THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about any of the contents of this circular or as to what action to take in relation to this circular, you should consult appropriate independent advisers to obtain independent professional advice.

If you have sold or transferred all your shares in REXCAPITAL Financial Holdings Limited, you should at once hand this circular to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

This circular is solely for the purpose of providing shareholders with certain information in connection with a special general meeting of the Company and is not an offer to sell or solicitation of an offer to buy any securities.

REXCAPITAL Financial Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock code: 555)

MAJOR AND CONNECTED TRANSACTION
AND
REFRESHMENT OF SCHEME MANDATE LIMIT

Independent Financial Adviser
to the Independent Board Committee and Independent Shareholders

VEDA | CAPITAL
智略資本

A letter from the board of the directors of REXCAPITAL Financial Holdings Limited (the "**Company**") is set out on pages 6 to 23 of this circular. A letter from the Independent Board Committee containing its recommendation in respect of the Acquisition (as defined in this circular) is set out on page 24 of this circular. A letter from Veda Capital Limited containing its advice to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition is set out on pages 25 to 43 of this circular.

A notice convening the special general meeting of the Company (the "**Special General Meeting**") to be held at 34/F., COSCO Tower, Grand Millennium Plaza, 183 Queen's Road Central, Hong Kong, at 4:30 p.m. on Monday, 23 June 2008 is set out at the end of this circular. There is a form of proxy for use at the Special General Meeting (or any adjournment thereof) accompanying this circular. Whether or not you are able to attend the Special General Meeting, you are strongly urged to complete and sign the enclosed form of proxy, in accordance with the instructions printed thereon, and to lodge them with the branch share registrar of the Company in Hong Kong, Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, as soon as possible but in any event not later than 48 hours before the time appointed for the holding of the Special General Meeting (or any adjournment thereof). Completion and return of the form of proxy will not preclude you from attending and voting in person at the Special General Meeting (or any adjournment thereof) should you so wish.

5 June 2008

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In this circular, unless the context otherwise requires, the following expressions have the meanings set out below:

"Acquisition"	the proposed acquisition of the entire issued share capital of Top Manage by Multi Glory from Billion Invest and the assignment of the Shareholder's Loan from Billion Invest to Multi Glory pursuant to the Share Purchase Agreement;
"Billion Invest"	Billion Invest Limited, a company incorporated in the British Virgin Islands and is the beneficial shareholder of the entire issued share capital of Top Manage;
"Board"	the board of Directors;
"Business Day"	a day which banks in Hong Kong are open for business (excluding Saturday and Sunday);
"connected person"	has the meaning ascribed to it in the Listing Rules;
"Cash Consideration"	HK$240,000,000;
"Company"	REXCAPITAL Financial Holdings Limited, a company incorporated in Bermuda with limited liability and the Shares of which are listed on the main board of the Stock Exchange;
"Completion"	completion of the Acquisition;
"Completion Date"	the date of Completion;
"Consideration Shares"	254,000,000 new Shares to be issued, at a price of approximately HK$1.4173 per Share, to Billion Invest (or its nominee) for settlement of the consideration of HK$360,000,000 payable by Multi Glory under the Share Purchase Agreement;
"Deposit"	HK$120,000,000;
"Director(s)"	director(s) of the Company;
"Enlarged Group"	the Group after the completion of the Acquisition;
"First Lock-Up Period"	the period commencing from the Completion Date to a date falling 6 months after the Completion Date (both dates inclusive);

"Golden Million"	Golden Million Limited (廣民有限公司), a company incorporated in Hong Kong, the entire issued share capital of which is beneficially owned by Top Manage;
"Group"	the Company and its subsidiaries before completion of the Acquisition;
"Hao Ke"	好客投資管理咨詢(深圳)有限公司, a wholly-owned foreign enterprise established in the PRC and Golden Million is beneficially interested in its entire registered capital;
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong;
"HKFRS"	the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants;
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC;
"Independent Third Party(ies)"	person(s) or company(ies) together with its/their beneficial owner(s) who or which, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiry, is/are not connected person to the Company;
"Independent Board Committee"	an independent committee of the Board appointed to advise the Independent Shareholders in respect of the Acquisition;
"Independent Financial Adviser" or "Veda Capital"	Veda Capital Limited, a corporation licensed to carry out type 6 (advising on corporate finance) regulated activities as defined under the SFO, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition;
"Independent Shareholders"	Shareholders other than those who have interest in the Acquisition;
"Interest"	the amount on such deposit (or part thereof) calculated from the date of the Share Purchase Agreement until actual payment in full of the same (both dates inclusive) at the rate of 7% per annum;
"Latest Practicable Date"	30 May 2008, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular;
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange;

"March 2006 Acquisition"	the acquisition of the entire issued share capital of Multi Glory Limited by the Company at a consideration of HK$227,880,000, which after completion, the Company was and is indirectly interested in approximately 45.81% in the registered capital of Sinodata. Details of such transaction are set out in the announcement of the Company dated 22 March 2006 and the circular of the Company dated 12 June 2006;
"March 2007 Acquisition"	the acquisition of the entire issued share capital of Global Union Group Limited and Huge Rich Enterprises Limited by the Company at an aggregate consideration of HK$235,250,000, which after completion, the Company was and is indirectly interested in approximately 64.75% in the registered capital of Sinodata. The relevant percentage ratios in respect of this transaction, when aggregated with the March 2006 Acquisition, represented more than 100%, thus the transaction constituted a very substantial acquisition pursuant to the Listing Rules. Details of such transaction are set out in the announcement of the Company dated 21 March 2007 and the circular of the Company dated 29 June 2007;
"Mr. Weng"	Mr. Weng Pengfei (翁鵬飛), a PRC citizen, the guarantor of the Share Purchase Agreement;
"Multi Glory"	Multi Glory Limited, a company incorporated in the British Virgin Islands and is a wholly-owned subsidiary of the Company;
"Options"	the options granted under the Share Option Scheme to subscribe for Share in accordance with the terms of the Share Option Scheme;
"PRC"	the People's Republic of China;
"RMB"	Renminbi, the lawful currency of the PRC;
"Sale Share"	1 share of US$1.00 in the share capital of Top Manage, representing the entire issued share capital of Top Manage;
"Scheme Mandate Limit"	the maximum number of Shares which may be allotted and issued upon the exercise of all options to be granted under the Share Option Scheme and any other share option scheme(s) of the Company which initially shall not in aggregate exceed 10% of the Shares in issue as at the date of adoption of the Share Option Scheme and thereafter, if refreshed shall not exceed 10% of the Shares in issue as at the date of approval of the refreshed limit by the Shareholders;

"Second Lock-Up Period"	the period between the date immediately following the last day of the First Lock-Up Period and the date falling 9 months after the Completion Date (both dates inclusive);
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time;
"Share Purchase Agreement"	the conditional share sale and purchase agreement dated 31 December 2007 entered into between, inter alia, Multi Glory and Billion Invest in relation to the Acquisition;
"Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of the Company;
"Share Option Scheme"	the share option scheme adopted by the Company on 22 November 2002;
"Shareholder's Loan"	all shareholder's loan due by Top Manage to Billion Invest;
"Shareholders"	shareholders of the Company;
"Sinodata"	深圳市思樂數據技術有限公司 (Shenzhen Sinodata Technology Co., Ltd.), a limited liability company established in the PRC and an indirect non-wholly owned subsidiary of the Company;
"Sinodata Group"	Sinodata and its subsidiaries;
"Special General Meeting"	the special general meeting of the Company to be convened to consider and, if thought fit, approve the transactions contemplated under the Share Purchase Agreement, including but not limited to the issuance of the Consideration Shares, and any adjournment thereof;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"substantial shareholder"	has the meaning ascribed to it in the Listing Rules;
"Third Lock-Up Period"	the period between the date immediately following the last day of the Second Lock-Up Period and the date falling 12 months after the Completion Date (both dates inclusive);
"Top Manage"	Top Manage Group Limited, a company incorporated in the British Virgin Islands, which is beneficially wholly owned by Billion Invest and is the beneficial shareholder of the entire issued share capital of Golden Million;

"Top Manage Group"	Top Manage, Golden Million, Hao Ke and Sinodata;
"US$"	US dollars, the lawful currency of the United States of America; and
"%"	per cent.

In this circular, unless otherwise stated, conversion of RMB into HK$ is based on the exchange rate of RMB0.94=HK$1.00, for the purpose of illustration only, and do not constitute representation that any amount has been, could have been, or may otherwise be exchanged or converted at this or any other rate.

REXCAPITAL Financial Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock code: 555)

Executive Directors:
Chan How Chung, Victor
Boo Chun Lon

Independent non-executive Directors:
Yuen Wai Ho
Chow Siu Ngor
Lee Ka Lun

Registered Office:
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Bermuda

Head office and principal place of business in Hong Kong:
Suite 3401, 34/F
COSCO Tower
Grand Millennium Plaza
183 Queen's Road Central
Hong Kong

5 June 2008

To the Shareholders and, for information only, the holders of the Options

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION AND REFRESHMENT OF SCHEME MANDATE LIMIT

INTRODUCTION

Reference is made to the Company's announcement dated 9 January 2008 in relation to the Acquisition.

Reference is also made to the announcements of the Company dated 21 March 2007 and 22 March 2006 respectively and the circulars of the Company dated 29 June 2007 and 12 June 2006 respectively in relation to the March 2007 Acquisition and March 2006 Acquisition.

As announced by the Company on 9 January 2008, Multi Glory has entered into the Share Purchase Agreement with Billion Invest and Mr. Weng under which, Multi Glory has agreed to acquire from Billion Invest and Billion Invest has agreed to sell the Sale Share and assign the Shareholder's Loan to Multi Glory. Top Manage indirectly holds 20% of the registered capital of Sinodata.

Sinodata is a company engages in the development and production of proprietary lottery machines, related operating software system and networks (including the provision of incidental consultancy services relating to the provision of software) for welfare lottery industry in the PRC. As of the Latest Practicable Date, the Company indirectly holds 64.75% of the registered capital of Sinodata.

The consideration payable by Multi Glory for the Acquisition is HK$600,000,000, which is to be satisfied as to HK$240,000,000 by payment in cash and as to HK$360,000,000 by the issue of the Consideration Shares by the Company to Billion Invest (or its nominee) at a price of approximately HK$1.4173 per Consideration Share.

Completion is conditional upon the fulfillment of certain conditions which include, among other things, the Listing Committee of the Stock Exchange granting the listing of, and permission to deal, in the Consideration Shares and the approval of the transactions contemplated in the Share Purchase Agreement by the Shareholders at the Special General Meeting.

As Billion Invest and its beneficial owner are connected persons of the Company by virtue of Billion Invest, being a substantial shareholder of Sinodata, an indirect non-wholly owned subsidiary of the Company, the Acquisition constitutes a connected transaction under Chapter 14A of the Listing Rules. Also, since the applicable percentage ratios of the Acquisition represents more than 25% but less than 100% for the Company, hence, the Acquisition constitutes a major transaction pursuant to Chapter 14 of the Listing Rules.

As such, the Share Purchase Agreement is subject to the reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules.

The Directors have appointed the Independent Board Committee, comprising Messrs. Yuen Wai Ho, Chow Siu Ngor and Lee Ka Lun, the independent non-executive Directors, to advise the Independent Shareholders in relation to the Acquisition. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and Independent Shareholders in relation to the Acquisition.

The Board also proposes that the Scheme Mandate Limit be refreshed to the extent that the total number of Shares which may be issued upon exercise of all Options to be granted under the Share Option Scheme and any other share option schemes of the Company, shall not exceed 10% of the Shares in issue as at the date of approval of the relevant resolution by the Shareholders at the Special General Meeting.

The purpose of this circular is to provide you with details of (a) the terms of the Acquisition; (b) the opinion of the Independent Board Committee and the Independent Financial Adviser in relation to the Acquisition; (c) the refreshment of the Scheme Mandate Limit; and (d) a notice to the Shareholders convening the Special General Meeting at which resolutions will be proposed to seek your approval of the Acquisition and transactions contemplated thereunder and the refreshment of the Scheme Mandate Limit.

SHARE PURCHASE AGREEMENT

On 31 December 2007, Multi Glory has entered into the Share Purchase Agreement with Billion Invest under which, Multi Glory has agreed to acquire from Billion Invest and Billion Invest has agreed to sell the Sale Share and assign the Shareholder's Loan to Multi Glory. As at the Latest Practicable Date, the amount of the Shareholder's Loan was approximately RMB13.15 million (equivalent to approximately HK$13.99 million). Mr. Weng has also entered into the Share Purchase Agreement and agreed to guarantee the performance of the obligations of Billion Invest under the Share Purchase Agreement.

Parties

(1) Multi Glory as the purchaser;

(2) Billion Invest as the vendor; and

(3) Mr. Weng as the guarantor.

Consideration

The consideration for the Acquisition is HK$600,000,000. The consideration is payable in the following manner:

(1) as to HK$240,000,000, in cash; and

(2) as to HK$360,000,000, by the issue of 254,000,000 new Shares, at a price of approximately HK$1.4173 per Share, to Billion Invest (or its nominee).

Upon signing of the Share Purchase Agreement, Multi Glory has paid HK$120,000,000 in cash to Billion Invest. Upon Completion, HK$120,000,000, being the balance of the Cash Consideration, will be paid to Billion Invest and the Consideration Shares will be issued to Billion Invest (or its nominee) accordingly.

The Cash Consideration shall be financed by the Group's internal resources.

The consideration for the Acquisition has been agreed by the parties after arm's length negotiation. In arriving at the consideration, the Directors have considered factors including, (a) the prospects of Sinodata, taking into account, among other information, the position of Sinodata being one of the largest providers in the machine and system supply section to the welfare lottery business in the PRC and the business opportunities in the growing welfare lottery market in the PRC such as Sinodata's intention to further expand its geographic coverage and increase its penetration in existing provinces in the PRC; (b) the price to earnings multiple (historical) of 53.9 which is based on the total consideration for the Acquisition of HK$600 million and the audited profit after tax of Sinodata of RMB52.29 million for the year ended 31 December 2006; (c) encouraging performance of Sinodata in the past three years, during which there has been a sustainable high growth in the audited profit after tax of Sinodata from approximately RMB15.56 million (equivalent to approximately HK$16.55 million) for the year ended 31 December 2004 to approximately RMB20.75 million (equivalent to approximately HK$22.07 million) for the year ended 31 December 2005, representing an annual growth rate of approximately 33%; and to RMB52.29 million (equivalent to approximately HK$55.63 million) for the year ended 31 December 2006, representing an annual growth rate of approximately 152%; (d) for the six months period up to 30 June 2007, the unaudited profit after tax of Sinodata was approximately RMB33.41 million (equivalent to approximately HK$35.54 million) which is approximately two-thirds of that for the year 2006; and (e) the principal amount of the Shareholder's Loan. The Board considers the consideration of the Acquisition is comparable to the considerations for the March 2006 Acquisition and the March 2007 Acquisition.

Conditions

Completion is conditional upon fulfillment or waiver by Multi Glory, as the case may be, of the following conditions:

(1) the warranties remaining true and accurate and not misleading from the date of the Share Purchase Agreement to the Completion Date (both dates inclusive);

(2) Billion Invest and Mr. Weng having complied fully with the obligations and having performed all of the covenants and agreements required to be performed by it under the Share Purchase Agreement from the date of the Share Purchase Agreement to the Completion Date (both dates inclusive);

(3) all necessary consents required to be given by third parties (including government or governmental regulatory authority) for the transactions contemplated under the Share Purchase Agreement having been granted and there is no government or governmental regulatory authority which has proposed or enacted any statute or regulation which would prohibit, restrict or materially delay the Acquisition or affect the operation of any member of the Top Manage Group after Completion;

(4) Multi Glory having received a legal opinion by a firm of qualified lawyers in the PRC regarding Hao Ke and Sinodata, in such form and substance satisfactory to Multi Glory;

(5) the approval of the transactions contemplated in the Share Purchase Agreement by the Shareholders at the Special General Meeting;

(6) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal, in the Consideration Shares; and

(7) Multi Glory having satisfied with the due diligence results in respect of the legal, financial and commercial aspects of Top Manage, Golden Million and Hao Ke.

Except for conditions (3), (5) and (6) above, Multi Glory may, at any time, in its absolute discretion, waive in writing any of the conditions set out in conditions (1), (2), (4) and (7) above (or any part thereof).

If any of the above conditions has not been fully fulfilled or waived by 31 May 2008 (or such later date as may be solely determined by Multi Glory and notify Billion Invest in writing), Multi Glory shall not be bound to proceed with the Acquisition and the Share Purchase Agreement shall cease to have any effect save in respect of claims arising out of any antecedent breach of the Share Purchase Agreement. The Deposit shall be returned to Multi Glory, together with the Interest within 2 Business Days after Multi Glory has notified Billion Invest that it will not proceed with the Acquisition.

It is expected by the Board that, one of the conditions precedent under the Share Purchase Agreement, namely the approval of the transactions contemplated in the Share Purchase Agreement by the Shareholders at the Special General Meeting, may not be fulfilled by 31 May 2008, as the Special General Meeting will only be held in or about late June 2008. As such, on 20 May 2008, Multi Glory has given written notice to Billion Invest to extend such long stop date of the Share Purchase Agreement to 31 August 2008.

As at the Latest Practicable Date, none of the conditions set out above has been fulfilled.

Completion

Completion shall take place on the third Business Day immediately following the day on which all of the above conditions are fulfilled or waived, or such later date as may be mutually agreed by the parties in writing.

CONSIDERATION SHARES

The Consideration Shares represent approximately 3.55% of the issued share capital of the Company as at the Latest Practicable Date and will represent about 3.43% of the enlarged issued share capital of the Company upon the issue and allotment of the Consideration Shares pursuant to the Share Purchase Agreement. The issue price of approximately HK$1.4173 per Consideration Share represents:

(1) a discount of approximately 4.88% to the closing price of HK$1.49 per Share as quoted on the Stock Exchange on 31 December 2007;

(2) a premium of approximately 7.37% to the average closing price of HK$1.32 per Share for the last five consecutive trading days up to and including 31 December 2007;

(3) a premium of approximately 18.11% to the average closing price of HK$1.2 per Share for the last ten consecutive trading days up to and including 31 December 2007; and

(4) a premium of approximately 54.05% to the closing price of HK$0.92 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

Billion Invest has undertaken to Multi Glory that it shall not, inter alia, offer, pledge, charge, sell, contract to sell or otherwise transfer or dispose of, either directly or indirectly, (i) during the First Lock-Up Period, any of the Consideration Shares; (ii) during the Second Lock-Up Period, 174,000,000 Shares of the Consideration Shares; and (iii) during the Third Lock-Up Period, 94,000,000 Shares of the Consideration Shares.

The Consideration Shares will be issued pursuant to the Independent Shareholders' approval to be sought by the Company at the Special General Meeting.

The issue price of the Consideration Shares was determined after arm's length negotiations between Multi Glory and Billion Invest by adding a premium to the 5 days' average closing price of the Shares up to and including 31 December 2007. The Board considers that the terms of the Share Purchase Agreement, including the issue price of the Consideration Shares, are fair and reasonable and in the best interests of the Company and the Shareholders as a whole.

INFORMATION ON BILLION INVEST

Billion Invest

Billion Invest is an investment holding company beneficially owned by Mr. Weng. It has no business activity save for being beneficially interested in the entire issued share capital of Top Manage.

INFORMATION ON TOP MANAGE GROUP

Top Manage, Golden Million and Hao Ke

Top Manage is an investment holding company and has no business activity save for being beneficially interested in the entire issued share capital of Golden Million, which in turn is beneficially interested in the entire registered capital of Hao Ke. Hao Ke is directly interested in 20% of the registered capital of Sinodata. Each of Golden Million and Hao Ke has no business activity save for holding an investment interest in Sinodata.

Sinodata

Sinodata is a limited liability company established in the PRC in March 1998 with a registered capital of RMB35,560,000. The principal business of Sinodata is in the development and production of proprietary lottery machines, related operation software system and networks (including the provision of incidental consultancy services relating to the provision of software) for the welfare lottery industry in the PRC and the Company has obtained PRC legal advice that such business is regarded as legal in the PRC. Sinodata has obtained the business license in relation to the operation of its business. Apart from such license, the provision of such lottery machines, related operation software system and networks by Sinodata does not require the obtaining of any license or authorization from the relevant authority in the PRC.

The original purchase cost to Billion Invest for the purchase of the 20% registered capital of Sinodata was RMB450 million, which was incurred in April 2007.

Welfare lottery business in the PRC

The lottery market in the PRC can be broadly classified into 2 categories, welfare lottery and sports lottery. Welfare lottery commenced operation in 1987 which accounted for about 60% market share in the PRC lottery market in 2006. It provides an alternative revenue source for the welfare activities in the PRC.

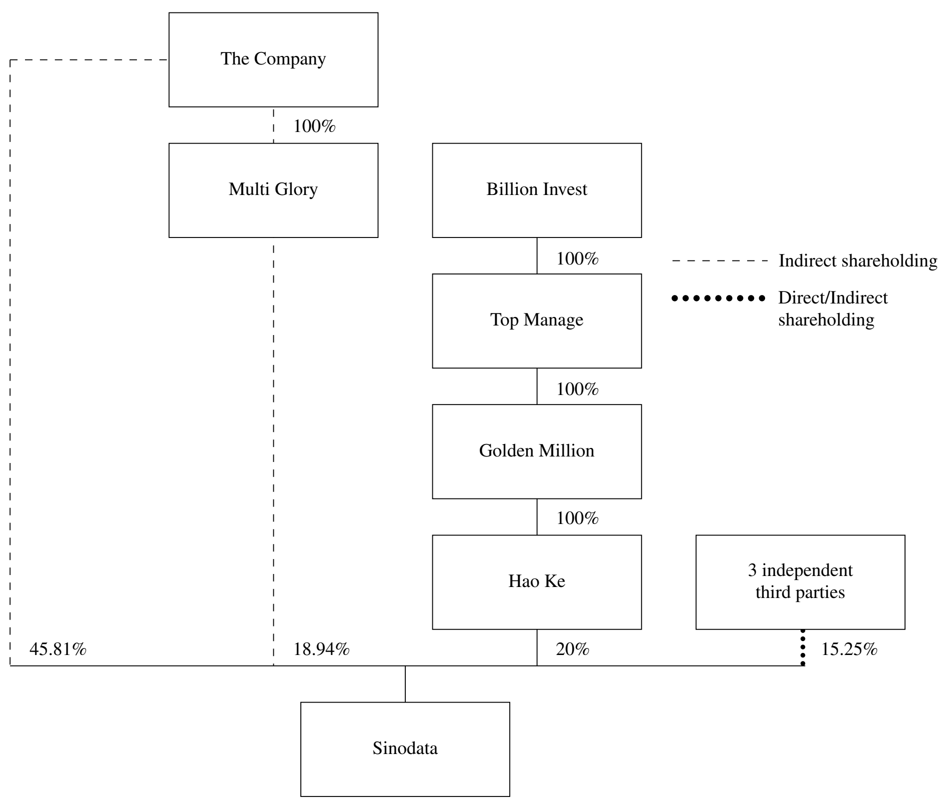
Recent Regulatory Development

The Company noted that there is recent news reporting new regulation in the PRC to prohibit the selling of lotteries through the Internet. As the principal business of the Group is in the provision of lottery related system, machines and services, which the Group's products and services are not used for selling of lotteries through the Internet, the Company confirms that the above will not have any material impact to the Group's business.

