Issued and fully paid:		
At 1 January 2012, ordinary shares of HK$0.001 each	9,271,175	9,271
Share consolidation (Note)	(7,416,940)	–
At 31 December 2012 and 2013, ordinary shares of HK$0.005 each	**1,854,235**	**9,271**

Note:

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

31. SHARE CAPITAL – NON-REDEEMABLE CONVERTIBLE PREFERRED SHARES

	Number of shares '000	Share capital HK$'000
Authorised:		
Preferred shares of HK$0.005 each		
At 1 January 2012	–	–
Increased during the year	2,000,000	10,000
At 31 December 2012 and 2013	**2,000,000**	**10,000**
Issued and fully paid:		
Preferred shares of HK$0.005 each		
At 1 January 2012	–	–
Issued during the year	1,563,333	7,817
At 31 December 2012 and 2013	**1,563,333**	**7,817**

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

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

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

32. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 38 and 39 of the consolidated financial statements.

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

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

Company

	Share premium account HK$'000 (Note (i))	Warrants reserve HK$'000	Capital redemption reserve HK$'000 (Note (ii))	Convertible bonds equity reserve HK$'000	Share options reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
Balance at 1 January 2012	2,608,610	–	1	66,267	14,571	(2,548,707)	140,742
Loss for the year	–	–	–	–	–	(380,193)	(380,193)
Total comprehensive expense for the year	–	–	–	–	–	(380,193)	(380,193)
Issue of unlisted warrants	–	1,810	–	–	–	–	1,810
Transaction costs attributable to issue of unlisted warrants	–	(70)	–	–	–	–	(70)
Issue of non-redeemable convertible preferred shares (Note 31)	604,529	–	–	–	–	–	604,529
Release of reserve upon share options forfeited	–	–	–	–	(1,230)	1,230	–
Balance at 31 December 2012	3,213,139	1,740	1	66,267	13,341	(2,927,670)	366,818
Loss for the year	–	–	–	–	–	(279,778)	(279,778)
Total comprehensive expense for the year	–	–	–	–	–	(279,778)	(279,778)
Recognition of equity- settled share-based payment	–	–	–	–	1,006	–	1,006
Balance at 31 December 2013	**3,213,139**	**1,740**	**1**	**66,267**	**14,347**	**(3,207,448)**	**88,046**

32. RESERVES (Continued)

Company (Continued)

Notes:

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

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

33. WARRANTS

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

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

As at 31 December 2013 and 2012, the Company had 362,000,000 warrants outstanding. The exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 362,000,000 additional shares of HK$0.005 each.

34. SHARE-BASED PAYMENT TRANSACTIONS

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

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

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

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

34. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

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

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

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

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

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

34. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

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

The fair value of share options granted is recognised in the statement of profit or loss and other comprehensive income taking into account the probability that the options will vest over the vesting period. Upon the exercise of the options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated losses. Options which lapsed, if any, prior to their exercise date are deleted from the outstanding options.

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

Details of specific categories of share options are as follows:

Option type	Date of grant	Exercise period	Exercise price HK$	Weight average fair value at grant date HK$
2007 (a)	9 July 2007	9 July 2007 to 29 June 2017	1.4250*	0.4540*
2007 (b)	22 August 2007	22 August 2007 to 29 June 2017	2.0300*	0.6375*
2008	10 July 2008	10 July 2008 to 29 June 2017	1.3280*	0.3555*
2009 (c)	10 December 2009	10 December 2009 to 29 June 2017	0.5880*	0.2305*
2011	15 February 2011	15 February 2011 to 29 June 2017	1.6650*	0.4100*
2013 (a)	21 May 2013	21 May 2013 to 29 June 2017	0.0630	0.0196
2013 (b)	10 October 2013	10 October 2013 to 29 June 2017	0.0870	0.0261

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

34. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

The fair value of the share options granted to employees and directors during the year ended 31 December 2013 was determined using the Black-Scholes Option Pricing Model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option), and behavioural considerations. Expected volatility is based on the historical volatility of the Company's share price, adjusted for any expected changes to future volatility based on publicly available information.

46,000,000 share options were granted under the Scheme during the year ended 31 December 2013 (2012: Nil).