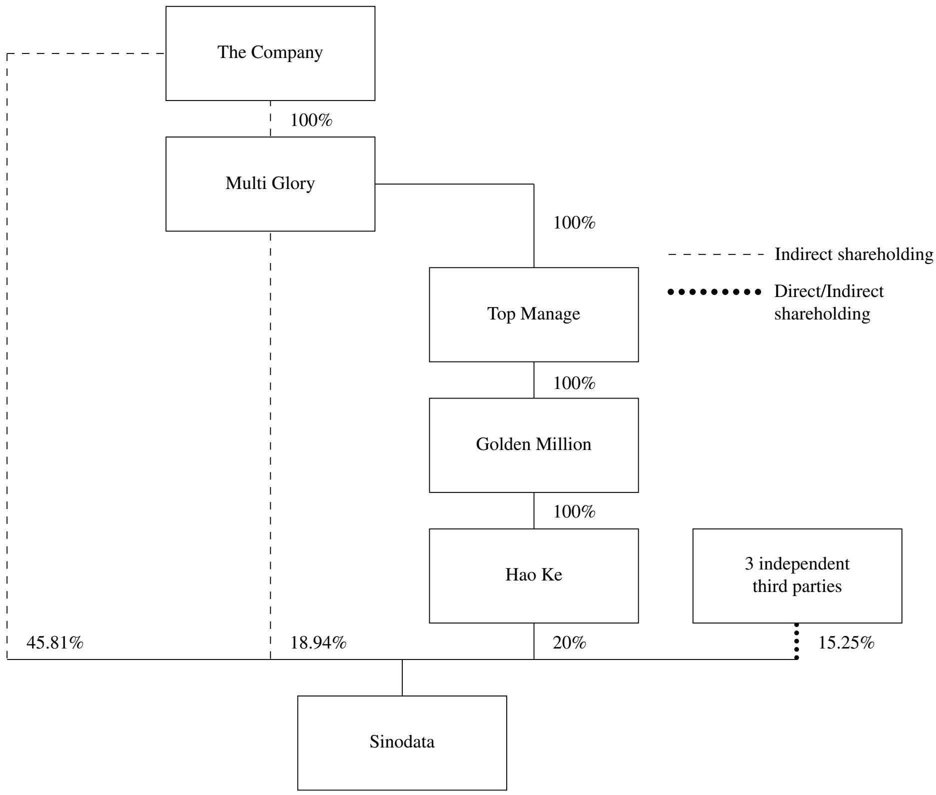
Shareholding Structure of Sinodata

As at the Latest Practicable Date, the Company and Top Manage are indirectly interested in approximately 64.75% and 20% respectively of the registered capital of Sinodata. The remaining 15.25% of the registered capital of Sinodata are held by 3 independent third parties.

The shareholding structure of Sinodata as at the Latest Practicable Date is as follows:



The shareholding structure of Sinodata as at Completion is as follows:



Upon Completion, Multi Glory will, legally and beneficially hold the entire issued share capital of Top Manage which will in turn, be indirectly interested in 20% of the registered capital of Sinodata. In aggregate, the Company will be indirectly interested in approximately 84.75% of the registered capital of Sinodata upon Completion.

The audited consolidated total asset value of Sinodata Group as at 31 December 2007 and 31 December 2006 was approximately RMB418.8 million (equivalent to approximately HK$445.5 million) and RMB231.5 million (equivalent to approximately HK$246.3 million) respectively.

The audited consolidated net asset value of Sinodata Group as at 31 December 2007 and 31 December 2006 was approximately RMB320.2 million (equivalent to approximately HK$340.6 million) and RMB183.3 million (equivalent to approximately HK$195.0 million) respectively.

The audited consolidated net profits of Sinodata Group before and after taxation for the year ended 31 December 2007 was approximately RMB162.3 million (equivalent to approximately HK$172.7 million) and RMB136.9 million (equivalent to approximately HK$145.6 million) respectively. The audited consolidated net profits of Sinodata Group before and after taxation for the year ended 31 December 2006 was approximately RMB62.2 million (equivalent to approximately HK$66.2 million) and RMB52.3 million (equivalent to approximately HK$55.6 million) respectively.

The financial information in relation to Sinodata Group as disclosed above was prepared in accordance with the HKFRS.

Financial information of Sinodata, being an indirect non-wholly owned subsidiary of the Company, has been consolidated to the Group's account prior to Completion and it will continue to be consolidated to the Group's account after Completion.

EFFECTS ON SHAREHOLDING STRUCTURE AFTER ISSUANCE OF THE CONSIDERATION SHARES

The shareholding structures of the Company (i) as at the Latest Practicable Date; and (ii) immediately after the issue and allotment of the Consideration Shares are shown as follows:

	As at the Latest Practicable Date		**Immediately after the issue and allotment of the Consideration Shares**	
	No. of Shares	*%*	*No. of Shares*	*%*
Billion Invest (or its nominee) *(Note 1)*	–	–	254,000,000	3.43
Kingly Profits Corporation *(Note 2)*	1,198,805,635	16.75	1,198,805,635	16.17
Public	5,959,194,365	83.25	5,959,194,365	80.40
Total	7,158,000,000	100.00	7,412,000,000	100.00

Notes:

(1) Billion Invest will cease to be the Company's connected person after Completion.

(2) Kingly Profits Corporation is indirectly wholly owned by Mr. Chan How Chung, Victor, an executive Director.

As shown in the above table, the Acquisition will not result in a change in control of the Company.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in the provision of lottery related system, machines and services and has established a strong presence in the lottery industry for the production of the lottery machines, related operation software system and networks in the PRC.

The Group has been proactively identifying suitable investment and business opportunities to enhance the Group's revenue base and profitability. After the completion of the March 2006 Acquisition and the March 2007 Acquisition, the Company became indirectly interested in 64.75% of the registered capital of Sinodata. The Acquisition will provide an exciting opportunity for the Group to further extend its participation in Sinodata. The revenue generated by welfare lottery in the PRC has increased from RMB49 billion in 2006 to approximately RMB60 billion up to mid December 2007. The Directors are optimistic about the growth of the welfare lottery going forward. The Directors also believe that the Acquisition provides a good opportunity for the Group to further increase its control in Sinodata, thus would benefit the setting of overall strategic and development plan of the Group's business.

Having considered the basis of determining the consideration for the Acquisition as mentioned above, the Directors believe that the terms of Share Purchase Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

APPLICATION FOR LISTING

Application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares.

LISTING RULES IMPLICATIONS

As Billion Invest and its beneficial owner are connected persons of the Company by virtue of Billion Invest being a substantial shareholder of Sinodata, an indirect non-wholly owned subsidiary of the Company, the Acquisition constitutes a connected transaction under Chapter 14A of the Listing Rules.

Also, since the applicable percentage ratios in respect of the Acquisition represents more than 25% but less than 100% for the Company, the Acquisition constitutes a major transaction pursuant to the Listing Rules. Therefore, the Share Purchase Agreement is subject to the reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules. The Company will convene the Special General Meeting for the Independent Shareholders to consider and, if thought fit, to approve the Acquisition and the transactions contemplated thereunder. As at the Latest Practicable Date, Billion Invest and/or its beneficial owner do/does not beneficially own any Shares in the Company. As such, none of the existing Shareholders will abstain from voting for the resolutions approving the Share Purchase Agreement and the transactions contemplated thereunder.

The Directors have appointed the Independent Board Committee, comprising Messrs. Yuen Wai Ho, Chow Siu Ngor and Lee Ka Lun, independent non-executive Directors, to advise the Independent Shareholders as to the fairness and reasonableness of the Acquisition. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and Independent Shareholders in relation to the Acquisition.

FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

Following completion of the Acquisition, there will not be any change in control or the principal business activities of the Company. In view of the rapid economic growth in the PRC economy in the recent decade, the PRC welfare lottery market exhibited a solid growth potential. Although the Sinodata Group involves in the machines and system supply section of the PRC welfare lottery market, it does not involve in the sales of the welfare lottery activities. The Directors are of the view that the Acquisition, if implemented, will further enhance our participation in the welfare lottery market in the PRC. The Directors consider that the Acquisition would contribute positively to results of the Group in the near future. The Company is particularly optimistic about the prospects of machines and system supply section of the welfare lottery market in the PRC.

Presently, the Company continues to maintain the current management of the Sinodata Group to carry on the business. The Company also intends to appoint personnel/suitable candidates with experience in the PRC lottery field to the management of the Company.

Financial effects of the Acquisition

Set out in Appendix III to this circular is the unaudited pro forma financial information of the Enlarged Group based on (i) the audited financial statements of the Company as at 31 December 2007 set out in Appendix II to this circular and (ii) the audited financial information of Sinodata Group as at 31 December 2007 set out in Appendix I to this circular, assuming, inter alia, that completion of the Acquisition had taken place on 1 January 2007, and taking into account certain adjustments to reflect the Acquisition.

As shown in the unaudited pro forma financial information of the Enlarged Group, the respective pro forma assets and liabilities of the Enlarged Group following the Acquisition would have been approximately HK$2,897.1 million and approximately HK$164.2 million as compared to approximately HK$2,605.6 million and approximately HK$164.2 million before the Acquisition. The pro forma net asset value per share of the Enlarged Group following the Acquisition would have been HK$0.362 as compared to HK$0.324 before the Acquisition. The respective pro forma net profit attributable to the Shareholders of the Enlarged Group following the Acquisition would have been approximately HK$169.1 million as compared to HK$136.7 million before the Acquisition. The pro forma earnings per share of the Enlarged Group following the Acquisition would have been HK$0.0261 as compared to HK$0.0219 before the Acquisition.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiry, and as represented by Billion Invest, upon completion of the Acquisition, Sinodata will be effectively beneficially owned as to 84.75% by the Company and it is expected that the Company will continue to exercise its power as controlling shareholder in the board of directors of Sinodata Group. The financial results of the members of Sinodata Group will continue to be consolidated into those of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS OF SINODATA GROUP

Sinodata Group has participation in the Welfare Lottery Computer Ticket Games ("Welfare CTG") business over 9 years. Sinodata Group's Welfare CTG business involves the provisioning of operating system, hardware, maintenance and development for CTG games for the PRC welfare lottery. In 2007, the sales for Welfare CTG games in the PRC achieved a new record high of approximately RMB46 billion as compared to 2006 of approximately RMB44 billion. Given the already substantial and more established base for the Welfare CTG business, the Welfare CTG market will enjoy a period of stable, sustainable and continuing growth for the coming years which is likely to track the growth in disposable income for the PRC citizens.

In April 2007, Sinodata Group extends market reach to more provinces in the PRC lottery market. Sinodata was awarded the contract to provide lottery system software and machines for Xizang (Tibet Autonomous Region) Welfare Lottery Issuance Centre. Currently, Sinodata Group business covers 16 provinces in the PRC. Sinodata Group is the largest provider for the Welfare CTG business in the PRC in 2006 commanding over 50% market share.

FINANCIAL REVIEW OF THE SINODATA GROUP

Result

Based on the audited accountants' report of Sinodata Group as set out in Appendix I to this circular, the turnover of Sinodata Group for each of the three years ended 31 December 2007, 31 December 2006 and 31 December 2005 (the "Relevant Period") was approximately RMB309.5 million, RMB192.5 million and RMB77.6 million respectively. The net profits before taxation of Sinodata Group during each of the Relevant Period was approximately RMB162.3 million, RMB62.2 million and RMB21.4 million respectively. The movements of the net profits of Sinodata Group during the Relevant Period were mainly attributable to the increase in demand of lottery machines and related service incomes.

The turnover of the Sinodata Group comprised (i) income generated from provision of lottery machines and related services; (ii) sales income generated from sharing of lottery sales from owned machines; and (iii) consultancy services, maintenance fees, IT support and development fee incomes. During each of the Relevant Period, income generated from provision of lottery machines and related services amounted to approximately RMB266.7 million, RMB155.7 million and RMB44.4 million respectively which represented an increase of approximately 500% from 2005 to 2007. Overall turnover increase was mainly due to the contribution from this segment. Income generated from sharing of lottery sales from owned machines during each of the Relevant Period amounted to approximately RMB23.6 million, RMB15.9 million and RMB16.6 million respectively. During each of the Relevant Period, consultancy services, maintenance fees, IT support and development fee incomes amounted to approximately RMB19.2 million, RMB20.9 million and RMB16.6 million respectively.

Liquidity, Financial Resources and Funding

At 31 December 2007, 31 December 2006 and 31 December 2005, the Sinodata Group had net current assets of approximately RMB204.3 million, RMB147.3 million and RMB93.8 million respectively.

As at 31 December 2007, 31 December 2006 and 31 December 2005, Sinodata Group had cash reserves of approximately RMB60.1 million, RMB14.1 million and RMB15.5 million respectively. Most of the cash reserves were placed in major banks in the PRC.

The gearing ratio as at 31 December 2007 and 31 December 2006 were 3.96% and 7.50% respectively. The gearing ratio as at 31 December 2005 was nil as Sinodata Group did not have any bank borrowings as at 31 December 2005. The gearing ratio was derived by dividing the aggregate of bank borrowings by the amount of shareholders' equity. The liquidity ratio of the Sinodata Group, represented by a ratio between current assets over current liabilities, were 387%, 558% and 894% for 31 December 2007, 31 December 2006 and 31 December 2005 respectively.

Sinodata Group also entered into mortgage loan agreements with the banks to pledge the investment properties to secure the bank borrowings of approximately RMB12.7 million as at 31 December 2007.

Apart from the above, Sinodata Group did not have any bank borrowings as at 31 December 2007, 31 December 2006 and 31 December 2005. Sinodata Group mainly used its internally generated cash flow to fund its operations.

Share Capital

The registered and paid-up capital of Sinodata as at 31 December 2007 was RMB35,560,000.

Exchange Rate Risk

Sinodata Group's assets, liabilities and transactions are denominated in RMB. Sinodata Group did not enter into any foreign exchange forward contracts to hedge against exchange rates fluctuations. Foreign exchange risk arising from the normal course of operations is considered to be minimal and the management will closely monitor the fluctuation in the currency and take appropriate actions when condition arises.

Human Resources

As at 31 December 2007, Sinodata Group had 341 employees and the total staff cost (including directors' remuneration) during each of the three years ended 31 December 2007, 31 December 2006 and 31 December 2005 were approximately RMB17.1 million, RMB11.3 million and RMB9.9 million respectively. Sinodata Group remunerated its employees mainly based on the individual's performance and experience. Apart from the basic remuneration, discretionary bonus may be granted to eligible employees by reference to Sinodata Group's performance as well as individual's performance. Sinodata Group will continue to emphasize on staff training and total quality management to better prepare its staff for the upcoming changes and challenges in the market and industry.

Contingent Liabilities

Sinodata Group has no significant contingent liabilities as at 31 December 2007.

MATERIAL ACQUISITIONS AND DISPOSALS OF THE COMPANY'S SUBSIDIARIES AND ASSOCIATED COMPANIES

On 19 March 2007, the Company entered into a share purchase agreement with Excellot Assets Management Limited under which the Company has agreed to acquire 1 share of US$1.00 in the share capital of Global Union Group Limited. Details of the acquisition are set out in the Company's circular dated 29 June 2007. The transaction was completed on 17 August 2007.

On 19 March 2007, the Company entered into a share purchase agreement with Sino Gateway International Limited under which the Company has agreed to acquire 1 share of US$1.00 in the share capital of Huge Rich Enterprises Limited. Details of the acquisition are set out in the Company's circular dated 29 June 2007. The transaction has been completed on 17 August 2007.

On 18 July 2007, Genius Nation Limited ("Genius Nation"), a direct wholly-owned subsidiary of the Company, entered into a share transfer contract with, among others, Cityhorizon International Limited pursuant to which Genius Nation has agreed to acquire the entire issued share capital of Gentleigh International Limited, a company which was indirectly holding 30% interest in the registered capital of Beijing Guard Libang Technology Co Ltd ("Guard Libang"). Details of the acquisition are set out in the Company's circular dated 15 August 2007. The transaction was completed on 18 October 2007.

On 18 July 2007, the Company, Genius Nation, Scientific Games Luxembourg Holdings SARL and Scientific Games Corporation entered into a sale and purchase agreement pursuant to which Scientific Games Luxembourg Holdings SARL agreed to acquire, and Genius Nation agreed to sell, a 50% interest in the share capital of Happy Sun Technologies Ltd, a company indirectly interested in the entire interest in the registered capital of Guard Libang. Details of the disposal are set out in the Company's circular dated 15 August 2007. The transaction was completed on 14 November 2007.

On 24 December 2007, Huge Top Enterprises Inc., a wholly-owned subsidiary of the Company, entered into a share purchase agreement with, among others, Giga Step Limited under which Huge Top Enterprises Inc. agreed to acquire the entire issued capital of Jertford Development Ltd and the shareholders' loan. Details of the acquisition are set out in the Company's announcement dated 28 December 2007. The transaction was completed in April 2008.

On 31 December 2007, Multi Glory entered into the Share Purchase Agreement. Details of the acquisition are set out in the Company's announcement dated 9 January 2008 and this circular.

Save as disclosed herein, there is no material acquisitions or disposals of Company's subsidiaries and associated companies.

WORKING CAPITAL

The Directors are of the opinion that, after taking into account the internal resources and financial facilities of the Group and after due and careful enquiry, the Group will have sufficient working capital for its normal business for the next twelve months from the date of this circular.

INDEBTEDNESS

At the close of business on 30 April 2008, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had outstanding bank borrowings of approximately RMB12,486,000 which was equivalent to approximately HK$13,873,000 based on the exchange rate of RMB0.90=HK$1.00 as at 30 April 2008. The bank borrowing was secured by the investment property with the market value of approximately RMB49,034,000. The effective interest rate for bank is 7.83% per annum.

Save as aforesaid or as otherwise disclosed therein, and apart from intra-group liabilities, the Group did not, as at the close of business on 30 April 2008, have any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, other loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, debentures, mortgages, charges, guarantees or other material contingent liabilities.

The Directors confirm that there is no significant change in indebtedness of the Group as at 30 April 2008 up to the Latest Practicable Date.

REFRESHMENT OF THE SCHEME MANDATE LIMIT

The Company adopted the Share Option Scheme on 22 November 2002. Apart from the Share Option Scheme, the Company has no other share option scheme. The Scheme Mandate Limit was set at 10% of the Shares in issue as at the date of adoption of the Share Option Scheme in compliance with the Listing Rules. Subject to prior Shareholders' approval, the Company may, at any time thereafter, refresh the Scheme Mandate Limit to the extent not exceeding 10% of the Shares in issue as at the aforesaid Shareholders' approval.

The existing Scheme Mandate Limit is 365,600,000 Shares, being 10% of the Shares in issue as at the date of approval of the refreshment of the Scheme Mandate Limit at the special general meeting of the Company held on 29 June 2006.

As at the Latest Practicable Date, Options carrying the rights to subscribe for 327,000,000 Shares were granted under the existing Scheme Mandate Limit under the Share Option Scheme, representing approximately 8.94% of the issued share capital of the Company as at the date of refreshment of the Scheme Mandate Limit on 29 June 2006, and approximately 4.57% of the issued share capital of the Company as at the Latest Practicable Date. As at the Latest Practicable Date, there were 87,000,000 outstanding Options. No Directors had any interests in the Options as at the Latest Practicable Date.

It is proposed that subject to the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in the Shares to be issued pursuant to the exercise of Options granted under the refreshed Scheme Mandate Limit and the passing of the relevant resolution at the Special General Meeting, the Scheme Mandate Limit be refreshed so that the total number of Shares, which may be issued upon exercise of all Options to be granted under the Share Option Scheme under the Scheme Mandate Limit as refreshed, shall not exceed 10% of the Shares in issue as at the date of approval of the relevant resolution by the Shareholders at the Special General Meeting. Options previously granted under the Share Option Scheme (including without limitation those outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme) will not be counted for the purpose of calculating the Scheme Mandate Limit as refreshed.

As at the Latest Practicable Date, the Company had 7,158,000,000 Shares in issue. Pursuant to the terms of the Share Option Scheme and in compliance with the Listing Rules, the maximum number of Shares, which may be issued upon the exercise of all the Options to be granted under the Share Option Scheme under the Scheme Mandate Limit as refreshed should be 715,800,000 Shares (assuming no further issue or repurchase of Shares prior to the Special General Meeting).

Pursuant to the Listing Rules, the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other option scheme(s) of the Company (or its subsidiaries) at any time shall not exceed 30% of the Shares in issue from time to time. No options shall be granted under the Share Option Scheme or any other scheme(s) of the Company (or its subsidiaries) if this will result in the 30% limit being exceeded.

Conditions of the refreshment of the Scheme Mandate Limit

The proposed refreshment of the Scheme Mandate Limit is conditional upon:

(i) the passing of the ordinary resolution by the Shareholders at the Special General Meeting to approve the proposed refreshment of the Scheme Mandate Limit; and

(ii) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in the Shares to be allotted and issued pursuant to the exercise of Options granted under the refreshed Scheme Mandate Limit.

Application will be made to the Stock Exchange for the listing of, and permission to deal in, the Shares to be issued pursuant to the exercise of Options granted under the refreshed Scheme Mandate Limit.

Reasons for the refreshment of the Scheme Mandate Limit

The purpose of the Share Option Scheme is to recognize the contribution of employees and consultants of the Group. Given the existing Scheme Mandate Limit has almost reached its maximum, it will be difficult for the Share Option Scheme to continue to serve its intended purpose for the benefits of the Company and its Shareholders unless the Scheme Mandate Limit is refreshed in accordance with the rules of the Share Option Scheme. The Directors consider that the proposed refreshment of the Scheme Mandate Limit will enable the Company to grant further Options to eligible participants so as to provide opportunities and incentives to them to work towards enhancing the values of the Company and Shares for the benefit of the Company and Shareholders as a whole.

SPECIAL GENERAL MEETING

The Special General Meeting will be convened and held at 34/F., COSCO Tower, Grand Millennium Plaza, 183 Queen's Road Central, Hong Kong at 4:30 p.m. on Monday, 23 June 2008, to consider and, if thought fit, approve (i) the Acquisition and the allotment and issue of Consideration Shares; and (ii) the refreshment of the Scheme Mandate Limit.

The notice of the Special General Meeting is set out on pages 213 to 215 of this circular. A form of proxy for use at the Special General Meeting is enclosed. At the Special General Meeting, ordinary resolutions will be proposed to approve, inter alia, the Acquisition and the allotment and issue of Consideration Shares and the refreshment of the Scheme Mandate Limit. Whether or not you are able to attend the Special General Meeting, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the branch share registrar of the Company in Hong Kong, Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the Special General Meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the Special General Meeting or any adjourned meeting should you wish.

PROCEDURES DEMANDING A POLL

The following sets out the procedures by which the Shareholders may demand poll at the Special General Meeting.

According to bye-law 70 of the bye-laws of the Company, a resolution put to the vote of a general meeting shall be decided on a show of hands unless voting by way of a poll is required by the Listing Rules or a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded by:

(i) the chairman of such meeting; or

(ii) at least three Shareholders present in person or by a duly authorised corporate representative or by proxy for the time being entitled to vote at the meeting; or

(iii) any Shareholder or Shareholders present in person or by a duly authorised corporate representative or by proxy and representing not less than one-tenth of the total voting rights of all the Shareholders having the right to vote at the meeting; or

(iv) any Shareholder or Shareholders present in person or by a duly authorised corporate representative or by proxy and holding Shares conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the Shares conferring that right; or

(v) if required by the Listing Rules, by the chairman of the meeting and/or any Director or Directors who, individually or collectively, hold proxies in respect of shares representing five per cent (5%) or more of the total voting rights at such meeting.

A demand by a person as proxy for a Shareholder or in the case of a Shareholder being a corporation by its duly authorized representative shall be deemed to be the same as demand by a Shareholder.

RECOMMENDATIONS

Based on the relevant information disclosed herein, the Directors believe that (i) the terms of the Acquisition; and (ii) the refreshment of the Scheme Mandate Limit are fair and reasonable and are in the interests of the Group and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the resolutions to be proposed at the Special General Meeting in relation to the Acquisition and the refreshment of the Scheme Mandate Limit.

Your attention is drawn to the letter from the Independent Board Committee which is set out on page 24 of this circular. The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, considers that the Acquisition is fair and reasonable and is in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the Special General Meeting.

ADDITIONAL INFORMATION

Your attention is also drawn to the financial and general information set out in the appendices to this circular.

By Order of the Board
Chan How Chung, Victor
Executive Director

REXCAPITAL Financial Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock code: 555)

5 June 2008

To the Independent Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION

We refer to the circular dated 5 June 2008 (the "Circular") despatched to the Shareholders of which this letter forms part. Unless the context requires otherwise, terms and expressions defined in the Circular shall have the same meanings in this letter.

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders on whether the Acquisition is fair and reasonable and is in the interests of the Company and the Shareholders as a whole. Veda Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and Independent Shareholders in respect of the Acquisition.

We wish to draw your attention to the letter from the Board set out on pages 6 to 23 of the Circular and the letter from Veda Capital containing its advice to us regarding the Acquisition set out on pages 25 to 43 of the Circular.

Having considered the advice given by Veda Capital, we are of the opinion that the Acquisition is fair and reasonable and the entering into the Share Purchase Agreement is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the Special General Meeting. A notice of the Special General Meeting is set out on pages 213 to 215 of the Circular.

Yours faithfully,
For and on behalf of the Independent Board Committee

Yuen Wai Ho	**Chow Siu Ngor**	**Lee Ka Lun**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*

The following is the full text of a letter of advice from Veda Capital to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition prepared for the purpose of inclusion in this circular.

VEDA | CAPITAL
智略資本

Veda Capital Limited
Suite 1302
13/F Takshing House
20 Des Voeux Road Central
Hong Kong

5 June 2008

To the Independent Board Committee and
the Independent Shareholders of
REXCAPITAL Financial Holdings Limited

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition, details of which are set out in the letter from the Board (the "**Board Letter**") contained in this circular (the "**Circular**") dated 5 June 2008 issued by the Company, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

It was stated in the announcement of the Company dated 9 January 2008 that on 31 December 2007, Multi Glory has entered into the Share Purchase Agreement with Billion Invest and Mr. Weng under which, Multi Glory has agreed to acquire from Billion Invest and Billion Invest has agreed to sell the Sale Share and assign the Shareholder's Loan to Multi Glory for a consideration of HK$600 million, which is satisfied as to HK$240 million in cash and as to HK$360 million by the issue of the Consideration Shares by the Company to Billion Invest (or its nominee) at a price of approximately HK$1.4173 per Consideration Share. Top Manage indirectly holds 20% of the registered capital of Sinodata.

The Acquisition constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and will be subject to the approval of the Shareholders at the Special General Meeting. Since Billion Invest is a substantial shareholder of Sinodata, which is an indirect non-wholly owned subsidiary of the Company, Billion Invest is considered as a connected person of the Company and the Acquisition also constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules and will be subject to, amongst other things, the approval of the Independent Shareholders at the Special General Meeting. To the best of the knowledge of the Directors, Billion Invest and its beneficial owner and their respective associates do not hold any Shares as at the Latest Practicable Date. Should Billion Invest or its beneficial owner or any of their respective associates hold Shares on the date of the Special General Meeting, they should abstain from voting for the approval of the Acquisition at the Special General Meeting.

The Independent Board Committee has been established to advise whether the terms of the Acquisition are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole. The Independent Board Committee (comprising the independent non-executive Directors, namely Mr. Yuen Wai Ho, Mr. Chow Siu Ngor and Mr. Lee Ka Lun) which is not involved in nor has any interest in the Acquisition and thus being independent, has been established. Veda Capital has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders as to (i) whether the terms of the Acquisition are on normal commercial terms, in the ordinary and usual course of business, fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole; and (ii) whether the Independent Shareholders should vote in favour of the resolution to approve the Acquisition.

BASIS OF OUR ADVICE

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Company, Directors and management of the Company. We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have assumed that all information, representations and opinions contained or referred to in the Circular, which have been provided by the Company, Directors and management of the Company and for which they are solely and wholly responsible, were true and accurate at the time they were made and continue to be true at the date of the Special General Meeting.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in the Circular misleading. We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company or its subsidiaries.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In assessing the Acquisition and in giving our recommendation to the Independent Board Committee and the Independent Shareholders, we have taken into account the following principal factors and reasons:

Background of and reasons for the Acquisition

The Group is principally engaged in the provision of lottery related system, machines and services and has established a strong presence in the lottery industry for the production of the lottery machines, related operation software system and networks in the PRC.

Information on Sinodata

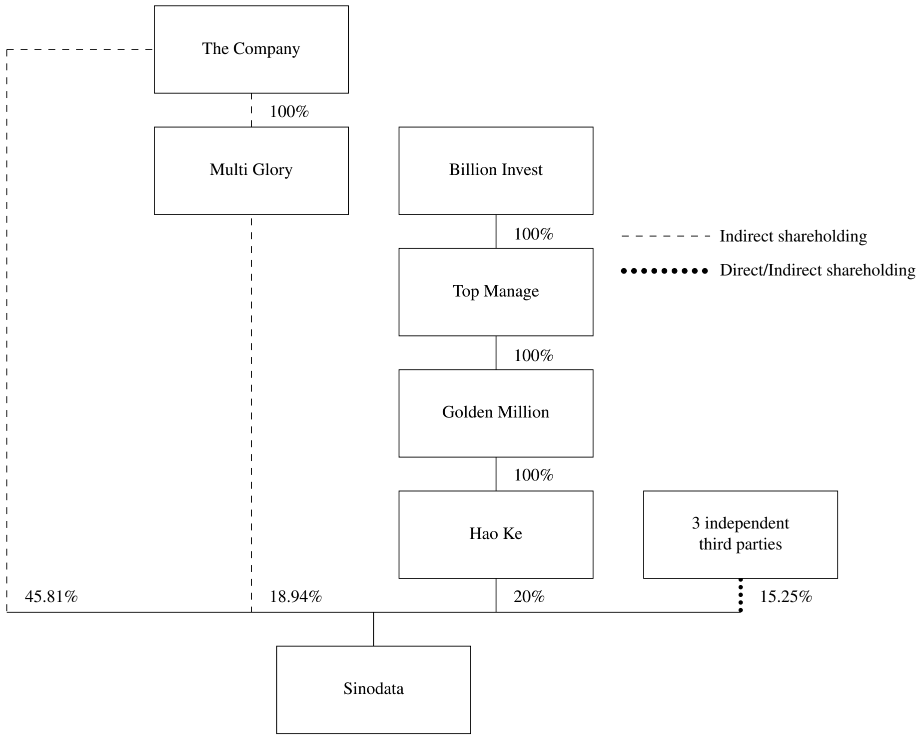
Sinodata is a limited liability company established in the PRC in 1998 with a registered capital of RMB35,560,000. The principal business of Sinodata is in the development and production of proprietary lottery machines, related operation software system and networks (including the provision of incidental consultancy services relating to the provision of software) for the welfare lottery industry in the PRC and the Company has obtained PRC legal advice that such business is regarded as legal in the PRC. Sinodata has obtained the business license in relation to the operation of its business. Apart from such license, the provision of such lottery machines, related operation software system and networks by Sinodata does not require the obtaining of any license or authorization from the relevant authority in the PRC. As stated in the Board Letter, the Company noted that there was recent news reporting new regulation in the PRC to prohibit the selling of lotteries through the internet and as the principal business of the Group is in the provision of lottery related system, machines and services, which the Group's products and services are not used for selling of lotteries through the internet, the Company confirms that the above will not have any material impact to the Group's business.

Sinodata Group has participation in the Welfare Lottery Computer Ticket Games ("**Welfare CTG**") business over 9 years. Sinodata Group's Welfare CTG business involves the provision of operating system, hardware, maintenance and development for CTG games for the PRC welfare lottery. In 2007, the sales for Welfare CTG games in the PRC achieved a new record high of approximately RMB46 billion as compared to 2006 of approximately RMB44 billion. The Directors consider that given the already substantial and more established base for the Welfare CTG business, the Welfare CTG market will enjoy a period of stable, sustainable and continuing growth for the coming years which is likely to track the growth in disposable income for the PRC citizens.

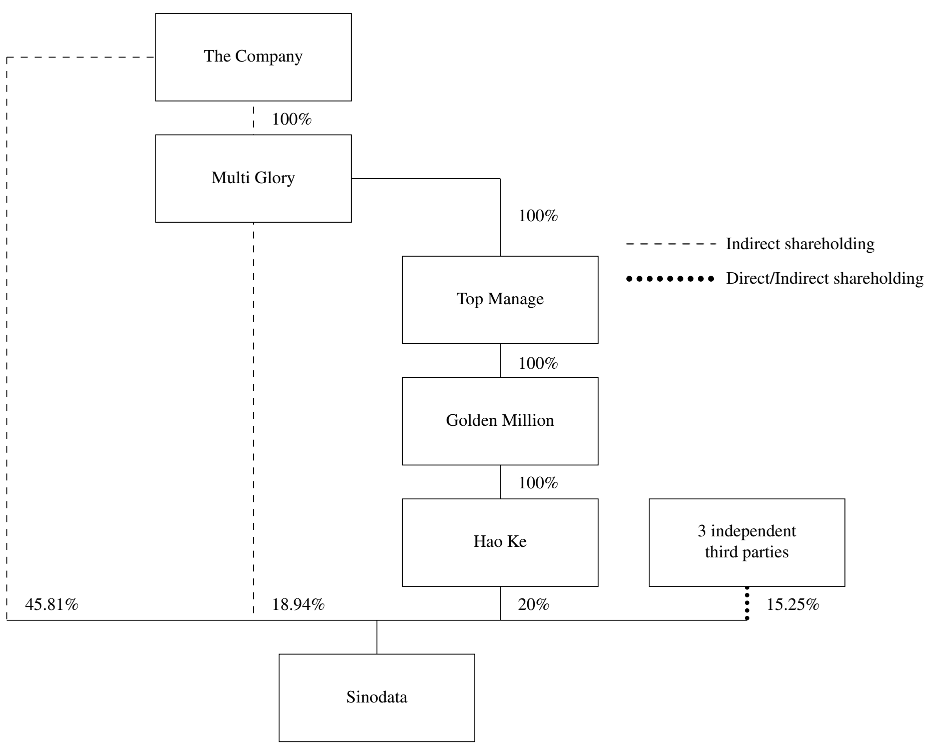
In April 2007, Sinodata Group extends market reach to more provinces in the PRC lottery market, Sinodata was awarded the contract to provide lottery system software and machines for Xizang (Tibet Autonomous Region) Welfare Lottery Issuance Centre. Currently, Sinodata Group business covers 16 provinces in the PRC. Sinodata Group is the largest provider for the Welfare CTG business in the PRC commanding over 50% market share.

The Group acquired 45.81% of Sinodata from an Independent Third Party for a consideration of HK$227,880,000 in the March 2006 Acquisition. The Group further acquired another 18.94% of Sinodata (including assigning the respective shareholders' loan) from two Independent Third Parties for an aggregate consideration of HK$235,250,000 in the March 2007 Acquisition. As at the Latest Practicable Date, the Company indirectly holds 64.75% of the registered capital of Sinodata. Pursuant to the Share Purchase Agreement, the Group has agreed to acquire the Sale Share (including the 100% interest in Top Manage which indirectly holds 20% of the registered capital of Sinodata) and assign the Shareholder's Loan for a consideration of HK$600 million.

The shareholding chart of Sinodata as at the Latest Practicable Date is shown as follows:



The shareholding chart of Sinodata after Completion is shown as follows:



Top Manage is an investment holding company and has no business activity save for being beneficially interested in the entire issued share capital of Golden Million, which in turn is beneficially interested in the entire registered capital of Hao Ke. Hao Ke is directly interested in 20% of the registered capital of Sinodata. Each of Golden Million and Hao Ke has no business activity save for holding an investment interest in Sinodata.

Financial performance of the Sinodata Group

Set out below is an extract from the consolidated income statements of the Sinodata Group as set out in Appendix I to the Circular:

	Year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Sales	77,624	192,532	309,499
Cost of sales	(35,347)	(103,609)	(134,005)
Gross profit	42,277	88,923	175,494
Other income and gains, net	621	2,501	23,691
Selling and distribution expenses	(8,808)	(12,740)	(17,840)
General and administrative expenses	(12,491)	(15,635)	(18,004)
Other operating expenses	(198)	(210)	(76)
Operating profit	21,401	62,839	163,265
Finance costs	–	(647)	(982)
Profit before taxation	21,404	62,192	162,283
Income tax expenses	(646)	(9,907)	(25,373)
Profit for the year	20,755	52,285	136,910
Attributable to:			
Equity holders of Sinodata	19,728	51,815	136,910
Minority interests	1,027	470	–
	20,755	52,285	136,910

As can be seen from the above table, turnover of the Sinodata Group increased from approximately RMB77.6 million for the year ended 31 December 2005 to approximately RMB192.5 million (representing a year-on-year increment of approximately 148%) and further to approximately RMB309.5 million for the year ended 31 December 2007 (representing a year-on-year increase of approximately 60.8%).

The turnover of the Sinodata Group comprised (i) income generated from provision of lottery machines and related services; (ii) sales income generated from sharing of lottery sales from owned machines; and (iii) consultancy services, maintenance fees, IT support and development fee incomes. During each of the three years ended 31 December 2005, 2006 and 2007, income generated from provision of lottery machines and related services amount to approximately RMB44.4 million, RMB155.7 million and RMB266.7 million respectively which represented an increase of approximately 500% from 2005 to 2007. Overall turnover increase was mainly due to the contribution from this segment. During each of the three years ended 31 December 2005, 2006 and 2007, income generated from sharing of lottery sales from owned machines amounted to approximately RMB16.6 million, RMB15.9 million and RMB23.6 million respectively whereas consultancy services, maintenance fees, IT support and development fee incomes amounted to approximately RMB16.6 million, RMB20.9 million and RMB19.2 million respectively.

Net profit attributable to shareholders of Sinodata increased from approximately RMB19.7 million for the year ended 31 December 2005 to approximately RMB51.8 million for the year ended 31 December 2006 (representing a year-on-year increment of approximately 162.9%) and further to approximately RMB136.9 million for the year ended 31 December 2007 (representing a year-on-year increase of approximately 164.3%). As stated in the Board Letter, the movement of the net profit of Sinodata Group during the three years ended 31 December 2005, 2006 and 2007 were mainly attributable to the increase in demand of lottery machines and related service incomes.

The Directors consider that the Acquisition will provide an exciting opportunity for the Group to further extend its participation in Sinodata. The revenue generated by welfare lottery in the PRC has increased from RMB49 billion in 2006 to approximately RMB60 billion up to mid December 2007. The Directors are optimistic about the growth of the welfare lottery going forward. The Directors also believe that the Acquisition provides a good opportunity for the Group to further increase its control in Sinodata, thus would benefit the setting of overall strategic and development plan of the Group's business.

We concur with the Directors that the Acquisition is in line with the business strategy of the Group to proactively identify suitable investment and business opportunities to enhance the Group's revenue base and profitability and the Acquisition is in the ordinary and usual course of business of the Group. Taking into account the promising historical performance of the Sinodata Group with sustainable high growth in net profits after tax, the leading role of the Sinodata Group in providing the machine and system supply section to the welfare lottery business in the PRC, Sinodata's intention to further expand its geographic coverage and increase its penetration in existing provinces in the PRC and the probable promising future business prospect of the Sinodata Group leveraging on the possible growing welfare lottery market in the PRC, we concur with the Directors that the Acquisition is in the interests of the Company and the Independent Shareholders as a whole.

Consideration for the Acquisition

The consideration for the Acquisition of HK$600 million is/will be payable in the following manner:

(a) as to HK$240 million in cash; and

(b) as to HK$360 million by the issue of 254,000,000 Consideration Shares at a price of approximately HK$1.4173 per Consideration Share to Billion Invest or its nominee.

Upon signing of the Share Purchase Agreement, Multi Glory has paid HK$120 million in cash to Billion Invest. Upon Completion, HK$120 million, being the balance of the Cash Consideration, will be paid to Billion Invest and the Consideration Shares will be issued to Billion Invest (or its nominee) accordingly.

As advised by the Directors and mentioned in the Board Letter, the Cash Consideration has been/shall be satisfied by the internal financial resources of the Group. We consider that the issue of the Consideration Shares to Billion Invest is in the interests of the Company as it will not draw on the existing cash resources of the Group for the Acquisition and please also refer to the section headed "Consideration Shares" below for our evaluation of fairness and reasonableness of the terms of the Consideration Shares.

As stated in the Board Letter, the consideration for the Acquisition has been agreed by the parties after arm's length negotiation and in arriving at the consideration, the Directors have considered factors including, (a) the prospects of Sinodata; (b) the historical price to earnings multiple of the Acquisition; (c) encouraging performance of Sinodata in the past three years; (d) the unaudited profit after tax of Sinodata for the six months period up to 30 June 2007; and (e) the principal amount of the Shareholder's Loan.

Comparison with March 2006 Acquisition and March 2007 Acquisition

Since at the material time of entering into of the March 2006 Acquisition and the March 2007 Acquisition, the Group acquired the respective interests of Sinodata from Independent Third Parties and the underlying assets of the March 2006 Acquisition, the March 2007 Acquisition and the Acquisition are the same, being Sinodata, we consider it meaningful by comparing the consideration of the Acquisition to those of the March 2006 Acquisition and the March 2007 Acquisition.

	Consideration	% of Sinodata being acquired	Amount of shareholders loan	Implied valuation of 100% Sinodata	Latest earnings of Sinodata at time of acquisition *(Note)*	Price earnings multiple
	HK$million	*%*	*HK$million*	*HK$million*	*HK$million*	*times*
March 2006 Acquisition	227.88	45.81	–	497.45	20.99	23.70
March 2007 Acquisition	235.25	18.94	6.6	1,207.23	55.12	21.90
Acquisition	600	20	13.99	2,930.05	145.65	20.12

Note: Net profit attributable to equity holders of Sinodata based on an exchange rate of RMB0.94 = HK$1.00.

As can be seen from the above table, although the implied valuation of 100% Sinodata has been increasing from the March 2006 Acquisition to March 2007 Acquisition and the Acquisition, the latest net profit attributable to equity holders of Sinodata at time of acquisitions has also been increasing from March 2006 Acquisition to March 2007 Acquisition and the Acquisition. The price earnings multiple of approximately 20.12 times of the Acquisition is, in fact, the lowest amongst those of the March 2006 Acquisition of approximately 23.70 times and of the March 2007 Acquisition of approximately 21.90 times. We consider that the basis of the consideration of the Acquisition is on normal commercial terms and fair and reasonable to the Company and the Independent Shareholders.

The Consideration Shares

The consideration for the Acquisition will be partly satisfied by way of the issue of Consideration Shares to Billion Invest or its nominee in the amount of HK$360 million.

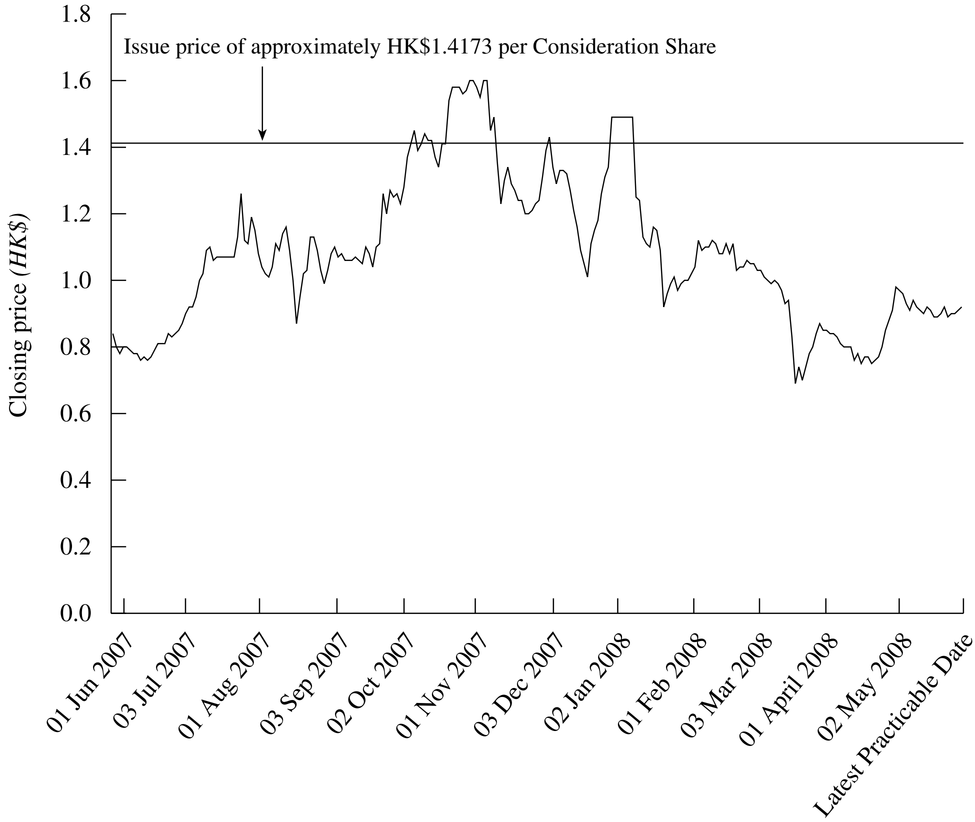
(i) Issue price of the Consideration Shares

The premium/discount of the issue price of each Consideration Share of approximately HK$1.4173 over/to the closing price of the Shares for different periods are set out in the following table:

Date/period	**Closing price/ average closing price per Share for the period** *(HK$)*	**Premium/ (discount) of the issue price over/ (to) the closing price/average closing price per Share in the respective period** *(%)*
10 days up to and including 31 December 2007 (the "**Last Trading Day**")	1.2	18.11
5 days up to and including the Last Trading Day	1.32	7.37
As at the Last Trading Day	1.49	(4.88)
As at the Latest Practicable Date	0.92	54.05

The above table shows that the premium/discount of the issue price over/to the closing price/average closing price per Share in the respective period ranges from a discount of approximately 4.88% to a premium of approximately 54.05%. The issue price of each Consideration Share of approximately HK$1.4173 also represents a premium of approximately 337.17% over the net asset value per Share of approximately HK$0.3242 as at 31 December 2007 (calculated as the audited consolidated net asset value of the Group of approximately HK$2,313.97 million over the 7,138,000,000 Shares outstanding as at 31 December 2007).

The closing price of the Shares during the last 12 months since 1 June 2007 up to and including the Latest Practicable Date were plotted against the issue price of approximately HK$1.4173 per Consideration Share in the following graph:



Source: Website of Stock Exchange (www.hkex.com.hk)

Note: Trading of the Shares was suspended from 19 to 24 July 2007, 7 November 2007 and 2 to 9 January 2008.

As illustrated in the graph above, the issue price of approximately HK$1.4173 per Consideration Share represents premium over most of the closing prices of the Shares during the period from 1 June 2007 to the Latest Practicable Date. Closing price of the Shares during the month of December 2007 were below the issue price of the Consideration Shares of HK$1.4173 except for (3 December 2007 and the Last Trading Day, being 31 December 2007). Upon release the announcement of the Acquisition dated 9 January 2008, closing price of the Shares kept falling and was at the lowest level of HK$0.69 during the review period on 28 March 2008. The issue price of approximately HK$1.4173 per Consideration Share represents a premium of approximately 30.96% over the average closing price of approximately HK$1.0822 during the above review period from 1 June 2007 up to and including the Latest Practicable Date. The issue price of approximately HK$1.4173 per Consideration Share also represents a premium of approximately 54.05% over the closing price of HK$0.92 on the Latest Practicable Date. Based on the fact that the issue price of approximately HK$1.4173 per Consideration Share represents premium over most of the closing prices of the Shares during the period from 1 June 2007 to the Latest Practicable Date and also on the Latest Practicable Date, we consider that the issue price of the Consideration Shares is fair and reasonable to the Company and the Independent Shareholders.