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

Inputs into the model

	Option type	
	2013 (a)	**2013 (b)**
Grant date share price	HK$0.0630	HK$0.0860
Exercise price	HK$0.0630	HK$0.0870
Expected volatility	79.865%	78.991%
Expected exercise date	20 May 2014	10 October 2014
Risk-free interest rate	0.14%	0.23%
Expected dividend yield	Nil	Nil

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

Option type	Outstanding at 1/1/2013	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31/12/2013
2007 (a)	9,600,000*	–	–	–	9,600,000*
2007 (b)	8,200,000*	–	–	–	8,200,000*
2008	11,200,000*	–	–	–	11,200,000*
2013 (a)	–	30,000,000	–	–	30,000,000
2013 (b)	–	16,000,000	–	–	16,000,000
	29,000,000*	46,000,000	–	–	75,000,000
Exercisable at the end of the year					75,000,000
Weighted average exercise price	HK$1.5586*	HK$0.0713	–	–	HK$0.6464

34. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

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

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

No option has been exercised under the Scheme during the years ended 31 December 2013 and 2012.

Options granted are fully vested at the date of grant. During the year ended 31 December 2013, approximately HK$588,000 (2012: Nil) of equity-settled share-based payments to employees and directors has been included in the consolidated statement of profit or loss and other comprehensive income, the corresponding amount of which has been credited to share options reserve (note 32). No liabilities were recognised on the equity-settled share-based payment transactions.

The fair value of the share options granted to suppliers of service amounted to approximately HK$418,000 (2012: Nil) has been included in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2013, the corresponding amount of which has been credited to share options reserve (note 32).

The total consideration received during the year from grant of share options amounted to HK$4 (2012: Nil).

All share options have been accounted for under HKFRS 2. The share options outstanding at the end of the year had a weighted average remaining contractual life of 3.5 years (2012: 4.5 years).

* The above information has been adjusted to reflect the effect of the share consolidation on 27 February 2012 as set out in note 30 pursuant to which every 5 of the existing issued and unissued shares of HK$0.001 each in the share capital of the Company were consolidated into 1 consolidated share of HK$0.005 each. Every 5 of the options were consolidated into 1 consolidated option and the exercise prices were adjusted accordingly.

35. CAPITAL MANAGEMENT

The Group's capital management objectives are:

- to ensure the Group's ability to continue as a going concern;
- to provide an adequate return to shareholders; and
- to maintain an optimal capital structure to reduce cost of capital.

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

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

Gearing ratio

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

	2013 **HK$'000**	2012 HK$'000
Total borrowings	**102,323**	91,118
Total equity	**286,276**	384,482
Gearing ratio	**36%**	24%

36. FINANCIAL INSTRUMENTS

36.1 Categories of financial instruments

Group

Financial assets

	2013 HK$'000	2012 HK$'000
Loans and receivables:		
Financial assets included in deposits and other receivables	3,828	12,873
Amount due from a non-controlling interest of a subsidiary	241	234
Cash and bank balances (including pledged bank deposit)	34,198	36,284

Financial liabilities

	2013 HK$'000	2012 HK$'000
Financial liabilities at amortised cost:		
Financial liabilities included in trade and other payables	15,223	10,822
Amount due to a non-controlling interest of a subsidiary	228	221
Amount due to an associate	–	66
Convertible bonds	102,323	91,118

36. FINANCIAL INSTRUMENTS (Continued)

36.1 Categories of financial instruments (Continued)

Company

Financial assets

	2013 HK$'000	2012 HK$'000
Loans and receivables:		
Financial assets included in other receivables	**27**	62
Amounts due from subsidiaries	**164,655**	157,815
Bank balances	**23,272**	28,906

Financial liabilities

	2013 HK$'000	2012 HK$'000
Financial liabilities at amortised cost:		
Financial liabilities included in other payables and accruals	**1,314**	1,319
Amounts due to subsidiaries	**26,599**	22,931
Convertible bonds	**102,323**	91,118

36.2 Financial risk management objectives and policies

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

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

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

36. FINANCIAL INSTRUMENTS (Continued)

36.2 Financial risk management objectives and policies (Continued)

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

36.2.1 *Market risk*

Foreign currency risk management

Transactional currency exposures arise from revenue or cost of sales by operating units in currencies other than the unit's functional currency. Substantially all the Group's revenue and cost of sales are denominated in the functional currency of the operating units making the revenue, and substantially all the cost of sales are denominated in the operating unit's functional currency. Accordingly, the directors consider the Group is not exposed to significant foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

At the end of the reporting period, the carrying amounts of the Group's major monetary assets denominated in currencies other than the functional currencies of the relevant group entities are as follows:

	2013	2012
	HK$'000	HK$'000
Assets		
RMB	**22,560**	37,680

Foreign currency sensitivity analysis

The following table details the Group's sensitivity to a 5% increase and decrease in the RMB against HK$. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rate. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rate. A positive number below indicates a decrease in loss where RMB strengthens against HK$. For a 5% weakening of RMB against HK$, there would be an equal and opposite impact on the loss.