(ii) Comparison analysis

In order to further assess the fairness and reasonableness of the terms of the Consideration Shares, we have looked into all the announcements (since 2 October 2007 until the Last Trading Day) of acquisitions involving the issue of consideration shares (the "**Shares Comparables**") by companies listed on the Main Board or the Growth Enterprise Market of the Stock Exchange for reference. We believe that the Shares Comparables may reflect the trend of the terms of issue of consideration shares in the market at the material time of entering into of the Share Purchase Agreement. Set out below is a summary of the issue statistics of the Shares Comparables:

				Premium/(discount) of the issue price of the consideration share over/to:		
Date of announcement	**Company (Stock code)**	**Amount involved for the consideration shares** *(HK$ million)*	**Issue price of the consideration shares** *(HK$)*	**(i) the closing price of shares on the last trading day** *(%)*	**(ii) the 5-day average closing price of shares before the last trading day** *(%)*	**(iii) the 10-day average closing price of shares before the last trading day** *(%)*
21 Dec 07	Quam Limited (952)	39.20	0.94	9.30	0.00	(55.24)
20 Dec 07	SCUD Group Limited (1399)	Up to 123	2.05	(13.50)	(7.66)	110.26
18 Dec 07	Espco Technology Holdings Limited (8299)	207.36	0.15	(51.61)	(47.92)	(48.67)
11 Dec 07	Wah Yuen Holdings Limited (2349)	691.94	1.21	10.00	5.40	3.50
11 Dec 07	Galileo Holdings Limited (8029)	115.50	1.1	(30.38)	(29.49)	(26.32)
11 Dec 07	China Ting Group Holdings Limited (3398)	90.88	1.98	0.00	1.02	0.51
7 Dec 07	Magnesium Resources Corporation of China Limited (723)	416	0.52	(7.14)	(3.70)	(8.29)
6 Dec 07	Universal Technologies Holdings Limited (8091)	69.44	0.32	(5.88)	(1.84)	(1.84)
3 Dec 07	China Resources Land Limited (1109)	4,528.80	16.83	(9.20)	(2.69)	0.02
3 Dec 07	Tianjin Development Holdings Limited (882)	265	8.32	(8.67)	(6.94)	(5.99)
30 Nov 07	China National Resources Development Holdings Limited (661)	1,106	1.58	38.60	40.82	36.68

Date of announcement	Company (Stock code)	Amount involved for the consideration shares *(HK$ million)*	Issue price of the consideration shares *(HK$)*	Premium/(discount) of the issue price of the consideration share over/to: (i) the closing price of shares on the last trading day *(%)*	(ii) the 5-day average closing price of shares before the last trading day *(%)*	(iii) the 10-day average closing price of shares before the last trading day *(%)*
30 Nov 07	K.P.I. Company Limited (605)	30.80	0.45	(4.26)	1.11	2.86
29 Nov 07	Neptune Group Limited (70)	216	0.3	(13.04)	(8.26)	(7.98)
28 Nov 07	Jinheng Automotive Safety Technology Holdings Limited (8293)	13.70	1.28	3.20	0.00	(3.98)
23 Nov 07	Prosperity International Holdings (H.K.) Limited (8139)	18.40	1	(49.00)	(50.10)	(50.57)
23 Nov 07	Welling Holding Limited (382)	3,623.89	0.414	(41.69)	(42.98)	(42.74)
20 Nov 07	China Sci-Tech Holdings Limited (985)	176	0.8	23.08	35.59	40.35
15 Nov 07	Chinasoft International Limited (8216)	13.58	1.55	(0.94)	1.13	(0.32)
15 Nov 07	Core Healthcare Investment Holdings Limited (8250)	34	0.17	(70.70)	(71.00)	(69.90)
12 Nov 07	PalmPay China (Holdings) Limited (8047)	71.89	0.45	2.27	2.27	2.27
9 Nov 07	Sino Union Petroleum & Chemical International Limited (346)	615	1.44	7.46	4.20	8.76
30 Oct 07	Yunnan Enterprises Holdings Limited (455)	167	0.39	(61.00)	(60.29)	(60.12)
26 Oct 07	Kenfair International (Holdings) Limited (223)	35	0.5	(69.70)	(69.70)	(68.96)
26 Oct 07	Zhong Hua International Holdings Limited (1064)	60.95	0.25	(10.70)	(10.70)	(10.87)
26 Oct 07	Brilliant Arts Multi-Media Holding Limited (8130)	18	0.1	(31.00)	(33.20)	(38.90)
18 Oct 07	Melco LottVentures Limited (8198)	61.20	0.85	(48.48)	(42.02)	(35.70)

Date of announcement	Company (Stock code)	Amount involved for the consideration shares *(HK$ million)*	Issue price of the consideration shares *(HK$)*	Premium/(discount) of the issue price of the consideration share over/to: (i) the closing price of shares on the last trading day *(%)*	(ii) the 5-day average closing price of shares before the last trading day *(%)*	(iii) the 10-day average closing price of shares before the last trading day *(%)*
17 Oct 07	United Power Investment Limited (674)	235.60	0.337	2.12	0.00	(1.89)
11 Oct 07	Bel Global Resources Holdings Limited (761)	88.70	0.6	(63.19)	(59.13)	(51.88)
10 Oct 07	China Star Entertainment Limited (326)	28.90	0.3	38.25	42.18	37.61
10 Oct 07	Karce International Holdings Company Limited (1159)	69.86	0.33	(38.90)	(36.50)	(28.30)
2 Oct 07	China Renji Medical Group Limited (648)	37.49	0.25	53.37	50.42	45.35
			Maximum	**53.37**	**50.42**	**110.26**
			Minimum	**(70.70)**	**(71.00)**	**(69.90)**
			Average	**(14.24)**	**(12.90)**	**(10.65)**
	The Acquisition	**360**	**1.4173**	**(4.88)**	**7.37**	**18.11**

Source: Website of the Stock Exchange (www.hkex.com.hk)

As indicated in the above table setting out the issue statistics of the Shares Comparables, we observed that:

(i) the discount of approximately 4.88% represented by the issue price of approximately HK$1.4173 per Consideration Share to the closing price of HK$1.49 per Share on the Last Trading Day falls within the range of premiums/ discounts represented by the closing prices of Shares Comparables on the relevant last trading days, which ranges between a discount of 70.70% and a premium of 53.37% (the "**Last Day Range**");

(ii) the discount of approximately 4.88% represented by the issue price of approximately HK$1.4173 per Consideration Share to the closing price of HK$1.49 per Share on the Last Trading Day is lower than the average of the Last Day Range of a discount of 14.24%;

(iii) the premium of approximately 7.37% represented by the issue price of approximately HK$1.4173 per Consideration Share to the 5-day average closing price of approximately HK$1.32 per Share for the last five trading days up to and including the Last Trading Day falls within the range of premiums/discounts represented by 5-day average closing prices of the Shares Comparables on the relevant last five trading days, which ranges between a discount of 71% and a premium of 50.42% (the "**5-Day Range**");

(iv) the issue price of approximately HK$1.4173 per Consideration Share represents a premium of approximately 7.37% over the 5-day average closing price of approximately HK$1.32 per Share whereas the average of the 5-Day Range of was a discount of 12.90%;

(v) the premium of approximately 18.11% represented by the issue price of approximately HK$1.4173 per Consideration Share to the 10-day average closing price of approximately HK$1.2 per Share for the last ten trading days up to and including the Last Trading Day falls within the range of premiums/discounts represented by 10-day average closing prices of the Shares Comparables on the relevant last ten trading days, which ranges between a discount of 69.90% and a premium of 110.26% (the "**10-Day Range**"); and

(vi) the issue price of approximately HK$1.4173 per Consideration Share represents a premium of approximately 18.11% over the 10-day average closing price of approximately HK$1.2 per Share whereas the average of the 10-Day Range of was a discount of 10.65%.

Based on the above observation, we concur with the view of the Directors that the issue price of the Consideration Shares is fair and reasonable so far as the interests of the Company and the Independent Shareholders are considered. We also consider that the terms of the Acquisition were entered into upon normal commercial terms.

Conditions

Completion of the Acquisition shall be conditional upon fulfillment or waiver by Multi Glory, as the case may be, of the following conditions:

(1) the warranties remaining true and accurate and not misleading from the date of the Share Purchase Agreement to the Completion Date (both dates inclusive);

(2) Billion Invest and Mr. Weng having complied fully with the obligations and having performed all the covenants and agreements required to be performed by it under the Share Purchase Agreement from the date of the Share Purchase Agreement to the Completion Date (both dates inclusive);

(3) all necessary consents required to be given by third parties (including government or governmental regulatory authority) for the transactions contemplated under the Share Purchase Agreement having been granted and there is no government or governmental regulatory authority which has proposed or enacted any statute or regulation which would prohibit, restrict or materially delay the Acquisition or affect the operation of any member of the Top Manage Group after Completion;

(4) Multi Glory having received a legal opinion by a firm of qualified layers in the PRC regarding Hao Ke and Sinodata, in such form and substance satisfactory to Multi Glory;

(5) the approval of the transactions contemplated in the Share Purchase Agreement by the Shareholders at the Special General Meeting;

(6) the Listing Committee of the Stock Exchange granting listing of, and permission to deal, in the Consideration Shares; and

(7) Multi Glory having satisfied with the due diligence results in respect of the legal, financial and commercial aspects of Top Manage, Golden Million and Hao Ke.

Except for conditions (3), (5) and (6) above, Multi Glory may, at any time, in its absolute discretion, waiver in writing any of the conditions set out in conditions (1), (2) (4) and (7) above (or any part thereof). If any of the above conditions has not been fully fulfilled or waived by 31 May 2008 (or such later date as may be solely determined by Multi Glory and notify Billion Invest in writing and on 20 May 2008, Multi Glory has given written notice to Billion Invest to extend such date under the Share Purchase Agreement to 31 August 2008), Multi Glory shall not be bound to proceed with the Acquisition and the Share Purchase Agreement shall cease to have any effect save in respect of claims arising out of any antecedent breach of the Share Purchase Agreement.

Given the above conditions are for compliance of the relevant provisions of the Listing Rules, ensuring the warranties of the Share Purchase Agreement remain true and accurate and not misleading up to the Completion Date, compliance with obligations and performance of all covenants and agreements required under the Share Purchase Agreement up to the Completion Date, obtaining all necessary consents to facilitate the Completion, receipt of PRC legal opinion on Hao Ke and Sinodata and Multi Glory being satisfied with the due diligence results in respect of the legal, financial and commercial aspects of Top Manage, Golden Million and Hao Ke, we concur with the Directors that the conditions of the Share Purchase Agreement are in normal commercial terms and fair and reasonable to the Company and the Independent Shareholders.

The Deposit shall be returned to Multi Glory, together with the Interest within 2 Business Days after Multi Glory has notified Billion Invest that it will not precede with the Acquisition. We share the view of the Directors that such refund mechanism with accrued interest to Multi Glory under the Share Purchase Agreement is fair and reasonable to the Company and the Independent Shareholders.

Financial effects of the Acquisition

(i) Earnings

Upon Completion, with the additional 20% equity interest, Sinodata will become a 84.75% non-wholly owned subsidiary of the Company and the Group will continue to consolidate the financial results of Sinodata into the Group's financial statements. According to the unaudited pro forma income statement of the Enlarged Group as contained in Appendix III to the Circular, assuming, inter alia, that Completion had taken place on 1 January 2007, and taking into account certain adjustment to reflect the Acquisition, net profit attributable to the Shareholders of the Enlarged Group amounted to approximately HK$169.06 million for the year ended 31 December 2007, representing an increase of approximately 23.68% from the net profit attributable to the Shareholders of approximately HK$136.69 million for the year ended 31 December 2007.

(ii) Net assets

The audited net asset value of the Group attributable to the Shareholders was approximately HK$2,313.97 million as at 31 December 2007. According to the unaudited pro forma balance sheet of the Enlarged Group as set out in Appendix III to the Circular, the unaudited pro forma net asset value of the Group attributable to the Shareholders after the Completion would increase to approximately HK$2,673.97 million as at 31 December 2007. The pro forma net asset value per Share of the Enlarged Group following the Acquisition would have been HK$0.362 as compared to net asset value per Share of the Group of HK$0.324 before the Acquisition as at 31 December 2007.

(iii) Gearing

The gearing ratio of the Group, calculated as the aggregate of bank borrowings divided by amount of shareholders' equity, was approximately 0.58% as at 31 December 2007. Based on the unaudited pro forma balance sheet of the Enlarged Group as set out in Appendix III to the Circular, the gearing ratio of the Group upon completion of the Acquisition, would slightly improved to approximately 0.51% as at 31 December 2007.

Having considered the benefits of improving net profit attributable to the Shareholders, net asset value of the Enlarged Group attributable to the Shareholders, net asset value per Share of the Enlarged Group and the gearing ratio upon Completion, we consider that the Acquisition is fair and reasonable in so far as the Company and the Independent Shareholders are concerned. However, it should be noted that the aforementioned analyses are for illustrative purpose only and does not purport to represent how the actual financial position of the Group will be upon Completion.

Lock-up arrangements of the Consideration Shares

Billion Invest has undertaken to Multi Glory that it shall not, inter alia, offer, pledge, charge, sell, contract to sell or otherwise transfer or dispose of, either directly or indirectly, (i) during the First Lock-Up Period, any of the Consideration Shares; (ii) during the Second Lock-Up Period, 174,000,000 Shares of the Consideration Shares; and (iii) during the Third Lock-Up Period, 94,000,000 Shares of the Consideration Shares. We consider that such restriction arrangement on the Consideration Shares is fair and reasonable to the Company and the Independent Shareholders so that Billion Invest (or its nominee) would remain as long-term investor(s) of the Company, which may minimize the negative impact on the short term volatility of the Shares.

Dilution effect on the shareholding interests of the Independent Shareholders

Based on the shareholding structure of the Company as set out in the Board Letter under the section headed "Effects on shareholding structure after issuance of the Consideration Shares", 5,959,194,365 Shares were held by the public/Independent Shareholders, representing approximately 83.25% of the issued share capital of the Company as at the Latest Practicable Date. Immediately after Completion and issue of the Consideration Shares, the public/ Independent Shareholders will still hold 5,959,194,365 Shares, representing approximately 80.40% of the enlarged issued share capital of the Company with the addition of 254,000,000 Consideration Shares to be issued to Billion Invest (or its nominee) upon Completion to the total number of outstanding Shares of the Company. We consider that the benefits of the Acquisition (including the issue of the Consideration Shares and as summarized under the section headed "Recommendation" below) might outweigh the dilution effect on the shareholding held by the public/Independent Shareholders in the Company as created by the issue of the Consideration Shares. In addition, the shareholding interest of all the Shareholders (other than Billion Invest (or its nominee) will be diluted in proportion to their respective shareholdings, we consider that such dilution effect to public/Independent Shareholders is acceptable and justifiable so far as the Independent Shareholders are concerned.

RECOMMENDATION

Taking into consideration of the above mentioned principal factors and reasons, in particular:

(i) there has been a sustainable high growth in the audited profit after tax of Sinodata for the three years ended 31 December 2005, 2006 and 2007;

(ii) the Acquisition is in line with the business strategy of the Group to proactively identify suitable investment and business opportunities to enhance the Group's revenue base and profitability;

(iii) the leading role of the Sinodata Group in providing the machine and system supply section to the welfare lottery business in the PRC;

(iv) Sinodata's intention to further expand its geographic coverage and increase its penetration in existing provinces in the PRC;

(v) probable promising future business prospect of the Sinodata Group leveraging on the possible growing welfare lottery market in the PRC;

(vi) the price earnings multiple of approximately 20.12 times of the Acquisition is, in fact, the lowest amongst those of the March 2006 Acquisition of approximately 23.70 times and of the March 2007 Acquisition of approximately 21.90 times;

(vii) the issue price of HK$1.4173 per Consideration Share represents premium over all the closing prices of the Shares throughout the 12-month period from 1 June 2007 to the Latest Practicable Date;

(viii) the issue price of approximately HK$1.4173 per Consideration Share represents premium over most of the closing prices of the Shares during the period from 1 June 2007 to the Latest Practicable Date and also on the Latest Practicable Date;

(ix) the issue price of each Consideration Share of approximately HK$1.4173 represents a premium of approximately 337.17% over the net asset value per Share of approximately HK$0.3242 as at 31 December 2007;

(x) the discount represented by the issue price per Consideration Share to the closing price of on the Last Trading Day falls within the Last Day Range;

(xi) the premium represented by the issue price per Consideration Share to the 5-day average closing price for the last five trading days up to and including the Last Trading Day falls within the 5-Day Range;

(xii) the premium represented by the issue price per Consideration Share to the 10-day average closing price for the last ten trading days up to and including the Last Trading Day falls within the 10-Day Range;

(xiii) the issue of the Consideration Shares to Billion Invest or its nominee to partly settle the consideration of the Acquisition will not draw on the existing cash resources of the Group for the Acquisition;

(xiv) the conditions of the Share Purchase Agreement are in normal commercial terms and fair and reasonable to the Company and the Independent Shareholders;

(xv) restriction on offering, pledging, charging, selling, contracting to sell or otherwise transferring or disposing of the Consideration Shares during the First Lock-Up Period, Second Lock-Up Period and Third Lock-Up Period would keep Billion Invest (or its nominee) as long-term investor(s) of the Company, which may minimize the negative impact on the short term volatility of the Shares; and

(xvi) the improvements in net profit attributable to the Shareholders, net asset value of the Enlarged Group attributable to the Shareholders, net asset value per Share of the Enlarged Group and the gearing ratio upon Completion,

we consider that, the terms of the Acquisition are fair and reasonable so far as the Independent Shareholders are concerned and the Acquisition is in the interests of the Company and the Independent Shareholders as a whole. We also consider that the terms of the Share Purchase Agreement were entered into upon normal commercial terms and in the ordinary and usual course of business of the Group. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the ordinary resolution to be proposed at the Special General Meeting to approve the Acquisition.

Yours faithfully,
For and on behalf of
Veda Capital Limited
Hans Wong **Julisa Fong**
Managing Director *Executive Director*

The following is the text of a report dated 5 June 2008 made by the independent reporting accountants, Ting Ho Kwan & Chan, for the purpose of incorporation in this circular.

TING HO KWAN & CHAN

CERTIFIED PUBLIC ACCOUNTANTS **(PRACTISING)**

The Directors
REXCAPITAL Financial Holdings Limited
Suite 3401, 34/F., COSCO Tower
Grand Millennium Plaza
183 Queen's Road Central
Hong Kong

Dear Sirs,

We set out below our report on the financial information relating to Shenzhen Sinodata Technology Co., Ltd. ("Sinodata") and its subsidiaries (hereinafter collectively referred to as the "Sinodata Group") for each of the three years ended 31 December 2005, 2006 and 2007 (the "Relevant Period") for the inclusion in the circular of REXCAPITAL Financial Holdings Limited (the "Company") dated 5 June 2008 (the "Circular") in connection with the proposed further acquisitions of 20% equity interest in Sinodata.

Sinodata was established with limited liability pursuant to the Company Law of the People's Republic of China ("PRC") on 13 March 1998. Its principal activities are the development and production of proprietary lottery machines, related operating software system and networks for the welfare lottery industry in the PRC.

All companies comprising the Sinodata Group have adopted 31 December as their financial year end date.

The Sinodata Group disposed of its 60% equity interest in 杭州思樂禾源數碼技術有限公司 ("杭州思樂") on 10 August 2005. As no sufficient records have been kept for 杭州思樂, the results of this disposed subsidiary have not been incorporated into the financial information of Sinodata Group for the period from 1 January 2005 to its date of disposal.

According to the information provided by the management of Sinodata, 杭州思樂 was principally engaged in the business of development of system for automatic teller machines which differed from the remaining companies of the Sinodata Group in continuing operation. In addition, there were no significant transactions between 杭州思樂 and the other companies of the Sinodata Group.

南京正見營銷諮詢有限公司(“南京正見”) is 80% owned by Sinodata Group, and was incorporated in 2004 with a registered capital of RMB500,000. The principal activity of 南京正見 is the provision of consultation and training services. No audited financial statements have been prepared for 南京正見. We have, however, reviewed all the relevant transactions undertaken by this company for the Relevant Period, and carried out such procedures as we considered necessary for inclusion of the financial information relating to this company in this report.

The statutory financial statements of Sinodata and its subsidiaries for the Relevant Period, which were prepared in accordance with the relevant accounting rules and regulations applicable to enterprises in the PRC, were audited during the Relevant Period by the respective auditors as indicated below:

Name	**Financial year ended 31 December**	**Auditors**
Shenzhen Sinodata Technology Co., Ltd	2005 2006 and 2007	深圳中興信會計師事務所 深圳市南方民和會計師事務所
深圳市思樂數據設備服務有限公司	2005 2006 and 2007	深圳中興信會計師事務所 深圳市南方民和會計師事務所

For the purpose of this report, the directors of Sinodata have prepared the financial statements of Sinodata and the Sinodata Group for the Relevant Period (“HKFRS financial statements”) in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The directors of Sinodata are responsible for preparing the HKFRS financial statements which give a true and fair view.

In preparing these financial statements, it is fundamental that appropriate accounting policies are selected and applied consistently. We have performed independent audit procedures on the HKFRS financial statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA. The financial information set out in Sections I to II below (the “Financial Information”) has been prepared based on the HKFRS financial statements.

We have examined the Financial Information and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA. The directors of Sinodata and the Company are responsible for the Financial Information. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion to you.

杭州思樂 is disposed of in 2005 and accordingly all its financial statements for the Relevant Period have been taken out by the acquirers for their retention. As a result, Sinodata’s management has not been able to gather sufficient information to incorporate their results and cash flows into the HKFRS financial statements for the period from 1 January 2005 to 10 August 2005. As a consequence, we are unable to quantify the effect on the departure from the requirements of HKAS 27 “Consolidated and Separate Financial Statements”.

In our opinion, except for the possible effect of the circumstances referred to above in respect of 杭州思樂, for the purpose of this report, all adjustments considered necessary have been made and the Financial Information prepared on the basis set out in Note 2.2 of Section II below, gives a true and fair view of the state of affairs of Sinodata and the Sinodata Group as at 31 December 2005, 2006 and 2007, and of the results and cash flows of the Sinodata Group for the Relevant Period.

I FINANCIAL INFORMATION

(a) Consolidated income statements

		Year ended 31 December		
		2005	**2006**	**2007**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Sales	*5*	77,624	192,532	309,499
Cost of sales		(35,347)	(103,609)	(134,005)
Gross profit		42,277	88,923	175,494
Other income and gains, net	*6*	621	2,501	23,691
Selling and distribution expenses		(8,808)	(12,740)	(17,840)
General and administrative expenses		(12,491)	(15,635)	(18,004)
Other operating expenses		(198)	(210)	(76)
Operating profit		21,401	62,839	163,265
Finance costs	*7*	–	(647)	(982)
Profit before taxation	*8*	21,401	62,192	162,283
Income tax expenses	*11*	(646)	(9,907)	(25,373)
Profit for the year		20,755	52,285	136,910
Attributable to:				
Equity holders of Sinodata	*12*	19,728	51,815	136,910
Minority interests		1,027	470	–
		20,755	52,285	136,910
Dividends	*13*	18,000	–	–

(b) Consolidated balance sheets

		At 31 December		
		2005	**2006**	**2007**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Assets				
Non-current assets				
Property, plant and equipment	*14(a)*	24,355	26,465	68,622
Leasehold land and land use rights	*15*	1,330	1,288	1,246
Investment property	*16*	–	–	45,000
Intangible assets	*17*	1,158	776	28,394
Deposits for acquisition of leasehold land use rights and buildings	*18*	–	23,594	–
		26,843	52,123	143,262
Current assets				
Leasehold land and land use rights	*15*	42	42	42
Inventories	*20*	35,476	43,342	46,953
Available-for-sale financial assets	*21*	6,000	–	–
Trade receivables	*22(a)*	25,765	76,157	148,552
Prepayments and other receivables	*23(a)*	22,164	45,727	19,837
Prepaid income tax		730	–	–
Cash and cash equivalents	*24*	15,468	14,136	60,124
		105,645	179,404	275,508
Total assets		132,488	231,527	418,770
Equity				
Capital and reserves attributable to the equity holders of Sinodata				
Share capital	*25*	32,000	35,560	35,560
Reserves	*26(a)*	87,026	147,710	284,620
		119,026	183,270	320,180
Minority interests	26(a)	1,643	–	–
Total equity		120,669	183,270	320,180

		At 31 December		
		2005	2006	2007
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Liabilities				
Non-current liabilities				
Bank borrowings	*27*	–	12,724	11,594
Deferred tax liabilities	*28*	–	3,394	15,754
		–	16,118	27,348
Current liabilities				
Trade payables	*29*	10,065	16,956	49,770
Accruals and other payables		1,111	4,466	14,027
Amount due to a shareholder		–	5,980	–
Current income tax liabilities		643	3,711	6,351
Bank borrowings	*27*	–	1,026	1,094
		11,819	32,139	71,242
Total liabilities		11,819	48,257	98,590
Total equity and liabilities		132,488	231,527	418,770

(c) Balance sheets

		At 31 December		
		2005	**2006**	**2007**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Assets				
Non-current assets				
Property, plant and equipment	*14(b)*	24,231	26,355	68,416
Leasehold land and land use rights	*15*	1,330	1,288	1,246
Investment property	*16*	–	–	45,000
Intangible assets	*17*	1,158	776	28,394
Deposits for acquisition of leasehold land use rights and buildings	*18*	–	23,594	–
Interests in subsidiaries	*19*	(1,468)	(10,783)	(9,483)
		25,251	41,230	133,573
Current assets				
Leasehold land and land use rights	*15*	42	42	42
Inventories	*20*	35,476	43,342	46,953
Available-for-sale financial assets	*21*	6,000	–	–
Trade receivables	*22(b)*	23,369	70,003	140,915
Prepayments and other receivables	*23(b)*	18,654	45,254	19,185
Cash and cash equivalents	*24*	9,321	12,136	48,426
		92,862	170,777	255,521
Total assets		118,113	212,007	389,094
Equity				
Capital and reserves attributable to the equity holders of Sinodata				
Share capital	*25*	32,000	35,560	35,560
Reserves	*26(b)*	74,580	129,552	257,020
Total equity		106,580	165,112	292,580

		At 31 December		
		2005	2006	2007
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Liabilities				
Non-current liabilities				
Bank borrowings	*27*	–	12,724	11,594
Deferred tax liabilities	*28*	–	3,394	15,754
		–	16,118	27,348
Current liabilities				
Trade payables	*29*	10,065	16,956	49,770
Accruals and other payables		840	9,865	11,958
Current income tax liabilities		628	2,930	6,344
Bank borrowings	*27*	–	1,026	1,094
		11,533	30,777	69,166
Total liabilities		11,533	46,895	96,514
Total equity and liabilities		118,113	212,007	389,094

(d) Consolidated cash flow statements

		Year ended 31 December		
		2005	**2006**	**2007**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Operating activities				
Net cash generated from operations	*30(a)*	19,326	11,147	109,961
Income tax paid		(305)	(3,445)	(10,373)
Income tax refunded		–	730	–
Net cash generated from operating activities		19,021	8,432	99,588
Investing activities				
Purchases of property, plant and equipment		(5,623)	(9,717)	(51,763)
Proceeds on sales of property, plant and equipment		49	–	–
Partial receipts of proceeds from sale of subsidiary not consolidated		480	–	–
Partial receipts of proceeds from sale of available-for-sale financial assets		600	–	–
Partial receipts of deferred consideration for disposal of a subsidiary		900	–	–
Cash outflow from increase in shareholding in a subsidiary		–	(1,034)	–
Deposits paid for acquisition of leasehold land use rights and buildings		–	(23,594)	–
Cash rebate on acquisition of leasehold land use rights and buildings		–	–	11
Interest received		143	128	196
Net cash used in investing activities		(3,451)	(34,217)	(51,556)

		Year ended 31 December		
		2005	2006	2007
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Financing activities				
Proceeds from bank borrowings raised	*30(c)*	–	14,090	–
Repayment of bank borrowings	*30(c)*	–	(340)	(1,062)
Contributions from equity holder		–	30,000	–
Dividends paid		(10,000)	(18,000)	–
Dividends paid to minority shareholders		(1,000)	(650)	–
Interest paid		–	(647)	(982)
Net cash (used in)/generated from financing activities		(11,000)	24,453	(2,044)
Net increase/(decrease) in cash and cash equivalents		4,570	(1,332)	45,988
Cash and cash equivalents at the beginning of the year		10,898	15,468	14,136
Cash and cash equivalents at the end of the year		15,468	14,136	60,124

(e) Consolidated statements of changes in equity

	Year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Total equity at the beginning of the year	109,914	120,669	183,270
Profit for the year	20,755	52,285	136,910
Dividends approved and declared during the year			
– to equity holders of Sinodata	(10,000)	(18,000)	–
– to minority shareholders of a subsidiary	–	(650)	–
Capital contributions by equity holder	–	30,000	–
Arising from additional investment in a subsidiary	–	(1,463)	–
Excess of fair value of net assets acquired over consideration	–	429	–
Total equity at the end of the year	120,669	183,270	320,180

II NOTES TO THE FINANCIAL INFORMATION

1 Organisation and principal activities

Sinodata was established with limited liability pursuant to the Company Law of the People's Republic of China ("PRC") on 13 March 1998.

The address of Sinodata's registered office is Flats B, C & D, 3rd Floor, Block 7, Tianan Industrial Zone, Nanyou, Shenzhen, PRC.

Sinodata and its subsidiaries (together the "Sinodata Group") are engaged in the development and production of proprietary lottery machines, related operating software system and networks for the welfare lottery industry in the PRC.

2 Significant accounting policies

2.1 Statement of compliance

The Financial Information of the Sinodata Group has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS"), which include all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance throughout the Relevant Period. The Financial Information of the Sinodata Group also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Sinodata Group is set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The preparation of Financial Information in conformity with HKFRS requires management to make judgements, estimates and assumptions that affect the applicable of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. 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 futures periods.

Judgements made by management in the application of HKFRS that have significant effect on the Financial Information and estimates with a significant risk of material adjustment in the next year are discussed in note 4.

The HKICPA has issued certain new and revised HKFRS that are first effective or available for early adoption for the current accounting period of the Sinodata Group and Sinodata. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Sinodata Group for the current and prior accounting periods reflected in these Financial Information.

2.2 Basis of presentation and preparation

The Financial Information presents the results, cash flows and financial position of the Sinodata Group for each of the years ended 31 December 2005, 2006 and 2007, and has been prepared under the historical cost convention except that the investment properties *(see note 2.7)* are stated at their fair value.

The Financial Information has been presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except where otherwise indicated.

2.3 Consolidation

The Financial Information includes the financial information of Sinodata and all of its subsidiaries made up to 31 December.

Subsidiaries are entities controlled by the Sinodata Group. Control exists when the Sinodata Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by Sinodata, whether directly or indirectly through subsidiaries, and in respect of which the Sinodata Group has not agreed any additional terms with the holders of those interests which would result in the Sinodata Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of Sinodata. Minority interests in the results of the Sinodata Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of Sinodata.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Sinodata Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Sinodata Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Sinodata Group has been recovered.

Loans from holders of minority interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet in accordance with note 2.14 depending on the nature of the liability.

An acquisition of minority interests is accounted for using the entity concept method whereby the difference between the consideration and the book value of the share of the net assets acquired is dealt with in equity directly.

In Sinodata's balance sheet, an investment in a subsidiary is stated at cost less any accumulated impairment losses *(see note 2.9)*, unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale). The results of the subsidiaries are accounted for by Sinodata on the basis of dividends received and receivable.

2.4 Financial assets

The Sinodata Group classifies its financial assets as loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Sinodata Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in trade receivables in the balance sheets *(note 22)*.

(ii) Available-for-sale financial assets

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

Purchases and sales of investments are recognised on trade-date – the date on which the Sinodata Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Sinodata Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available for sale are recognised in equity. When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Sinodata Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Sinodata Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on the financial assets previously recognised in the income statement – is removed from equity and recognised in the income statement even though such financial assets have not been derecognised. Impairment losses recognised in the income statement on such equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increase and the increase can be objectively related to an event occurring after the impairment loss was recognised in income statement, the impairment loss shall be reversed, with the amount of the reversal recognised in income statement.

2.5 Property, plant and equipment

All property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses *(see note 2.9)*. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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

Property, plant and equipment are depreciated sufficient to write off their costs, less accumulated impairment losses and residual values, if any, using the straight-line method over their estimated useful lives. The principal annual rates used for this purpose are as follows:

– Buildings	30 years
– Leasehold improvements	16-50%
– Lottery machines	4-12 years
– Furniture, fixtures and equipment	5-10 years
– Plant and machinery	5-10 years
– Motor vehicles	5-10 years

The assets' residual values, if any, and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. 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. The gain or loss on derecognition of an item of property, plant and equipment, calculated as the difference between the net disposal proceeds and the carrying amount of the item, is included in the income statement in the period the item is derecognised.

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

2.6 Leasehold land and land use rights

Leasehold land and land use rights are lump sum upfront payments to acquire long-term interest in lessee-occupied properties.

Leasehold land and land use rights relating to buildings of the Sinodata Group are stated at cost and are amortised over the period of the lease on the straight-line basis which is charged to the profit or loss. Leasehold land and land use right relating to investment properties and properties developed for sale are not amortised and included as part of the cost of such properties.

2.7 Investment properties

Investment properties, being properties owned or held under finance leases to earn rentals or for capital appreciation or both, are stated in the balance sheet at fair value. These include lands held for currently undetermined future use. Any gains or losses arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss.

When the Sinodata Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease *(see note 2.19)*, and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases.

Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified as investment property at fair value. Any difference between the fair value of the property at that date and its previous carrying amount is recognised in profit or loss.

2.8 Intangible assets

On initial recognition, intangible assets acquired are recognised at cost. After initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses *(see note 2.9)*. Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over their estimated useful lives. Intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

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

Intangible assets with indefinite useful lives are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired.

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of five to ten years.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred.

Operating right

Operating right represents expenditure incurred on obtaining an operating right in a lottery centre. The operating right is with infinite useful life and carried at cost less any accumulated impairment losses *(see note 2.9)* and tested for impairment annually.

2.9 Impairment of assets

(i) Impairment of investments in equity securities and other receivables

Investments in equity securities (other than investments in subsidiaries: see note 2.9(ii)) and other current and non-current receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Sinodata Group about one or more of the following loss events:

– significant financial difficulty of the debtors;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtors; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as 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 (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Sinodata Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment (other than properties carried at revalued amounts);
- leasehold land and land use rights classified as being held under an operating lease;
- intangible assets; and
- investments in subsidiaries (except for those classified as held for sale or included in a disposal group that is classified as held for sale).

If any such indication exists, the asset's recoverable amount is estimated. In addition, for intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price 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 time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating units (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

2.10 Inventories

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

When inventories are sold, the carrying amount of those inventories is recognised as expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

2.11 Trade and other receivables

Trade and other receivables are initially recognised at fair value, and after initial recognition, at amortised cost less any allowance for impairment of doubtful debts *(see note 2.9)*, except for the following receivables:

– interest-free loans made to related parties without any fixed repayment terms or the effect of discounting being immaterial, that are measured at cost less any allowance for impairment of doubtful debts; and

– short-term receivables with no stated interest rate and the effect of discounting being immaterial, that are measured at their original invoiced amount less any allowance for impairment of doubtful debts.

2.12 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and at bank, demand deposits with bank and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Sinodata Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

2.13 Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates (and laws) enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Information. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets and liabilities are not discounted.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets also arise from unused tax losses and unused tax credits.

At each balance sheet date, the Sinodata Group reviews and assesses the recognised and unrecognised deferred tax assets and the future taxable profit to determine whether any recognised deferred tax assets should be derecognised and any unrecognised deferred tax assets should be recognised.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Sinodata Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.14 Trade and other payables

Trade and other payables are initially recognised at fair value and, after initial recognition, at amortised cost, except for the following payables:

– short-term payables with no stated interest rate and the effect of discounting being immaterial, that are measured at their original invoiced amount; and

– interest-free loans from related parties without any fixed repayment terms or the effect of discounting being immaterial, that are measured at cost.

2.15 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transactions costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Sinodata Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.16 Employee benefits

(i) Employee leave entitlements

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

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

(ii) Pension obligations

The Sinodata Group does not provide a pension plan for its employees. The Sinodata Group made contributions to defined contribution retirement plans in the PRC which are recognised as expenses in the income statement as incurred. The Sinodata Group has no further payment obligations once the contributions have been paid.

(iii) Bonus plans

The Sinodata Group recognises a liability and an expense for bonuses on a discretionary basis after consideration of the profit attributable to Sinodata's shareholders. The Sinodata Group recognises a provision where contractually obliged or where there is prior practice that has created a constructive obligation.

2.17 Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Sinodata Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2.18 Revenue recognition

Provided it is probable that the economic benefits will flow to the Sinodata Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss.

Revenue comprises the fair value for the sale of goods and services, and excludes value added tax or sales taxes and is shown net of returns. Revenue is recognised as follows:

(i) Income from provision of lottery machines and related services, comprising:

(1) Sales of goods

Sales of goods including lottery machines and related software systems are recognised when the goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods; the related risks and rewards of ownership and collectibility of the related receivables is reasonably assured.

(2) Income from lottery business

Income from lottery business including consultancy service, maintenance service and other related services are recognised in the accounting period in which the service is rendered.

(3) Income from sharing of lottery sales

Income from sharing of lottery sales shall be recognised on an accrual basis in accordance with the substance of the relevant agreement.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iii) Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal instalments.

2.19 Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Sinodata Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Leases of land and buildings

Whenever necessary in order to classify and account for a lease of land and buildings, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

The land element is classified as an operating lease unless title is expected to pass to the lessee by the end of the lease term. The building element is classified as a finance or operating lease in the same way as leases of other assets. The payments made on acquiring land held under an operating lease are recognised in the balance sheet as leasehold land and land use rights which are stated at cost and are amortised on a straight-line basis over the period of the lease term.

If the lease payments on a lease of land and buildings cannot be allocated reliably between the land and building elements at the inception of the lease, the entire lease is classified as a finance lease, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

(ii) Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases which the Sinodata Group is the lessee. Lease payments made under operating leases, net of any incentives received from the lessor, are charged to the income statement on a straight-line basis over the period of the lease. Where the Sinodata Group is the lessor, assets leased by the Sinodata Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the income statement on a straight-line basis over the period of the lease. Contingent rentals (if any) are charged/credited as an expense/income to the income statement in the accounting period in which they are incurred.

2.20 Foreign currency translation

(i) Functional and presentation currency

Items included in the Financial Information of each of the Sinodata Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Financial Information is presented in Renminbi, which is Sinodata's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

2.21 Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

2.22 Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are recognised immediately as a liability when they are proposed and declared.

2.23 Related parties

For the purposes of the Financial Information, a party is considered to be related to the Sinodata Group if:

(i) directly, or indirectly through one or more intermediaries, the party:

(1) controls, is controlled by, or is under common control with, the Sinodata Group;

(2) has an interest in the Sinodata Group that gives its significant influence over the Sinodata Group; or

(3) has joint control over the Sinodata Group;

(ii) the party is a jointly-controlled entity;

(iii) the party is an associate;

(iv) the party is a member of the key management personnel of Sinodata or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of the Sinodata Group, or of any entity that is a related party of the Sinodata Group.

2.24 Segment reporting

A segment is a distinguishable component of the Sinodata Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

No business or geographical segment analysis is presented as over 90% of the operations, assets and liabilities of the Sinodata Group during the Relevant Period are related to the engagement in the development and production of proprietary lottery machines, related operating software system and networks for the welfare lottery industry in the PRC, and all of the assets and customers are located in the PRC.

3 Changes in accounting policies

The HKICPA has issued a number of new and revised HKFRS and Interpretations that are first effective or available for early adoption for the Relevant Period of the Sinodata Group and Sinodata.

There have been no significant changes to the accounting policies applied in this Financial Information for the Relevant Period presented as a result of these developments. However, as a result of the adoption of HKFRS 7, *Financial instruments: Disclosures* and the amendment to HKAS 1, *Presentation of financial statements: Capital disclosures*, there have been some additional disclosures provided as follows:

As a result of the adoption of HKFRS 7, the Financial Information includes expanded disclosure about the significance of the Sinodata Group's financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by HKAS 32, *Financial instruments: Disclosure and presentation*. These disclosures are provided throughout the Financial Information, in particular in note 32.

The amendment to HKAS 1 introduces additional disclosure requirements to provide information about the level of capital and the Sinodata Group's and Sinodata's objectives, policies and processes for managing capital. These new disclosures are set out in note 33.

Both HKFRS 7 and the amendment to HKAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the Financial Information.

The Sinodata Group has not early applied any new standard, amendment or interpretation that has been issued but is not yet effective for the Relevant Period *(see note 35)*.

4 Critical accounting estimates and judgements

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

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

(i) Allowance for impairment of bad and doubtful debts

The Sinodata Group makes allowance for impairment of doubtful debts based on an assessment of the recoverability of trade receivables and other receivables. Allowances are applied to trade receivables and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of allowance for impairment of doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of receivables and allowance for impairment in the period in which such estimate has been changed.

(ii) Write-down of obsolete and slow-moving inventories

The Sinodata Group writes down obsolete and slow-moving inventories to net realisable value based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. Write-downs are applied to inventories where events or changes in circumstances indicate that the inventories may be obsolete or slow-moving. The identification of obsolete or slow-moving inventories requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of the inventories and charges in the year in which such estimate has been changed.

(iii) Income taxes

The Sinodata Group is subject to PRC income taxes only. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Sinodata Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax expenses in the year in which such determination is made.

(iv) Distinction between investment properties and owner-occupied properties

The Sinodata Group determines whether a property qualifies as investment property. In making its judgement, the Sinodata Group considers whether the property generates cash flows largely independently of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services for administrative purposes. If these portions can be sold separately (or leased out separately under a finance lease), the Sinodata Group's Financial Information account for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Sinodata Group considers each property separately in making its judgement.

5 Turnover

The Sinodata Group are principally engaged in the development and production of proprietary lottery machines, related operating software system and networks for the welfare lottery industry in the PRC. Turnover represents revenues recognised from the sales of proprietary lottery machines and sharing certain percentage of lottery sales from its customers and related services during the Relevant Period as follows.

	Year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Income from provision of lottery machines and related services	77,624	192,532	309,499

6 Other income and gains, net

	Year ended 31 December		
	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
Other income			
Interest income on bank deposits	76	128	196
Interest income on loan receivables	67	–	–
Total interest income	143	128	196
Government subsidy	463	516	680
Selling of obsolete raw materials	–	1,857	1,058
Others	–	–	340
	606	2,501	2,274
Gains, net			
Gain on disposal of property, plant and equipment, net	15	–	–
Fair value gain on investment property	–	–	21,417
	15	–	21,417
	621	2,501	23,691

7 Finance costs

	Year ended 31 December		
	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
Interest on bank borrowings not wholly repayable within 5 years	–	372	982
Interest on other borrowings wholly repayable within 5 years	–	275	–
	–	647	982

8 Profit before taxation

Sinodata Group's profit before taxation is stated after (crediting) and charging the following:

	Year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Gain on disposal of property, plant and equipment	(15)	–	–
Depreciation of property, plant and equipment *(note 14(a))*	5,938	7,603	9,606
Amortisation of leasehold land and land use rights *(note 15)*	42	42	42
Amortisation of intangible assets *(note 17)*	382	382	382
Auditors' remuneration	8	320	10
Property, plant and equipment written off	–	4	–
Allowance for impairment of trade receivables	–	35	–
Write-down of obsolete and slow-moving inventories	–	792	–
Staff costs *(note 9)*	9,900	11,349	17,077
Operating leases in respect of rented premises	463	719	491

9 Employee benefits expenses (including directors' emoluments)

	Year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Wages and salaries	9,071	10,420	15,978
Retirement benefits	564	689	728
Other employee benefits	265	240	371
	9,900	11,349	17,077

The remuneration of directors and senior management for the three years ended 31 December 2005, 2006 and 2007 is set out below:

	Year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Directors			
– Basic salaries, other allowances and benefits in kind	234	36	102
Senior management			
– Basic salaries, other allowances and benefits in kind	1,314	1,112	1,884

During the Relevant Period, no directors of Sinodata waived or agreed to waive any emoluments. No emoluments have been paid to the directors of Sinodata as an inducement to join or upon joining the Sinodata Group, or as compensation for loss of office.

10 Retirement benefits

Pursuant to the relevant PRC regulations, the Sinodata Group is required to make contributions to defined contribution retirement schemes organised by the relevant Social Security Bureau in respect of the retirement benefits for the Sinodata Group's employees in the PRC.

Save as disclosed above, the Sinodata Group has no other obligation to make payments in respect of retirement benefits of the employees.

11 Income tax expenses

	Year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Current tax – PRC Enterprises Income Tax			
Current year	646	6,513	13,013
Deferred tax			
Origination and reversal of temporary differences *(note 28(i))*	–	3,394	12,360
Taxation charge	646	9,907	25,373

Sinodata is a private limited liability company and is new technology enterprise located in Shenzhen and is eligible for application of tax holiday and concession which are in the form of two years tax exemption from the first profitable year, followed by a 50% reduction of the applicable tax rate in the following three years. The applicable income tax rate for Sinodata is 15%. 2000 is the first profitable year of Sinodata and the income for the year ended 31 December 2005 was subject to 50% reduction. The tax holiday and concession periods were expired in 2006.

深圳市思樂數據設備服務有限公司 is a private limited liability company located in Shenzhen and is eligible for application of tax holiday and concession which are in the form of two years tax exemption from the date of commencement of operation. The applicable income tax rate for this subsidiary is 15%. 2004 is the first year of exemption and the income for the year ended 31 December 2005 was exempted.

南京正見營銷諮詢有限公司 is a private limited liability company located in Nanjing. Its applicable income tax rate is 33%.

The taxation on the Sinodata Group's profit before taxation differs from the theoretical amount that would arise using the tax rate of 15% is as follows:

	Year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Profit before taxation	21,401	62,192	162,283
Calculated at a tax rate of 15% on profit before taxation	3,210	9,329	24,342
Tax effect of income not taxable for tax purpose	(496)	(925)	(464)
Tax effect of expenses not deductible for tax purpose	243	1,537	1,490
Effect of tax exemption granted	(2,311)	–	–
Effect of different tax rates of certain subsidiaries operating in other jurisdictions	–	(34)	5
Taxation charge	646	9,907	25,373

12 Profit attributable to equity holders of Sinodata

Profit attributable to equity holders of Sinodata for the three years ended 31 December 2005, 2006 and 2007 is dealt with in the Financial Information of Sinodata to the extent of approximately RMB10,271,000, RMB46,532,000 and RMB127,468,000 respectively *(note 26(b))*.

13 Dividends

Final dividend payments of RMB18,000,000 for the year ended 31 December 2005 was proposed on 27 February 2006. No final dividend payment for the years ended 31 December 2006 and 2007 was proposed. The Financial Information do not reflect final dividend proposed as dividend payable as at the balance sheet date.

	Year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Final dividend proposed after the balance sheet date	18,000	–	–

14 Property, plant and equipment

(a) Sinodata Group

	Leasehold buildings *RMB'000*	Leasehold improvements *RMB'000*	Lottery machines *RMB'000*	Furniture, fixtures and equipment *RMB'000*	Plant and machinery *RMB'000*	Motor vehicles *RMB'000*	Total *RMB'000*
Cost							
At 31.12.2004	3,460	–	23,554	3,236	1,788	1,675	33,713
Additions	–	363	888	1,738	2,342	292	5,623
Disposals	–	–	–	(84)	–	(251)	(335)
At 31.12.2005	3,460	363	24,442	4,890	4,130	1,716	39,001
Accumulated depreciation							
At 31.12.2004	404	–	5,247	2,128	454	775	9,008
Charge for the year	115	138	3,321	1,960	131	273	5,938
Written back on disposals	–	–	–	(62)	–	(238)	(300)
At 31.12.2005	519	138	8,568	4,026	585	810	14,646
Net book value							
At 31.12.2005	2,941	225	15,874	864	3,545	906	24,355
At 31.12.2004	3,056	–	18,307	1,108	1,334	900	24,705
Cost							
At 31.12.2005	3,460	363	24,442	4,890	4,130	1,716	39,001
Reclassification	–	619	–	639	(1,258)	–	–
Additions	–	–	8,313	778	165	461	9,717
Written off	–	–	–	(61)	–	–	(61)
At 31.12.2006	3,460	982	32,755	6,246	3,037	2,177	48,657
Accumulated depreciation							
At 31.12.2005	519	138	8,568	4,026	585	810	14,646
Reclassification	–	(89)	–	146	(57)	–	–
Charge for the year	115	197	7,114	(502)	548	131	7,603
Written back on write-off	–	–	–	(57)	–	–	(57)
At 31.12.2006	634	246	15,682	3,613	1,076	941	22,192
Net book value							
At 31.12.2006	2,826	736	17,073	2,633	1,961	1,236	26,465
At 31.12.2005	2,941	225	15,874	864	3,545	906	24,355
Cost							
At 31.12.2006	3,460	982	32,755	6,246	3,037	2,177	48,657
Reclassification	–	–	–	(20)	–	20	–
Additions	–	3,828	43,786	862	1,514	1,773	51,763
At 31.12.2007	3,460	4,810	76,541	7,088	4,551	3,970	100,420
Accumulated depreciation							
At 31.12.2006	634	246	15,682	3,613	1,076	941	22,192
Reclassification	–	–	–	(5)	–	5	–
Charge for the year	115	197	7,724	794	598	178	9,606
At 31.12.2007	749	443	23,406	4,402	1,674	1,124	31,798
Net book value							
At 31.12.2007	2,711	4,367	53,135	2,686	2,877	2,846	68,622
At 31.12.2006	2,826	736	17,073	2,633	1,961	1,236	26,465

(b) Sinodata

	Leasehold buildings *RMB'000*	Leasehold improvements *RMB'000*	Lottery machines *RMB'000*	Furniture, fixtures and equipment *RMB'000*	Plant and machinery *RMB'000*	Motor vehicles *RMB'000*	Total *RMB'000*
Cost							
At 31.12.2004	3,460	–	23,554	2,991	1,788	1,675	33,468
Additions	–	363	888	1,704	2,342	292	5,589
Disposals	–	–	–	(84)	–	(251)	(335)
At 31.12.2005	3,460	363	24,442	4,611	4,130	1,716	38,722
Accumulated depreciation							
At 31.12.2004	404	–	5,247	2,017	454	775	8,897
Charge for the year	115	138	3,321	1,916	131	273	5,894
Written back on disposals	–	–	–	(62)	–	(238)	(300)
At 31.12.2005	519	138	8,568	3,871	585	810	14,491
Net book value							
At 31.12.2005	2,941	225	15,874	740	3,545	906	24,231
At 31.12.2004	3,056	–	18,307	974	1,334	900	24,571
Cost							
At 31.12.2005	3,460	363	24,442	4,611	4,130	1,716	38,722
Reclassification	–	619	–	639	(1,258)	–	–
Additions	–	–	8,313	753	165	461	9,692
Written off	–	–	–	(61)	–	–	(61)
At 31.12.2006	3,460	982	32,755	5,942	3,037	2,177	48,353
Accumulated depreciation							
At 31.12.2005	519	138	8,568	3,871	585	810	14,491
Reclassification	–	(89)	–	146	(57)	–	–
Charge for the year	115	197	7,114	(541)	548	131	7,564
Written back on write-off	–	–	–	(57)	–	–	(57)
At 31.12.2006	634	246	15,682	3,419	1,076	941	21,998
Net book value							
At 31.12.2006	2,826	736	17,073	2,523	1,961	1,236	26,355
At 31.12.2005	2,941	225	15,874	740	3,545	906	24,231
Cost							
At 31.12.2006	3,460	982	32,755	5,942	3,037	2,177	48,353
Additions	–	3,828	43,786	841	1,514	1,653	51,622
At 31.12.2007	3,460	4,810	76,541	6,783	4,551	3,830	99,975
Accumulated depreciation							
At 31.12.2006	634	246	15,682	3,419	1,076	941	21,998
Charge for the year	115	197	7,724	755	598	172	9,561
At 31.12.2007	749	443	23,406	4,174	1,674	1,113	31,559
Net book value							
At 31.12.2007	2,711	4,367	53,135	2,609	2,877	2,717	68,416
At 31.12.2006	2,826	736	17,073	2,523	1,961	1,236	26,355

The leasehold buildings are situated in the PRC and are held under medium term leases.