	2013	2012
	HK$'000	HK$'000
RMB	**1,128**	1,884

In management's opinion, the sensitivity analysis is unrepresentative of the inherent exchange risk as the year end exposure does not reflect the exposure during the year.

36. FINANCIAL INSTRUMENTS (Continued)

36.2 Financial risk management objectives and policies (Continued)

36.2.1 *Market risk* (Continued)

Interest rate risk management

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

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

Other price risks

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

36.2.2 *Credit risk management*

At 31 December 2013, the Group's and the Company's maximum exposure to credit risk which will cause a financial loss to the Group and the Company due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of the respective recognised financial assets as stated in the consolidated and company statements of financial position.

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

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group and the Company do not have any other significant concentration of credit risk.

36. FINANCIAL INSTRUMENTS (Continued)

36.2 Financial risk management objectives and policies (Continued)

36.2.3 *Liquidity risk management*

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework to meet the Group's short, medium and long-term funding and liquidity management requirements.

The Group manages liquidity risk by maintaining adequate reserves, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

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

Group

	On demand or less than 1 year HK$'000	1-5 years HK$'000	Total contractual undiscounted cash flows HK$'000	Total carrying amounts HK$'000
At 31 December 2013				
Non-derivative financial liabilities				
Trade and other payables	15,223	–	15,223	15,223
Amount due to a non-controlling of a subsidiary	228	–	228	228
Convertible bonds	–	144,100	144,100	102,323
	15,451	**144,100**	**159,551**	**117,774**
At 31 December 2012				
Non-derivative financial liabilities				
Trade and other payables	10,822	–	10,822	10,822
Amount due to a non-controlling of a subsidiary	221	–	221	221
Amount due to an associate	66	–	66	66
Convertible bonds	–	144,100	144,100	91,118
	11,109	144,100	155,209	102,227

36. FINANCIAL INSTRUMENTS (Continued)

36.2 Financial risk management objectives and policies (Continued)

36.2.3 *Liquidity risk management* (Continued)

Company

	On demand or less than 1 year HK$'000	1-5 years HK$'000	Total contractual undiscounted cash flows HK$'000	Total carrying amounts HK$'000
At 31 December 2013				
Non-derivative financial liabilities				
Other payables and accruals	1,314	–	1,314	1,314
Amounts due to subsidiaries	26,599	–	26,599	26,599
Convertible bonds	–	144,100	144,100	102,323
	27,913	**144,100**	**172,013**	**130,236**
At 31 December 2012				
Non-derivative financial liabilities				
Other payables and accruals	1,319	–	1,319	1,319
Amounts due to subsidiaries	22,931	–	22,931	22,931
Convertible bonds	–	144,100	144,100	91,118
	24,250	144,100	168,350	115,368

36. FINANCIAL INSTRUMENTS (Continued)

36.3 Fair value measurements

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

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

Group and Company

	2013		2012	
	Carrying amount HK$'000	**Fair value HK$'000**	Carrying amount HK$'000	Fair value HK$'000
Financial liabilities				
Convertible bonds (Note)	**102,323**	**115,170**	91,118	97,630

Note:

The fair value of the liability component of convertible bonds has been calculated by using effective interest rate of 14.50% (2012: 15.79%) per annum with reference to the Hong Kong Exchange Fund Note and credit risk margin.

36. FINANCIAL INSTRUMENTS (Continued)

36.3 Fair value measurements (Continued)

Fair value hierarchy as at 31 December 2013

Group and Company

Liabilities for which fair values are disclosed:

	Level 1	Level 2	Level 3	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Convertible bonds	–	–	115,170	115,170

The fair value of the financial liability included in the Level 3 category above has been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis.