15 Leasehold land and land use rights – Sinodata Group and Sinodata

	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
Cost			
At beginning and end of the year	1,562	1,562	1,562
Accumulated amortisation			
At beginning of the year	148	190	232
Amortisation for the year	42	42	42
At end of the year	190	232	274
Net book value			
At end of the year	1,372	1,330	1,288
Portion classified as current assets	(42)	(42)	(42)
	1,330	1,288	1,246

The Sinodata Group's interests in leasehold land and land use rights represent prepaid operating lease payments in the PRC held on leases for 50 years.

16 Investment property – Sinodata Group and Sinodata

	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
At beginning of the year	–	–	–
Transfer from deposits for acquisition of leasehold land use rights and buildings	–	–	23,594
Cash rebate	–	–	(11)
Fair value gain	–	–	21,417
At end of the year	–	–	45,000

The investment property is situated in the PRC and held under medium-term lease. It is held for undetermined use under operating lease. The investment property was revalued as at 31 December 2007 on the open market existing use basis by Asset Appraisal Limited, an independent firm of professional valuers.

The above investment property was pledged to secure bank borrowings granted to Sinodata *(note 27)*.

17 Intangible assets – Sinodata Group and Sinodata

	Computer software *RMB'000*	Operating right *RMB'000*	Total *RMB'000*
Cost			
At 1 January 2005, 31 December 2005 and 2006	2,809	–	2,809
Additions	–	28,000	28,000
At 31 December 2007	2,809	28,000	30,809
Accumulated amortisation			
At 1 January 2005	1,269	–	1,269
Amortisation for the year	382	–	382
At 31 December 2005	1,651	–	1,651
Amortisation for the year	382	–	382
At 31 December 2006	2,033	–	2,033
Amortisation for the year	382	–	382
At 31 December 2007	2,415	–	2,415
Net book value			
At 31 December 2005	1,158	–	1,158
At 31 December 2006	776	–	776
At 31 December 2007	394	28,000	28,394

All amortisation charges were included in "cost of sales" in the consolidated income statement for each of the years ended 31 December 2005, 2006 and 2007.

In accordance with the Sinodata Group's accounting policies, the Sinodata Group has assessed the recoverable amounts of the operating right based on value-in-use calculations, which use cash flow projections based on financial budgets approved by the management covering the operation period of the business with a discount of 8%. The discount rate used reflects specific risks relating to the business and the growth rate is in line with the forecasts adopted by the industry.

18 Deposits for acquisition of leasehold land use rights and buildings – Sinodata Group and Sinodata

In July 2006, the Sinodata Group entered into purchase agreements to acquire leasehold land use rights and buildings in the PRC for an aggregate consideration of approximately RMB23,594,000. As at 31 December 2006, the acquisition has not yet completed and the amount of consideration paid pursuant to the purchase agreements had been included and shown under the heading of non-current assets.

In addition to the above, as at 31 December 2006, the Sinodata Group also entered into mortgage loan agreements with the banks to pledge the above leasehold land use rights and buildings to secure the bank borrowings granted to Sinodata *(note 27).*

The acquisition was completed during the year 2007. However, upon the completion of the acquisition, the Sinodata Group had not determined the use of the property, and therefore it is classified as investment property in accordance with note 4(iv) and accounted for as described in note 2.7.

19 Interests in subsidiaries

	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Investment cost	1,800	2,835	2,835
Amount due to a subsidiary	(3,268)	(13,618)	(12,318)
	(1,468)	(10,783)	(9,483)

Amount due to a subsidiary is unsecured, interest free and has no fixed term of repayment.

Particulars of Sinodata's subsidiaries as at the date of this report are as follows:

Name	**Place of establishment and kind of legal entities**	**Principal activities and place of operation**	**Registered and paid-in capital**	**Interest held Directly**	**Interest held Indirectly**
深圳市思樂數據設備服務有限公司	PRC, limited liability company	provision of maintenance service for lottery machines in the PRC	RMB2,000,000	100%	–
南京正見營銷諮詢有限公司	PRC, limited liability company	provision of consultation service in the PRC	RMB500,000	–	80%

20 Inventories – Sinodata Group and Sinodata

	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
Raw materials	25,453	32,170	43,248
Work-in-progress	1,497	9,321	333
Finished goods	8,526	1,851	3,372
	35,476	43,342	46,953

For the years ended 31 December 2005, 2006 and 2007, included in the above are raw materials stated at net realisable value amounting to approximately RMB1,085,000, RMB542,000 and RMB380,000 respectively.

For the year ended 31 December 2005, included in the above are finished goods stated at net realisable value amounting to approximately RMB545,000.

21 Available-for-sale financial assets – Sinodata Group and Sinodata

	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
Unlisted equity investments established in the PRC			
At 1 January	2,000	6,000	–
Additions	6,000	–	–
Disposal	(2,000)	(6,000)	–
At 31 December	6,000	–	–
Classified as:			
Current assets	6,000	–	–
Non– current assets	–	–	–
	6,000	–	–

In June 2005, Sinodata acquired 30% equity interest in 北京順通典當有限責任公司 ("北京順通") at a consideration of RMB6,000,000 for settlement of amounts due from two non-trade debtors. In the opinion of the directors of Sinodata, Sinodata has no significant influence over 北京順通 and the investment was held with intention for subsequent disposal and, therefore this investment was shown as current asset in 2005.

In March 2006, Sinodata disposed of the entire interest in 北京順通 at a consideration of RMB6,000,000.

22 Trade receivables

(a) Sinodata Group

	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	26,971	77,398	149,793
Less: allowance for impairment of receivables	1,206	1,241	1,241
	25,765	76,157	148,552

(b) Sinodata

	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	24,575	71,244	142,156
Less: allowance for impairment of receivables	1,206	1,241	1,241
	23,369	70,003	140,915

The majority of the Sinodata Group's sales are on credit with terms generally ranging from 30 to 60 days. The financial strength of and the length of business relationship with the customers, on an individual basis, are considered in arriving at the respective credit terms. Overdue balances are reviewed regularly by management.

An aged analysis of the trade receivables for the Relevant Period is as follows:

(a) Sinodata Group

	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
Current – 30 days	15,464	59,141	95,579
31 – 60 days	2,607	812	5,855
61 – 90 days	3,808	7,217	24,541
One year or less but over 90 days	5,092	10,228	23,818
	26,971	77,398	149,793

(b) Sinodata

	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Current – 30 days	15,095	57,101	87,949
31 – 60 days	585	812	5,855
61 – 90 days	3,808	6,398	24,541
One year or less but over 90 days	5,087	6,933	23,811
	24,575	71,244	142,156

In the years ended 31 December 2005 and 2007, there was no movement in allowance for impairment of trade receivables. In the year ended 2006, allowance for impairment of trade receivables increased from RMB1,206,000 as at 1 January 2006 to RMB1,241,000 as at 31 December 2006 following a recognition of impairment loss of RMB35,000 during that year.

The creation of allowance for impaired receivables has been included in other operating expenses in the consolidated income statement. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

Included in the impairment of trade receivables was a full provision for individually impaired trade receivables of RMB1,206,000, RMB1,241,000 and RMB1,241,000 with carrying amount of RMB1,206,000, RMB1,241,000 and RMB1,241,000 as at 31 December 2005, 2006 and 2007 respectively. The individually impaired trade receivables related to a customer that has been in default for a prolonged period and there is significant uncertainly over the recovery of the receivables. The Sinodata Group does not hold any collateral or other credit enhancements over that balance.

Trade receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Sinodata Group. Based on past experience, the directors of the Sinodata Group are of the opinion that no allowance for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. All trade receivables that were past due in 2005 and 2006 have been settled during 2006 and 2007 respectively. The Sinodata Group does not hold any collateral or other credit enhancements over these balances. The ageing of these receivables is as follows:

Sinodata Group and Sinodata

	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Three months or less past due	7,499	8,601	16,629
One year or less but over 3 months past due	1,396	4,730	13,199
	8,895	13,331	29,828

The carrying amounts of the trade receivables approximate to their fair values.

23 Prepayments and other receivables

(a) Sinodata Group

	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Amounts due from shareholders	5,052	–	–
Prepayments and other receivables	26,383	54,998	29,108
	31,435	54,998	29,108
Less: allowance for impairment of other receivables	9,271	9,271	9,271
	22,164	45,727	19,837

(b) Sinodata

	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
Amounts due from shareholders	2,052	–	–
Prepayments and other receivables	25,873	54,525	28,456
	27,925	54,525	28,456
Less: allowance for impairment of other receivables	9,271	9,271	9,271
	18,654	45,254	19,185

Amounts due from shareholders are unsecured, have no fixed terms of repayment and interest free except for an advance of RMB3,000,000 bearing interest at the rate of 7.2% per annum which was fully settled during the year ended 31 December 2005.

In the years ended 31 December 2005, 2006 and 2007, there was no movement in allowance for impairment of other receivables.

Included in the impairment of other receivables was full allowance for individually impaired other receivables of RMB8,599,000 and RMB672,000 with carrying amounts of RMB8,599,000 and RMB672,000 respectively as at 31 December 2005, 2006 and 2007. The individually impaired other receivables relate to two companies that have been in default for a prolonged period and there is significant uncertainty over the recovery of the receivables. The Sindoata Group does not hold any collateral or other credit enhancements over these balances.

The other classes within prepayments and other receivables are neither past due nor impaired.

The carrying amounts of the prepayments and other receivables approximate to their fair values.

24 Cash and cash equivalents – Sinodata Group and Sinodata

Cash and cash equivalents include only cash at banks and in hand.

The carrying amounts of cash and cash equivalents approximate to their fair values.

25 Paid-in capital

	2005 *RMB'000*	2006 *RMB'000*	2007 *RMB'000*
Registered capital:	32,000	35,560	35,560
Paid-in capital:			
At 1 January	32,000	32,000	35,560
Contributions by equity holder	–	3,560	–
At 31 December	32,000	35,560	35,560

26 Reserves and minority interests

(a) Sinodata Group

	Attributable to equity holders of Sinodata								
	Share premium *RMB'000*	Surplus reserve *RMB'000* *(note (i))*	Statutory public welfare fund *RMB'000* *(note (ii))*	Capital reserve *RMB'000* *(note (iii))*	Retained profits *RMB'000*	Proposed final dividend *RMB'000*	Total *RMB'000*	Minority interests *RMB'000*	Total *RMB'000*
At 1 January 2005	–	19,993	6,871	–	40,434	10,000	77,298	616	77,914
Profit for the year	–	–	–	–	19,728	–	19,728	1,027	20,755
2004 proposed final dividend paid	–	–	–	–	–	(10,000)	(10,000)	–	(10,000)
Proposed final dividend	–	–	–	–	(18,000)	18,000	–	–	–
At 31 December 2005	–	19,993	6,871	–	42,162	18,000	87,026	1,643	88,669
Profit for the year	–	–	–	–	51,815	–	51,815	470	52,285
Dividends approved and declared during the year	–	–	–	–	–	–	–	(650)	(650)
2005 proposed final dividend paid	–	–	–	–	–	(18,000)	(18,000)	–	(18,000)
Arising from additional investment in a subsidiary	–	–	–	–	–	–	–	(1,463)	(1,463)
Transfer of reserves	–	6,871	(6,871)	–	–	–	–	–	–
Excess of fair value of net assets acquired over consideration	–	–	–	429	–	–	429	–	429
Capital contributions by equity holder	26,440	–	–	–	–	–	26,440	–	26,440
At 31 December 2006	26,440	26,864	–	429	93,977	–	147,710	–	147,710
Profit for the year	–	–	–	–	136,910	–	136,910	–	136,910
At 31 December 2007	26,440	26,864	–	429	230,887	–	284,620	–	284,620

(b) Sinodata

	Share premium	Surplus reserve	Statutory public welfare fund	Retained profits	Proposed final dividend	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(note (i))	*(note (ii))*			
At 1 January 2005	–	18,827	6,288	39,194	10,000	74,309
Profit for the year	–	–	–	10,271	–	10,271
2004 proposed final dividend paid	–	–	–	–	(10,000)	(10,000)
Proposed final dividend	–	–	–	(18,000)	18,000	–
At 31 December 2005	–	18,827	6,288	31,465	18,000	74,580
Profit for the year	–	–	–	46,532	–	46,532
2005 proposed final dividend paid	–	–	–	–	(18,000)	(18,000)
Transfer of reserves	–	6,288	(6,288)	–	–	–
Capital contributions by equity holder	26,440	–	–	–	–	26,440
At 31 December 2006	26,440	25,115	–	77,997	–	129,552
Profit for the year	–	–	–	127,468	–	127,468
At 31 December 2007	26,440	25,115	–	205,465	–	257,020

(i) Surplus reserve

According to the relevant rules and regulations in the PRC, the Sinodata and its subsidiaries are required to appropriate 10% of after-tax profit (after offsetting prior year losses) to the statutory surplus reserve, based on the PRC statutory financial statements prepared in accordance with Accounting Standard for Business Enterprises in the PRC, until the balance of the reserve reaches 50% of their respective registered capital. Thereafter, any further appropriations can be made at the directors' discretion. The surplus reserve can be utilised to offset prior year losses, or be utilised for issuance of bonus shares on condition that the surplus reserve shall be maintained at a minimum of 25% of the registered capital after such issuance.

(ii) Statutory public welfare fund

According to the relevant rules and regulations in the PRC, the Sinodata and its subsidiaries are required to transfer 5% of its after-tax profit (after offsetting prior year losses) to the statutory public welfare fund, based on the PRC statutory financial statements prepared in accordance with Accounting Standard for Business Enterprises in the PRC. This fund can only be utilised on capital items for the collective benefits of the employees of the Sinodata and its subsidiaries in the PRC. This fund is non-distributable other than on liquidation. The transfer to this fund must be made before distribution of a dividend to shareholders.

Pursuant to the revised Company Law of the PRC which was revised on 27 October 2005, Sinodata and its subsidiaries are no longer required to make profit appropriations to the statutory public welfare fund commencing from 1 January 2006. Pursuant to the notice "Cai Oi [2006] No.67" issued by the Ministry of Finance, the balance of this fund as at 31 December 2005 was transferred to the statutory surplus reserve.

(iii) Capital reserve

In 2006, Sinodata increased its shareholding in a subsidiary. The acquisition gave rise to an excess of interest in fair value of the identifiable net assets over consideration. As Sinodata had control on the subsidiary prior to this additional investment, the additional investment was considered as an equity transaction and the excess amount was credited to the reserve directly.

27 Bank borrowings – Sinodata Group and Sinodata

	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Bank borrowings – secured	–	13,750	12,688
Less: Amount repayable within one year included in current liabilities	–	1,026	1,094
	–	12,724	11,594

The directors consider that the fair values of bank borrowings at the balance sheet date approximate to their carrying amounts.

28 Deferred taxation – Sinodata Group and Sinodata

(i) Deferred tax liabilities recognised

	Fair value gain on investment property *RMB'000*	**Other taxable temporary differences** *RMB'000*	**Total** *RMB'000*
At 31 December 2005	–	–	–
Charged to the consolidated income statement *(note 11)*	–	3,394	3,394
At 31 December 2006	–	3,394	3,394
Charged to the consolidated income statement *(note 11)*	3,213	9,147	12,360
At 31 December 2007	3,213	12,541	15,754

(ii) Deferred tax assets/liabilities on temporary differences for the year ended 31 December 2005 are insignificant.

29 Trade payables – Sinodata Group and Sinodata

	2005 *RMB'000*	**2006** *RMB'000*	**2007** *RMB'000*
Current – 30 days	6,902	6,606	29,767
31 – 60 days	2,100	2,049	6,820
61 – 90 days	962	1,008	1,687
One year or less but over 90 days	101	7,293	11,496
	10,065	16,956	49,770

Trade payables are expected to be settled or recognised as income within one year or are repayable on demand.

The carrying amounts of the trade payables approximate to their fair values.

30 Notes to consolidated cash flow statements

(a) Reconciliation of profit before taxation to net cash generated from operations

	Year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Profit before taxation	21,401	62,192	162,283
Depreciation of property, plant and equipment	5,938	7,603	9,606
Amortisation of intangible assets	382	382	382
Property, plant and equipment written off	–	4	–
Amortisation of leasehold land and land use rights	42	42	42
Allowance for impairment of trade receivables	–	35	–
Write-down of obsolete and slow-moving inventories	–	792	–
Gain on disposal of property, plant and equipment	(15)	–	–
Interest income	(143)	(128)	(196)
Interest expenses	–	647	982
Fair value gain on investment property	–	–	(21,417)
Operating profit before change in working capital	27,605	71,569	151,682
Changes in working capital:			
Increase in inventories	(6,037)	(8,658)	(3,611)
Increase in trade receivables	(1,948)	(50,427)	(72,395)
Increase in prepayments and other receivables	(335)	(23,563)	(2,110)
Decrease in amounts due from investee companies	12	–	–
Increase in trade payables	1,814	6,891	32,814
(Decrease)/increase in accruals and other payables	(1,585)	15,335	3,581
Decrease in amount due to a related company	(200)	–	–
Net cash generated from operations	19,326	11,147	109,961

(b) Major non-cash transactions

In June 2005, Sinodata acquired 30% equity interest in 北京順通典當有限責任公司 at a consideration of RMB6,000,000 for settlement of amounts due from two non-trade debtors. Details of the transaction has been set out in note 21.

(c) Analysis of changes in financing

	Long term bank borrowings Year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January	–	–	13,750
Inceptions	–	14,090	–
Repayments	–	(340)	(1,062)
At 31 December	–	13,750	12,688

31 Commitments

(a) Capital commitments outstanding at 31 December not provided for in the Financial Information were as follows:

Sinodata Group and Sinodata

	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Contracted but not provided for			
– purchase of property, plant and equipment	–	–	2,428

(b) At 31 December, the Sinodata Group's and Sinodata's future aggregate minimum lease payments under non-cancellable operating leases are payable as follows:

Sinodata Group

	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Land and buildings			
Within one year	–	19	37

The Sinodata Group leases premises under operating leases. The leases run for an initial period of three to four years. The leases do not include any contingent rentals.

Sinodata

	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Land and buildings			
Within one year	–	16	37

Sinodata leases premises under operating leases. The leases run for an initial period of three to four years. The leases do not include any contingent rentals.

32 Financial risk management

The Sinodata Group has interest-bearing bank borrowings for financing its operations and has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. The main risks arising from these financial instruments of the Sinodata Group are interest rate risk, credit risk and liquidity risk.

The Sinodata Group's risk management strategy aims to minimise the adverse effects of financial risks on the financial performance of the Sinodata Group and the board reviews and agrees policies, as summarised below, for managing each of these risks. It is the Sinodata Group's policy that financial instruments are not held or sold for speculative purposes.

Interest rate risk

The Sinodata Group's exposure to the risk of changes in market interest rates relates primarily to the Sinodata Group's interest-bearing bank borrowings with floating interest rates.

The Sinodata Group's policy to manage its interest rate risk is to reduce or maintain its current level of interest-bearing borrowings. As the Sinodata Group is not expected to significantly increase its level of interest-bearing borrowings, it has not used any interest rate swaps to hedge its exposure to interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Sinodata Group's profit or loss and the Sinodata Group's equity.

Sinodata Group

	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit** *RMB'000*	**Increase/ (decrease) in equity** *RMB'000*
2005			
Renminbi	20	22	22
Renminbi	(20)	(22)	(22)
2006			
Renminbi	20	(118)	(118)
Renminbi	(20)	118	118
2007			
Renminbi	20	(158)	(158)
Renminbi	(20)	158	158

Credit risk

The Sinodata Group trades on credit terms only with recognised and creditworthy third parties. Receivable balances are monitored on an ongoing basis and the Sinodata Group's exposure to bad debt is not significant.

The credit risks of the Sinodata Group's other financial assets, which comprise bank balances, deposits and other receivables, arise from default of the counterparty, with a maximum exposure equal to the carrying amounts of these financial instruments.

Since the Sinodata Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. At 31 December 2005, 2006 and 2007, the Sinodata Group has a certain concentration of credit risk as 62%, 70% and 56% respectively of the total trade receivables which was due from the five largest customers.

Further quantitative data in respect of the Sinodata Group's exposure to credit risk arising from trade receivables are disclosed in note 22 to the Financial Information.

Liquidity risk

The Sinodata Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g. trade receivables) and projected cash flows from operations.

The Sinodata Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank borrowings.

The maturity profile of the Sinodata Group's financial liabilities as at the balance sheet dates, based on the contracted undiscounted cash flows, was as follows:

	2005					
	Carrying amount	**Total contractual undiscounted cash flows**	**Within 1 year or on demand**	**More than 1 year but less than 2 years**	**More than 2 years but less than 5 years**	**More than 5 years**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade and other payables	11,176	11,176	11,176	–	–	–
Bank borrowings	–	–	–	–	–	–
	11,176	11,176	11,176	–	–	–

	2006					
	Carrying amount	**Total contractual undiscounted cash flows**	**Within 1 year or on demand**	**More than 1 year but less than 2 years**	**More than 2 years but less than 5 years**	**More than 5 years**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade and other payables	27,402	27,402	27,402	–	–	–
Bank borrowings	13,750	19,533	2,016	2,021	6,064	9,432
	41,152	46,935	29,418	2,021	6,064	9,432

	2007					
	Carrying amount	**Total contractual undiscounted cash flows**	**Within 1 year or on demand**	**More than 1 year but less than 2 years**	**More than 2 years but less than 5 years**	**More than 5 years**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade and other payables	63,797	63,797	63,797	–	–	–
Bank borrowings	12,688	17,517	2,021	2,021	6,064	7,411
	76,485	81,314	65,818	2,021	6,064	7,411

33 Capital risk management

The Sinodata Group's primary objectives when managing capital are to safeguard the Sinodata Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Sinodata Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Consistent with industry practice, the Sinodata Group monitors its capital structure on the basis of a debt-to-adjusted capital ratio. For this purpose the Sinodata Group defines debts as total debts (which includes interest-bearing loans and borrowings, trade and other payables plus unaccrued proposed dividends). Adjusted capital comprises all components of equity, other than amounts recognised in equity relating to cash flow hedges, less unaccrued proposed dividends.

During the Relevant Period, the Sinodata Group's strategy was to maintain the debt-to-adjusted capital ratio at the lower end of the range 20% to 30%. In order to maintain or adjust the ratio, the Sinodata Group may adjust the amount of dividend paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

The debt-to-adjusted capital ratios at 31 December 2005, 2006 and 2007 were as follows:

	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Current liabilities:			
Trade and other payables	11,176	27,402	63,797
Bank borrowings	–	1,026	1,094
Final dividend proposed	18,000	–	–
	29,176	28,428	64,891
Non-current liabilities:			
Bank borrowings	–	12,724	11,594
Total debt	29,176	41,152	76,485
Total equity	120,669	183,270	320,180
Final dividend proposed	(18,000)	–	–
Adjusted capital	102,669	183,270	320,180
Debt-to-adjusted capital ratio	28%	22%	24%

Neither Sinodata nor any of its subsidiaries are subject to externally imposed capital requirements.

34 Balances and transactions with related parties

During the Relevant Period, details of the Sinodata Group's significant transactions with the following related parties, together with balances with them as at 31 December 2005, 2006 and 2007, are as follows:

	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Substantial shareholders:			
Interest income	67	–	–
Balance due to the Sinodata Group	5,052	–	–
Balance due from the Sinodata Group	–	5,980	–

In the opinion of the directors, the above transactions were entered into in the Sinodata Group's ordinary course of business and at terms agreed by both parties.

On 21 January 2005, 國旅聯合股份有限公司 ("國旅聯合"), which is a listed company established in the PRC, acquired additional 3% equity interest of Sinodata from another shareholder. Such acquisition increased 國旅聯合 ownership interest in Sinodata to 51%. At 31 December 2006 and 2007, the Sinodata Group is controlled by REXCAPITAL Financial Holdings Limited which in the opinion of the directors of Sinodata is the ultimate holding company of Sinodata.

35 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2007

Up to the date of issue of this Financial Information, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2007 and which have not been early adopted in this Financial Information as follows:

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions[3]
HK(IFRIC)-Int 12	Service Concession Arrangements[4]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[5]
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4]

1 *Effective for annual periods beginning on or after 1 January 2009*
2 *Effective for annual periods beginning on or after 1 July 2009*
3 *Effective for annual periods beginning on or after 1 March 2007*
4 *Effective for annual periods beginning on or after 1 January 2008*
5 *Effective for annual periods beginning on or after 1 July 2008*

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that does not result in a loss of control, which will be accounted for as equity transactions. The application of the new standards will affect the Sinodata Group's results and financial position. Other than as disclosed above and HKAS 23 (Revised), the directors of the Sinodata Group anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Sinodata Group.

36 Subsequent events

Other than those disclosed elsewhere in the Financial Information, the Sinodata Group has no significant subsequent event.

III SUBSEQUENT FINANCIAL STATEMENTS

No financial statements of the Sinodata Group have been audited in respect of any period subsequent to 31 December 2007.

Yours faithfully,
TING HO KWAN & CHAN
Certified Public Accountants (Practising)

Hong Kong, 5 June 2008

1. FINANCIAL SUMMARY

Set out below is a summary of the audited financial information of the Group for the three financial years ended 31 December 2007, 2006 and 2005, which is extracted from the annual reports of the Group for the relevant years. The auditors of the Company have given unqualified opinions on the financial statements for each of the three years ended 31 December 2007, 2006 and 2005.

CONSOLIDATED INCOME STATEMENT

	Year ended 31 December		
	2007	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	434,652	173,883	41,938
Other income	5,561	5,503	1,225
Other gains/(losses), net	23,180	15,413	(6,473)
Bad debts recovery, net	2,208	3,014	–
Reversal of allowance for impairment of bad and doubtful debts, net	16,840	2,182	–
Gain on disposal of partial interests in subsidiaries	63,998	–	–
Changes in inventories of finished goods and work in progress	(6,899)	–	–
Raw materials consumed	(119,167)	(56,005)	–
Outsourcing costs for software development	(13,333)	–	–
Cost of trading of listed securities	(22,142)	(12,544)	(3,010)
Commission expenses	(9,978)	(3,057)	(5,043)
Research and development costs	(3,921)	(2,968)	–
Depreciation and amortization expenses	(19,241)	(6,309)	(1,846)
Impairment losses for bad and doubtful debts	–	–	(18,141)
Staff costs	(60,410)	(24,617)	(19,005)
Other operating expenses	(68,832)	(35,602)	(30,758)
Operating profit/(loss)	222,516	58,893	(41,113)
Finance costs	(2,506)	(17,260)	(12,839)
Profit/(loss) before taxation	220,010	41,633	(53,952)
Taxation	(26,369)	(11,001)	3,252
Profit/(loss) for the year	193,641	30,632	(50,700)
Attributable to:			
Equity holders of the Company	136,688	11,170	(50,700)
Minority interests	56,953	19,462	–
	193,641	30,632	(50,700)
Earnings/(loss) per share			
– Basic	2.19 cents	0.26 cent	(1.69) cents
– Diluted	2.17 cents	0.25 cent	–

CONSOLIDATED BALANCE SHEET

	At 31 December		
	2007	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	89,445	43,139	3,452
Prepaid lease payments on land use rights	4,910	5,982	–
Investment properties	49,034	–	–
Goodwill	595,357	384,095	–
Intangible assets	95,638	11,945	–
Deposits for acquisition of leasehold land use rights and buildings	–	23,500	–
Statutory deposits	2,178	2,132	3,820
Deferred tax assets	2,111	3,715	7,609
Other receivables	168,620	–	–
Total non-current assets	1,007,293	474,508	14,881
CURRENT ASSETS			
Inventories	51,615	53,569	–
Trade and other receivables	824,554	429,784	293,283
Financial assets at fair value through profit or loss	30,072	20,288	13,382
Current tax refundable	2,698	3,181	790
Cash and bank balances	689,342	164,867	27,181
Total current assets	1,598,281	671,689	334,636
TOTAL ASSETS	2,605,574	1,146,197	349,517
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital	71,380	59,170	30,000
Reserves	2,242,586	752,262	84,572
	2,313,966	811,432	114,572
Minority interests	127,437	118,612	–
TOTAL EQUITY	2,441,403	930,044	114,572

	At 31 December		
	2007	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
LIABILITIES			
NON-CURRENT LIABILITIES			
Bank borrowings	12,675	12,777	–
Deferred tax liabilities	17,408	6,374	–
Total non-current liabilities	30,083	19,151	–
CURRENT LIABILITIES			
Trade and other payables	125,546	67,642	29,366
Bank borrowings	1,381	125,667	205,579
Current tax liabilities	7,161	3,693	–
Total current liabilities	134,088	197,002	234,945
TOTAL LIABILITIES	164,171	216,153	234,945
TOTAL EQUITY AND LIABILITIES	2,605,574	1,146,197	349,517
Net current assets	1,464,193	474,687	99,691
Total assets less current liabilities	2,471,486	949,195	114,572

2. AUDITED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2007

Set out below is the audited consolidated financial statements of the Group for the year ended 31 December 2007 as extracted from the Company's 2007 annual report.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Turnover	5	434,652	173,883
Other income	5	5,561	5,503
Other gains, net	5	23,180	15,413
Bad debts recovery, net		2,208	3,014
Reversal of allowance for impairment of bad and doubtful debts, net		16,840	2,182
Gain on disposal of partial interests in subsidiaries		63,998	–
Changes in inventories of finished goods and work in progress		(6,899)	–
Raw materials consumed		(119,167)	(56,005)
Outsourcing costs for software development		(13,333)	–
Cost of trading of listed securities		(22,142)	(12,544)
Commission expenses		(9,978)	(3,057)
Research and development costs		(3,921)	(2,968)
Depreciation and amortisation expenses	9	(19,241)	(6,309)
Staff costs	7	(60,410)	(24,617)
Other operating expenses		(68,832)	(35,602)
Operating profit		222,516	58,893
Finance costs	8	(2,506)	(17,260)
Profit before taxation	9	220,010	41,633
Taxation	12	(26,369)	(11,001)
Profit for the year		193,641	30,632
Attributable to:			
Equity holders of the Company	13	136,688	11,170
Minority interests		56,953	19,462
		193,641	30,632
Earnings per share	15		
– Basic		2.19 cents	0.26 cent
– Diluted		2.17 cents	0.25 cent

CONSOLIDATED BALANCE SHEET
At 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	16	89,445	43,139
Prepaid lease payments on land use rights	17	4,910	5,982
Investment properties	18	49,034	–
Goodwill	19	595,357	384,095
Intangible assets	20	95,638	11,945
Deposits for acquisition of leasehold land use rights and buildings	21	–	23,500
Statutory deposits	24	2,178	2,132
Deferred tax assets	25	2,111	3,715
Other receivables	26	168,620	–
Total non-current assets		1,007,293	474,508
Current assets			
Inventories	27	51,615	53,569
Trade and other receivables	26	824,554	429,784
Financial assets at fair value through profit or loss	28	30,072	20,288
Current tax refundable		2,698	3,181
Cash and bank balances	29	689,342	164,867
Total current assets		1,598,281	671,689
Total assets		2,605,574	1,146,197
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital	30	71,380	59,170
Reserves		2,242,586	752,262
		2,313,966	811,432
Minority interests		127,437	118,612
Total equity		2,441,403	930,044

	Notes	2007 *HK$'000*	2006 *HK$'000*
LIABILITIES			
Non-current liabilities			
Bank borrowings	*34*	12,675	12,777
Deferred tax liabilities	*25*	17,408	6,374
Total non-current liabilities		30,083	19,151
Current liabilities			
Trade and other payables	*33*	125,546	67,642
Bank borrowings	*34*	1,381	125,667
Current tax liabilities		7,161	3,693
Total current liabilities		134,088	197,002
Total liabilities		164,171	216,153
Total equity and liabilities		2,605,574	1,146,197
Net current assets		1,464,193	474,687
Total assets less current liabilities		2,471,486	949,195

BALANCE SHEET
At 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
ASSETS			
Non-current assets			
Interests in subsidiaries	22	1,624,939	789,751
Current assets			
Other receivables	26	1,313	115
Cash and bank balances	29	487,543	820
		488,856	935
Total assets		2,113,795	790,686
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital	30	71,380	59,170
Reserves	32	2,041,351	727,931
Total equity		2,112,731	787,101
LIABILITIES			
Current liabilities			
Other payables	33	1,064	3,585
Total liabilities		1,064	3,585
Total equity and liabilities		2,113,795	790,686
Net current assets/(liabilities)		487,792	(2,650)
Total assets less current liabilities		2,112,731	787,101

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

	Share capital	Share premium	Share-based payment reserve	Special reserve	Exchange translation reserve	Retained profit/ (accumulated losses)	Attributable to equity holders of the Company	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2006	30,000	–	7,040	112,270	–	(34,737)	114,573	–	114,573
Exchange difference arising from translation of foreign operations recognised directly in equity	–	–	–	–	(1,301)	–	(1,301)	1,950	649
Minority interests arising from acquisition of subsidiaries	–	–	–	–	–	–	–	88,661	88,661
Increase in investment in a subsidiary	–	–	–	–	–	–	–	8,539	8,539
Recognition of share option benefits at fair value	–	–	7,277	–	–	–	7,277	–	7,277
Issue of new shares	29,170	658,521	–	–	–	–	687,691	–	687,691
Transaction costs attributable to issue of new shares	–	(7,978)	–	–	–	–	(7,978)	–	(7,978)
Transfer to share premium on exercise of share options	–	6,268	(6,268)	–	–	–	–	–	–
Profit for the year	–	–	–	–	–	11,170	11,170	19,462	30,632
At 31 December 2006	59,170	656,811	8,049	112,270	(1,301)	(23,567)	811,432	118,612	930,044
Exchange difference arising from translation of foreign operations recognised directly in equity	–	–	–	–	11,840	–	11,840	5,211	17,051
Additional investments in subsidiaries	–	–	–	–	–	–	–	(53,339)	(53,339)
Recognition of share option benefits at fair value	–	–	24,867	–	–	–	24,867	–	24,867
Issue of new shares	12,210	1,335,239	–	–	–	–	1,347,449	–	1,347,449
Transaction costs attributable to issue of new shares	–	(18,310)	–	–	–	–	(18,310)	–	(18,310)
Transfer to share premium on exercise of share options	–	16,903	(16,903)	–	–	–	–	–	–
Profit for the year	–	–	–	–	–	136,688	136,688	56,953	193,641
At 31 December 2007	71,380	1,990,643	16,013	112,270	10,539	113,121	2,313,966	127,437	2,441,403

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
OPERATING ACTIVITIES			
Profit before taxation		220,010	41,633
Adjustments for:			
Fair value gains on investment properties	5	(21,967)	–
Interest income	5	(21,245)	(24,667)
Interest expenses	8	2,506	17,260
Share option benefits	31	24,867	7,277
Reversal of allowance for impairment of bad and doubtful debts, net		(16,840)	(2,182)
Gain on disposal of partial interests in subsidiaries		(63,998)	–
Write down of inventories		–	1,768
Depreciation and amortisation expenses	9	19,241	6,309
Fair value gains on financial assets at fair value through profit or loss	5	(1,673)	(15,413)
Operating profit before changes in working capital		140,901	31,985
(Increase)/decrease in statutory deposits		(46)	1,688
(Increase)/decrease in inventories		(701)	14,152
Increase in trade and other receivables		(556,445)	(71,137)
(Increase)/decrease in financial assets at fair value through profit or loss		(8,111)	8,508
(Increase)/decrease in bank balances – segregated accounts		(13,906)	4,528
Increase/(decrease) in trade and other payables		59,215	(23,034)
Net cash used in operations		(379,093)	(33,310)
Interest received		21,245	25,476
Interest paid		(2,506)	(17,260)
Taxation paid			
– Hong Kong profits tax paid		–	(2,184)
– PRC income tax paid		(11,092)	(1,874)
Net cash used in operating activities		(371,446)	(29,152)

	Notes	2007 HK$'000	2006 HK$'000
INVESTING ACTIVITIES			
Decrease/(increase) in pledged bank deposits		123,287	(123,287)
Purchase of property, plant and equipment	*16*	(71,951)	(8,764)
Acquisition of subsidiaries	*43*	–	(121,893)
Capital injection in the joint venture		(57,809)	–
Increase in intangible assets		(32,684)	–
Increase in interests in subsidiaries	*42*	(176,997)	–
Disposal of partial interests in subsidiaries	*44*	215,227	–
Deposits paid for acquisition of leasehold land use rights and buildings		–	(23,500)
Net cash used in investing activities		(927)	(277,444)
FINANCING ACTIVITIES			
Issue of share, net of issuing costs		1,119,139	515,913
New bank borrowings		–	14,034
Repayment of bank borrowings		(123,681)	(342)
Net cash generated from financing activities		995,458	529,605
INCREASE IN CASH AND CASH EQUIVALENTS		623,085	223,009
CASH AND CASH EQUIVALENTS AT 1 JANUARY		23,450	(199,559)
Effect of foreign exchange rate changes		11,129	–
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	*29*	657,664	23,450

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2007

1. General information

REXCAPITAL Financial Holdings Limited (the "Company") was incorporated in Bermuda as an exempted company with limited liability. The principal place of business of the Company is located at 34/F, COSCO Tower, Grand Millennium Plaza, 183 Queen's Road Central, Hong Kong.

Pursuant to a group reorganisation scheme to rationalise the structure of the Group in preparing for the listing of the Company's shares on the Stock Exchange, the Company became the holding company of the Group in Hong Kong on 15 August 2000 and its shares were listed on the Main Board of the Stock Exchange with effect from 28 September 2000.

The financial statements are presented in the Hong Kong dollars, which is the same as the functional currency of the Group.

During the year, the Group involves in the following principal activities:

- Financial services:
  Broking
  Securities margin financing
  Corporate finance and asset management
- Money lending
- Investment trading and holding
- Lottery business

The lottery business comprises development and production of lottery machines, related operating software system and networks for lottery industry in the People's Republic of China (the "PRC").

2. Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS"), which include all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The preparation of financial statements in conformity with HKFRS requires management to make judgements, estimates and assumptions that affect the applicable of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. 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 futures periods.

Judgements made by management in the application of HKFRS that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 4.

The HKICPA has issued certain new and revised HKFRS that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2007 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in jointly controlled entities.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that investment properties *(see note 2(i))* and financial assets at fair value through profit or loss *(see note 2(f))* are stated at their fair values.

These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except where otherwise indicated.

(c) Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

Loans from holders of minority interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet in accordance with note 2(p) depending on the nature of the liability.

In the Company's balance sheet, investments in subsidiaries are stated at cost less any accumulated impairment losses *(see note 2(k))*, unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale). The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(d) Joint ventures

A jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which the Group has an interest. A joint venture is a contractual arrangement whereby the Group and one or more of other parties undertake an economic activity that is subject to joint control, which is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control.

The Group's interests in jointly controlled entities are accounted for by proportionate consolidation. The Group combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements. The Group recognises the portion of gains or losses on the sale of assets by the Group to the joint venture that it is attributable to the other ventures. The Group does not recognise its share of profits or losses from the joint venture that result from the Group's purchase of assets from the joint venture until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

(e) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiaries/jointly controlled entities at the date of acquisition. Goodwill on acquisitions of subsidiaries/jointly controlled entities (using proportionate consolidation) is separately disclosed in the consolidated balance sheet.

Goodwill is allocated to cash-generating units and is tested annually for impairment and carried at cost less any accumulated impairment losses *(see note 2(k))*.

On disposal of a subsidiary or a jointly controlled entity during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(f) Investments

The Group classified its investments in financial assets at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet *(note 26)*.

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in fair value of the "financial assets at fair value through profit or loss" category are included in the income statement in the period in which they arise.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

(g) Property, plant and equipment

All property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses *(see note 2(k))*. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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

Property, plant and equipment are depreciated sufficient to write off their costs, less accumulated impairment losses and residual values, if any, using the straight-line method over their estimated useful lives. The principal annual rates used for this purpose are as follows:

– Leasehold buildings	30 – 50 years
– Leasehold improvements	20%
– Lottery machines	4 – 12 years
– Furniture, fixtures and equipment	10 – 25%
– Plant and machinery	10 – 25%
– Motor vehicles	19 – 20%

The assets' residual values, if any, and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. 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. The gain or loss on derecognition of an item of property, plant and equipment, calculated as the difference between the net disposal proceeds and the carrying amount of the item, is included in the income statement in the period the item is derecognised.

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

(h) Prepaid lease payments on land use rights

Prepaid lease payments on land use rights are lump sum upfront payments to acquire long-term interest in lessee-occupied properties.

Prepaid lease payments on land use rights relating to buildings of the Group are stated at cost and are amortised over the period of the lease on the straight-line basis which is charged to the profit or loss. Prepaid lease payments on land use rights relating to investment properties and properties developed for sale are not amortised and included as part of the cost of such properties.

(i) Investment properties

Investment properties, being properties owned or held under finance leases to earn rentals or for capital appreciation or both, are stated in the balance sheet at fair value. These include lands held for currently undetermined future use. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 2(t)(iv).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease *(see note 2(u))*, and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Prepaid lease payments are accounted for as described in note 2(h).

Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified as investment property at fair value. Any difference between the fair value of the property at that date and its previous carrying amount is recognised in profit or loss.

(j) Intangible assets (other than goodwill)

On initial recognition, intangible assets acquired are recognised at cost. After initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses *(see note 2(k))*. Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over their estimated useful lives. Intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

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

Intangible assets with indefinite useful lives are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired.

(i) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of five to ten years.

Costs associated with developing or maintaining computer software programmes are recognised as expenses as incurred.

(ii) Deferred development costs

Expenditure incurred on projects to develop computer software is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible, and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less accumulated amortisation and any accumulated impairment losses *(see note 2(k))*. Amortisation is provided on the straight-line basis over the commercial lives of the underlying production, subject to a maximum of 20 years commencing from the date when the products are put into commercial production.

(iii) Operating right

Operating right represents expenditure incurred on obtaining an operating right in a lottery centre. The operating right is with infinite useful life and carried at cost less any accumulated impairment loss and tested for impairment annually.

(iv) Technical know-how

Technical know-how represents the technology, technical information, know-how and experience in relation to the lottery business. The technical know-how is with infinite useful life and carried at cost less any accumulated impairment loss and tested for impairment annually.

(k) Impairment of assets

(i) Impairment of investments in equity securities and other receivables

Investments in equity securities (other than investments in subsidiaries and jointly controlled entities: see note 2(k)(ii)) and other current and non-current receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtors;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtors; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.
- For trade and other receivables and other financial assets carried at amortised cost, the impairment loss is measured as 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 (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment (other than properties carried at revalued amounts);

– prepaid lease payments on land use rights classified as being held under an operating lease;

– intangible assets;

– investments in subsidiaries and joint ventures (except for those classified as held for sale or included in a disposal group that is classified as held for sale); and

– goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price 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 time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating units (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year *(see notes 2(k)(i) and (ii)).*

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(l) Inventories

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

When inventories are sold, the carrying amount of those inventories is recognised as expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(m) Trade and other receivables

Trade and other receivables are initially recognised at fair value, and after initial recognition, at amortised cost less allowance for impairment of doubtful debts *(see note 2(k))*, except for the following receivables:

– interest-free loans made to related parties without any fixed repayment terms or the effect of discounting being immaterial, that are measured at cost less allowance for impairment of doubtful debts; and

– short-term receivables with no stated interest rate and the effect of discounting being immaterial, that are measured at their original invoiced amount less allowance for impairment of doubtful debts.

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and at banks, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(o) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates (and laws) enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

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

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets also arise from unused tax losses and unused tax credits.

At each balance sheet date, the Group reviews and assesses the recognised and unrecognised deferred tax assets and the future taxable profit to determine whether any recognised deferred tax assets should be derecognised and any unrecognised deferred tax assets should be recognised.

Deferred tax is provided on temporary differences arising on investments in subsidiaries and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(p) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 2(s), trade and other payables are subsequently stated at amortised cost, except for the following payables:

- short-term payables with no stated interest rate and the effect of discounting being immaterial, that are measured at their original invoiced amount; and
- interest-free loans from related parties without any fixed repayment terms or the effect of discounting being immaterial, that are measured at cost.

(q) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transactions costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

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

(r) Employee benefits

(i) Retirement benefit costs

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

The subsidiaries in the PRC do not provide a pension plan for their employees. The subsidiaries in the PRC made contributions to the defined contribution retirement plans in the PRC which are recognised as expenses in the income statement as incurred. The subsidiaries have no further payment obligations once the contributions have been paid.

(ii) Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

(iii) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(iv) Profit-sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Group's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(s) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payment to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(s) (iii) below if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee, i.e. the amount initially recognised, less accumulated amortisation.

(ii) Contingent liabilities acquired in business combinations

Contingent liabilities acquired as part of a business combination are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with note 2(s) (iii) below. Contingent liabilities acquired in a business combination that cannot be reliably fair valued are disclosed in accordance with note 2(s) (iii) below.

(iii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(t) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss.

Revenue comprises the fair value for the sale of goods and services, and after eliminating sales within the Group. Revenue is recognised as follows:

(i) Commission income and handling fee income, asset management and advisory fee income

Income arising from broking, corporate finance and asset management is recognised when the relevant services are rendered and the amount can be reliably estimated and it is probable that it will be received.

(ii) Income from trading of listed securities

Income from trading of listed securities is recognised as revenue on a trade date basis.

(iii) Income from provision of lottery machines and related services, comprising:

(1) Sales of goods

Sales of goods including lottery machines and related software systems are recognised when the goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods; the related risks and rewards of ownership and collectibility of the related receivables are reasonably assured.

(2) Income from lottery business

Income from lottery business including consultancy service, maintenance service and other related services is recognised in the accounting period in which the service is rendered.

(3) Income from sharing of lottery sales

Income from sharing of lottery sales is recognised on an accrual basis in accordance with the substance of the relevant agreement.