37. DISPOSAL OF SUBSIDIARIES

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

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

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

37. DISPOSAL OF SUBSIDIARIES (Continued)

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

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

38. OPERATING LEASES COMMITMENTS

Group

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

	2013 **HK$'000**	2012 HK$'000
Within one year	**1,508**	998
In the second to fifth years inclusive	**486**	1,821
	1,994	2,819

Operating leases relate to rented premises with lease terms of between 1 to 5 years (2012: 1 to 5 years), with no option to renew the lease terms at the expiry date. The lease does not include contingent rental.

Company

The Company had no significant operating lease commitments at 31 December 2012 and 2013.

39. CAPITAL COMMITMENTS

At 31 December 2013, the Group had the following significant commitments which were not provided for in the consolidated financial statements:

	2013 **HK$'000**	2012 HK$'000
Authorised and contracted for:		
Capital commitment to the registered capital of a PRC subsidiary payable by the Group (Note)	**2,580**	2,497
Purchase of property, plant and equipment	**8,811**	8,526
	11,391	11,023

Note:

Greatest Profit Investment Limited, an indirect wholly-owned subsidiary of the Company and the non-controlling interests of Huancai Puda have agreed to increase the registered capital of Huancai Puda in proportion to their equity interests from RMB40,810,000 to RMB45,810,000. At 31 December 2013, approximately RMB515,000 (2012: RMB515,000) have been contributed by Greatest Profit Investment Limited for such increase.

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

40. RELATED PARTY TRANSACTIONS

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

Compensation of key management personnel

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

Group

	2013	2012
	HK$'000	HK$'000
Short-term benefits	**13,292**	8,207
Post-employment benefits	**45**	42
Equity-settled share-based payments	**59**	–
	13,396	8,249

41. EVENTS AFTER THE REPORTING PERIOD

Completion of placing of existing shares and top-up subscription of new shares

On 3 January 2014, Mr. Leung, an executive director, the chairman and substantial shareholder of the Company (as Subscriber), the Company and the joint placing agents entered into the placing and subscription agreement pursuant to which (i) the joint placing agents have agreed to act as agents for the Subscriber to place, on a best effort basis, and the Subscriber has agreed to sell, a total of up to 360,000,000 placing shares to not less than six placees who and whose ultimate beneficial owners will be third parties independent of and not acting in concert with the Subscriber, the Company and their respective associates and connected persons, at the placing price of HK$0.320 per placing share; and (ii) the Subscriber has conditionally agreed to subscribe for up to 360,000,000 new subscription shares at the subscription price of HK$0.320 per subscription share.

The completion of the placing took place on 7 January 2014 in accordance with the placing and subscription agreement and an aggregate of 232,800,000 placing shares were placed to not less than six placees who are independent third parties, at the placing price of HK$0.320 per placing share.

On 15 January 2014, an aggregate of 232,800,000 shares of HK$0.005 each in the capital of the Company were allotted and issued to Mr. Leung at HK$0.320 per subscription share. The exercise gave rise to an aggregate net proceed of approximately HK$72.6 million.

FINANCIAL SUMMARY

	For the year ended 31 December				
	2009	2010	2011	2012	**2013**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
RESULTS					
Revenue					
– continuing operations	1,893	2,582	2,014	2,248	**1,731**
– discontinued operation	164	93	–	–	**–**
Total	2,057	2,675	2,014	2,248	**1,731**
Loss for the year	(414,270)	(2,583,638)	(639,514)	(386,607)	**(118,816)**
Loss attributable to:					
Owners of the Company	(365,512)	(1,887,273)	(618,778)	(290,861)	**(75,325)**
Non-controlling interests	(48,758)	(696,365)	(20,736)	(95,746)	**(43,491)**
	(414,270)	(2,583,638)	(639,514)	(386,607)	**(118,816)**

	At 31 December				
	2009	2010	2011	2012	**2013**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
ASSETS AND LIABILITIES					
Total asset	1,036,844	1,501,998	941,766	640,087	**533,508**
Total liabilities	(1,862)	(790,061)	(791,203)	(255,605)	**(247,232)**
	1,034,982	711,937	150,563	384,482	**286,276**
Equity attributable to owners of the Company	1,033,139	400,964	(154,377)	169,819	**105,501**
Non-controlling interests	1,843	310,973	304,940	214,663	**180,775**
	1,034,982	711,937	150,563	384,482	**286,276**