(iv) Rental income from investment properties

Rental income from operating leases is recognised on a straight-line basis over the period of the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased assets. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivables.

(v) Interest income

Interest income is recognised as it accrues using the effective interest method.

(vi) Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal instalments.

(u) Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Leases of land and buildings

Whenever necessary in order to classify and account for a lease of land and buildings, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

The land element is classified as an operating lease unless title is expected to pass to the lessee by the end of the lease term. The building element is classified as a finance or operating lease in the same way as leases of other assets. The payments made on acquiring land held under an operating lease are recognised in the balance sheet as prepaid lease payments on land use rights which are stated at cost and are amortised on a straight-line basis over the period of the lease term.

If the prepaid lease payments on a lease of land and buildings cannot be allocated reliably between the land and building elements at the inception of the lease, the entire lease is classified as a finance lease, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

(ii) Operating lease charges

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases, net of any incentives received from the lessor, are charged to the income statement on a straight-line basis over the period of the lease. Contingent rentals (if any) are charged to the income statement in the accounting period in which they are incurred.

(v) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(iii) Group companies

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

(1) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

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

(3) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(w) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(x) Related parties

For the purposes of the financial statements, a party is considered to be related to the Group if:

(i) directly, or indirectly through one or more intermediaries, the party:

(1) controls, is controlled by, or is under common control with, the Group;

(2) has an interest in the Group that gives its significant influence over the Group; or

(3) has joint control over the Group;

(ii) the party is a jointly-controlled entity;

(iii) the party is an associate;

(iv) the party is a member of the key management personnel of the Company or its parents;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

(y) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenues, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year.

Unallocated items mainly comprise financial and corporate assets, interest-bearing borrowings, tax balances, corporate and financing expenses.

3. Changes in accounting policies

The HKICPA has issued a number of new and revised HKFRS and Interpretations that are first effective or available for early adoption for the current accounting period of the Group and the Company.

There have been no significant changes to the accounting policies applied in these financial statements for the years presented as a result of these developments. However, as a result of the adoption of HKFRS 7, Financial instruments: Disclosures and the amendment to HKAS 1, Presentation of financial statements: Capital disclosures, there have been some additional disclosures provided as follows:

As a result of the adoption of HKFRS 7, the financial statements include expanded disclosure about the significance of the Group's financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by HKAS 32, Financial instruments: Disclosure and presentation. These disclosures are provided throughout these financial statements, in particular in note 38.

The amendment to HKAS 1 introduces additional disclosure requirements to provide information about the level of capital and the Group's and the Company's objectives, policies and processes for managing capital. These new disclosures are set out in note 39.

Both HKFRS 7 and the amendment to HKAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial statements.

The Group has not early applied any new standard, amendment or interpretation that has been issued but is not yet effective for the current accounting period *(see note 47)*.

4. Critical accounting estimates and judgements

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

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

(i) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2(k). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates *(note 19)*.

(ii) Allowance for impairment of bad and doubtful debts

The Group makes allowance for impairment of doubtful debts based on an assessment of the recoverability of trade and other receivables. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of allowance for impairment of doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of receivables and allowance for impairment in the period in which such estimate has been changed.

(iii) Write-down of obsolete and slow-moving inventories

The Group writes down obsolete and slow-moving inventories to net realisable value based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. Write-downs are applied to inventories where events or changes in circumstances indicate that the inventories may be obsolete or slow-moving. The identification of obsolete or slow-moving inventories requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of the inventories and charges in the year in which such estimate has been changed.

(iv) Income taxes

Deferred tax asset in relation to the unused tax losses of approximately HK$99,799,000 (2006: HK$95,423,000) was not recognised in the Group's consolidated balance sheet. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in the income statement for the period in which such a reversal takes place.

The Group is subject to income taxes in Hong Kong and the PRC. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax expenses in the year in which such determination is made.

(v) Distinction between investment properties and owner-occupied properties

The Group determines whether a property qualifies as investment property. In making its judgement, the Group considers whether the property generates cash flows largely independently of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services for administrative purposes. If these portions can be sold separately (or leased out separately under a finance lease), the Group's financial statements account for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgement.

5. Turnover, other income and gains, net

Turnover represents commission income and handling fee income, interest income, income from trading of listed securities and income from provision of lottery machines and related services.

An analysis of the Group's turnover, other income and gains, net is as follows:

	2007	2006
	HK$'000	*HK$'000*
Turnover		
Commission income and handling fee income	20,812	7,827
Interest income from:		
– Banks	1,570	709
– Margin clients	7,388	10,223
– Loan receivables	9,481	10,943
Income from trading of listed securities	21,991	29,138
Income from provision of lottery machines and related services	373,410	115,043
	434,652	173,883
Other income		
Interest income on bank deposits	2,806	2,792
Government subsidy	697	261
Sundry income	2,052	2,450
Rental income from investment properties	6	–
	5,561	5,503
Other gains, net		
Fair value gains on financial assets at fair value through profit or loss	1,673	15,413
Fair value gains on investment properties	21,967	–
Exchange loss	(460)	–
	23,180	15,413
	463,393	194,799

6. Segment information

Business segments

For management purposes, the Group is organised into the following four major operating divisions:

i) Financial services

ii) Money lending

iii) Investment trading and holding

iv) Lottery business

In accordance with the Group's internal financial and operating activities, the primary segment reporting is by business segments and the secondary segment reporting is by geographical segments.

(i) The segment assets, liabilities at 31 December 2007 and segment results for the year ended 31 December 2007 are as follows:

	As at and for the year ended 31 December 2007				
	Financial services	**Money lending**	**Investment trading and holding**	**Lottery business**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	29,770	9,481	21,991	373,410	434,652
Segment results	(646)	11,864	1,441	243,380	256,039
Net unallocated expenses					(36,029)
Profit before taxation					220,010
Taxation					(26,369)
Profit for the year					193,641
Assets					
Segment assets	74,231	316,092	30,033	1,692,892	2,113,248
Unallocated assets					492,326
Total assets					2,605,574
Liabilities					
Segment liabilities	52,175	–	–	109,661	161,836
Unallocated liabilities					2,335
Total liabilities					164,171

The segment assets, liabilities at 31 December 2006 and segment results for the year ended 31 December 2006 are as follows:

	As at and for the year ended 31 December 2006				
	Financial services	**Money lending**	**Investment trading and holding**	**Lottery business**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	18,107	10,943	29,790	115,043	173,883
Segment results	1,065	(9,738)	21,097	39,676	52,100
Net unallocated expenses					(10,467)
Profit before taxation					41,633
Taxation					(11,001)
Profit for the year					30,632
Assets					
Segment assets	50,900	248,420	164,635	679,451	1,143,406
Unallocated assets					2,791
Total assets					1,146,197
Liabilities					
Segment liabilities	30,530	418	–	181,260	212,208
Unallocated liabilities					3,945
Total liabilities					216,153

(ii) Other segment information

	For the year ended 31 December 2007				
	Financial services	**Money lending**	**Investment trading and holding**	**Lottery business**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Other information					
Depreciation and amortisation	1,192	–	–	18,049	19,241
Allowance for impairment of bad and doubtful debts	620	–	–	–	620
Capital expenditure	163	–	–	438,130	438,293

	For the year ended 31 December 2006				
	Financial services	Money lending	Investment trading and holding	Lottery business	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Other information					
Depreciation and amortisation	1,473	–	7	4,829	6,309
Allowance for impairment of bad and doubtful debts	430	13,688	–	–	14,118
Capital expenditure	122	–	–	392,737	392,859

Geographical segments

The Group's business segments operate in two main geographical areas.

	As at and for the year ended 31 December 2007				
	Turnover	Segment results and profit/(loss) before taxation	Total assets	Total liabilities	Capital expenditure
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong	61,242	(23,352)	913,787	54,501	163
The PRC	373,410	243,362	1,691,787	109,670	438,130
	434,652	220,010	2,605,574	164,171	438,293

	As at and for the year ended 31 December 2006				
	Turnover	Segment results and profit before taxation	Total assets	Total liabilities	Capital expenditure
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong	58,840	1,957	466,746	34,893	122
The PRC	115,043	39,676	679,451	181,260	392,737
	173,883	41,633	1,146,197	216,153	392,859

7. Staff costs

	2007 *HK$'000*	2006 *HK$'000*
Salaries, allowances and benefits in kind	41,119	20,551
Bonuses	–	202
MPF contributions	234	225
Employee share option benefits	19,057	3,639
	60,410	24,617

8. Finance costs

	2007 *HK$'000*	2006 *HK$'000*
Interest on bank loans and overdraft	1,285	16,373
Interest on client payables with no fixed repayment terms	1,221	887
	2,506	17,260

9. Profit before taxation

	2007 *HK$'000*	2006 *HK$'000*
The Group's profit before taxation is stated after charging the following:		
Auditors' remuneration		
– current year	1,730	1,750
– underprovision in prior year	–	72
Bad debts written off	–	1,652
Depreciation and amortisation on:		
– Property, plant and equipment	17,054	5,976
– Prepaid lease payments on land use rights	178	22
– Intangible assets	2,009	311
Operating lease rentals in respect of office premises and warehouse	6,571	4,312
Research and development costs (including amortisation of capitalised development costs of HK$1,129,000 (2006: HK$78,000))	5,050	2,986

10. Directors' remuneration

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	The Group	
	2007	**2006**
	HK$'000	*HK$'000*
Fees:		
Executive directors	120	80
Independent non-executive directors	360	240
	480	320
Other emoluments for executive directors:		
Salaries, housing, other allowances and benefits in kind	3,607	5,207
MPF contributions	12	18
	4,099	5,545

(a) Independent non-executive directors

The fees paid to independent non-executive directors were as follows:

	2007	**2006**
	HK$'000	*HK$'000*
YUEN Wai Ho	120	80
ON Kien Quoc (resigned on 17.04.2007)	35	80
CHOW Siu Ngor	120	80
LEE Ka Lun (appointed on 17.04.2007)	85	–
	360	240

There were no other emoluments payable to the independent non-executive directors during the years. In addition, no remuneration was paid by the Group to any of the directors as an inducement to join, or upon joining the Group or as compensation for loss of office (2006: Nil).

(b) Executive directors

	Fees	Salaries, allowances and benefits in kind	Retirement benefit scheme contributions	Total emoluments
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
2007				
Executive directors:				
CHAN How Chung, Victor	–	3,607	12	3,619
BOO Chun Lon	120	–	–	120
	120	3,607	12	3,739
2006				
Executive directors:				
CHAN How Chung, Victor	–	3,906	12	3,918
LEE Huei Lin (retired on 19.06.2006)	–	1,301	6	1,307
BOO Chun Lon	80	–	–	80
	80	5,207	18	5,305

There was no arrangement under which a director waived or agreed to waive any remuneration during the year. In addition, no remuneration was paid by the Group to any of the directors as an inducement to join, or upon joining the Group or as compensation for loss of office (2006: Nil).

11. Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, one (2006: two) was a director of the Company whose emoluments were included in the disclosures in note 10 above. The emoluments of the remaining four (2006: three) individuals were as follows:

	2007	2006
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	8,553	6,818
MPF contributions	48	41
	8,601	6,859

Their remuneration was within the following bands:

	2007 *Number of employees*	**2006** *Number of employees*
Nil to HK$1,000,000	2	2
HK$2,000,001 – HK$2,500,000	1	–
HK$2,500,001 – HK$3,000,000	–	2
HK$3,500,001 – HK$4,000,000	–	–
HK$4,500,001 – HK$5,000,000	1	–
	4	4

In 2006, the emoluments of a former director, LEE Huei Lin, following her retirement were also included in the emoluments of the five highest paid individuals.

12. Taxation

The provision for Hong Kong profits tax for 2007 is calculated at 17.5% (2006: Nil) on the estimated assessable profits for the year. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

One of the jointly controlled entities of the Group's lottery business in the PRC, Beijing Guard Libang Technology Co Ltd, is eligible for application of tax holiday and concession which are in the form of three years tax exemption from the year 2003 to 2005 and followed by a 50% reduction of the applicable tax rate in the following three years commencing from 2006. The applicable income tax rate for this jointly controlled entity in the current year is 7.5% (2006: 7.5%). The applicable income tax rates for the remaining subsidiaries of the Group's lottery business in current year are ranging from 15% to 33% (2006: 15%) as their tax holiday and concession periods, if any, were expired.

The amount of taxation charged to the consolidated income statement represents:

	2007	2006
	HK$'000	*HK$'000*
Current tax:		
– Hong Kong profits tax	276	–
– PRC income tax	14,917	3,726
	15,193	3,726
Deferred tax:		
Deferred taxation relating to the origination and reversal of temporary differences	11,176	7,275
Taxation charge	26,369	11,001

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the domestic taxation rates applicable to profit of the consolidated companies is as follows:

	2007	2006
	HK$'000	*HK$'000*
Profit before taxation	220,010	41,633
Taxation at the domestic income tax rate of 17.5% (2006:17.5%)	38,502	7,285
Tax effect of income not subject to taxation	(16,200)	(1,614)
Tax effect of expenses not deductible for taxation purposes	8,758	5,026
Tax effect of tax losses not recognised	766	3,635
Tax effect of temporary differences not recognised	(1,714)	(1,019)
Unrecognised deferred tax assets in prior year recognised for the year	(890)	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	(2,853)	(2,312)
Taxation charge	26,369	11,001

13. Profit attributable to equity holders of the company

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of the loss of approximately HK$28,376,000 (2006: the loss of HK$14,394,000).

14. Dividend

The Board does not recommend the payment of a dividend in respect of the year ended 31 December 2007 (2006: Nil).

15. Earnings per share

(a) Basic earnings per share

The basic earnings per share is calculated by dividing the profit for the year attributable to the equity holders of the Company by the weighted average number of shares in issue during the year.

	2007	**2006**
Profit attributable to equity holders of the Company *(in thousand HK$)*	136,688	11,170
Weighted average number of ordinary shares in issue *(in thousand)*	6,231,200	4,381,073
Basic earnings per share	2.19 cents	0.26 cent

(b) Diluted earnings per share

The diluted earnings per share is calculated by dividing the profit for the year and on the weighted average number of ordinary shares, being the weighted average number of ordinary shares in issue during the year as used in the basic earnings per share calculation and the weighted average number of ordinary shares assumed to have been issued at no consideration on deemed exercise of all share options outstanding during the year.

	2007	**2006**
Profit for the year, used in the basic and diluted earnings per share calculation *(in thousand HK$)*	136,688	11,170
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation *(in thousand)*	6,231,200	4,381,073
Weighted average number of ordinary shares assumed to have been issued at no consideration on deemed exercise of all share options outstanding during the year *(in thousand)*	82,671	131,923
	6,313,871	4,512,996
Diluted earnings per share	2.17 cents	0.25 cent

16. Property, plant and equipment

The Group

	Leasehold buildings *(Note)*	Leasehold improvements	Lottery machines	Furniture, fixtures and equipment	Plant and machinery	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost							
At 1 January 2006	–	5,424	–	12,800	–	–	18,224
Arising on acquisition of subsidiaries	4,148	953	23,730	6,535	23,938	2,409	61,713
Additions	–	–	8,280	426	25	33	8,764
Exchange realignment	90	25	615	152	160	56	1,098
At 31 December 2006	4,238	6,402	32,625	19,913	24,123	2,498	89,799
Additions	52	4,094	46,830	2,844	13,647	4,484	71,951
Reclassified to investment properties *(note 18)*	(798)	–	–	–	–	–	(798)
Elimination of subsidiaries	–	–	–	(937)	(14,988)	(1,055)	(16,980)
Exchange realignment	209	72	2,407	525	1,564	206	4,983
At 31 December 2007	3,701	10,568	81,862	22,345	24,346	6,133	148,955
Accumulated depreciation							
At 1 January 2006	–	2,641	–	12,132	–	–	14,773
Arising on acquisition of subsidiaries	616	143	12,043	3,259	8,310	1,060	25,431
Charge for the year	59	1,075	3,266	952	549	75	5,976
Exchange realignment	14	3	311	78	51	23	480
At 31 December 2006	689	3,862	15,620	16,421	8,910	1,158	46,660
Charge for the year	131	1,167	7,922	1,373	5,928	533	17,054
Reclassified to investment properties *(note 18)*	(73)	–	–	–	–	–	(73)
Elimination of subsidiaries	–	–	–	(221)	(6,429)	(187)	(6,837)
Exchange realignment	55	27	1,492	322	712	98	2,706
At 31 December 2007	802	5,056	25,034	17,895	9,121	1,602	59,510
Net book value							
At 31 December 2007	2,899	5,512	56,828	4,450	15,225	4,531	89,445
At 31 December 2006	3,549	2,540	17,005	3,492	15,213	1,340	43,139

Note:

All leasehold buildings situate outside Hong Kong and are held under medium term leases.

The Company

The Company has no property, plant and equipment as at 31 December 2007 (2006: Nil).

17. Prepaid lease payments on land use rights

The Group

	2007	2006
	HK$'000	*HK$'000*
Cost		
At beginning of the year	6,300	–
Arising on acquisition of subsidiaries	–	6,257
Reclassified to investment properties *(note 18)*	(1,141)	–
Exchange realignment	160	43
At end of the year	5,319	6,300
Accumulated amortisation		
At beginning of the year	318	–
Arising on acquisition of subsidiaries	–	290
Amortisation for the year	178	22
Reclassified to investment properties *(note 18)*	(110)	–
Exchange realignment	23	6
At end of the year	409	318
Net book value		
At end of the year	4,910	5,982

The Company

The Company has no prepaid lease payments on land use rights as at 31 December 2007 (2006: Nil).

The Group's interests in leasehold land and land use rights are outside Hong Kong with medium term leases.

As at 31 December 2006, bank borrowings of approximately HK$741,000 were secured on leasehold building and land use rights for the carrying values of approximately HK$659,000 and HK$1,008,000 respectively.

18. Investment properties

The Group

	2007	2006
	HK$'000	*HK$'000*
At beginning of the year	–	–
Reclassified from leasehold buildings *(note 16)*	725	–
Reclassified from prepaid lease payments on land use rights *(note 17)*	1,031	–
Elimination of subsidiaries	(878)	–
Transfer from deposits for acquisition of leasehold land use rights and buildings	23,500	–
Fair value gains	21,967	–
Exchange realignment	2,689	–
At end of the year	49,034	–

The investment properties of the Group are situated in the PRC and held under medium-term leases. They are held for rental purposes or undetermined use under operating leases. The investment properties of the Group were revalued as at 31 December 2007 on the open market existing use basis by Asset Appraisal Limited, an independent firm of professional valuers.

All the Group's investment properties were pledged to secure bank borrowings granted to the Group *(note 34)*.

The Company

The Company has no investment properties as at 31 December 2007 (2006: Nil).

19. Goodwill

	HK$'000
Cost	
At 1 January 2006	–
Arising on acquisitions of subsidiaries	375,556
Arising from increase of investment in a subsidiary	8,539
At 31 December 2006	384,095
Arising from increase of investments in subsidiaries	333,658
Elimination of subsidiaries	(122,396)
At 31 December 2007	595,357

The carrying amount of goodwill represents the goodwill arising from acquisition/ increase in investments in lottery business.

In accordance with the Group's accounting policies, the Group has assessed the recoverable amount of goodwill arising from acquisition/increase in investments of lottery business by reference to the cash-generating units' value in use and determined that such goodwill has not been impaired. The recoverable amount for the cash-generating units in relation to the lottery business was determined based on value-in-use calculations, which use cash flow projections based on financial budgets approved by the management covering the operation period of the business with a discount of 6%-8%. The discount rate used reflects specific risks relating to the business and the growth rate is in line with the forecasts adopted by the industry.

The goodwill is included in the lottery business segment disclosed in note 6 to the financial statements.

20. Intangible assets

The Group

	Computer software *HK$'000*	Deferred development costs *HK$'000*	Operating right *HK$'000*	Technical know-how *HK$'000*	Total *HK$'000*
Cost					
At 1 January 2006	–	–	–	–	–
Arising on acquisition of subsidiaries	7,886	9,377	–	–	17,263
Exchange realignment	91	37	–	–	128
At 31 December 2006	7,977	9,414	–	–	17,391
Additions	–	2,737	29,947	–	32,684
Injection by the joint venturer	–	–	–	58,823	58,823
Exchange realignment	589	695	–	–	1,284
Elimination of subsidiaries	(2,781)	(6,423)	–	–	(9,204)
At 31 December 2007	5,785	6,423	29,947	58,823	100,978
Accumulated amortisation					
At 1 January 2006	–	–	–	–	–
Arising on acquisition of subsidiaries	2,906	2,169	–	–	5,075
Exchange realignment	51	9	–	–	60
Charge for the year	233	78	–	–	311
At 31 December 2006	3,190	2,256	–	–	5,446
Exchange realignment	319	323	–	–	642
Charge for the year	880	1,129	–	–	2,009
Elimination of subsidiaries	(903)	(1,854)	–	–	(2,757)
At 31 December 2007	3,486	1,854	–	–	5,340
Net book value					
At 31 December 2007	2,299	4,569	29,947	58,823	95,638
At 31 December 2006	4,787	7,158	–	–	11,945

Computer software of carrying value of approximately HK$2,299,000 (2006: HK$4,787,000) is the intangible assets acquired and possessed by the lottery business. The intangible assets have definite useful lives and are amortised over their estimated useful lives of 5 to 10 years.

Deferred development costs of carrying value of approximately HK$4,569,000 (2006: HK$7,158,000) represent expenditure incurred by the Group on development of computer software and related technology for the lottery business of the Group in order to meet with the market development and the specific requirements of the lottery business and its individual customers. The directors consider that the related software and technology are technically and commercially feasible and the Group has sufficient resources and the intention to complete the development activities.

Operating right of carrying value of approximately HK$29,947,000 (2006: Nil) represents expenditure incurred by the Group on obtaining an operating right in a lottery centre. The directors opined that the operating right is with infinite useful life.

Technical know-how of carrying value of approximately HK$58,823,000 (2006: Nil) represents the technology, technical information, know-how and experience in relation to the lottery business. The directors opined that the technical know-how is with infinite useful life.

In accordance with the Group's accounting policies, the Group has assessed the recoverable amounts of the operating right and the technical know-how based on value-in-use calculations, which use cash flow projections based on financial budgets approved by the management covering the operation period of the business with a discount of 8%. The discount rate used reflects specific risks relating to the business and the growth rate is in line with the forecasts adopted by the industry.

21. Deposits for acquisition of leasehold land use rights and buildings

In July 2006, the Group entered into purchase agreements to acquire leasehold land use rights and buildings in the PRC for an aggregate consideration of approximately HK$23,500,000. As at 31 December 2006, the acquisition had not yet completed and the amount of consideration paid pursuant to the purchase agreements had been included and shown under the heading of non-current assets. The acquisition was completed during the year. However, upon the completion of the acquisition, the Group had not determined the use of the properties, and therefore they are classified as investment properties in accordance with note 4(v) and accounted for as described in note 2(i).

22. Interests in subsidiaries

	2007	**2006**
	HK$'000	*HK$'000*
Unlisted shares, at cost	286,338	286,338
Impairment losses	(127,000)	(127,000)
	159,338	159,338
Amounts due from subsidiaries	1,531,601	697,039
Allowance for impairment of doubtful debts	(66,000)	(66,000)
	1,465,601	631,039
Amounts due to subsidiaries	–	(626)
	1,624,939	789,751

Amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed term of repayment. In the opinion of the directors, the amounts due will not be repayable within 12 months of the balance sheet date and are accordingly classified as non-current. The amounts due from subsidiaries of approximately HK$666,123,000 (2006: HK$287,332,000) were impaired. The amount of allowance for impairment was HK$66,000,000 as at 31 December 2007 (2006: HK$66,000,000). It is assessed that a portion of these receivables is expected to be recovered. The individually impaired receivables are mainly related to subsidiaries which are in financial difficulties and most of the balances are of ages over several years.

All other balances of amounts due from subsidiaries are neither past due nor impaired.

Details of the Company's principal subsidiaries at 31 December 2007 are as follows:

Name	Place of incorporation/ registration	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Effective interest held
REXCAPITAL Financial Group Limited	British Virgin Islands	Investment holding in Hong Kong	197,400,856 Ordinary shares of HK$1 each	100%
REXCAPITAL Financial Investment Limited	Hong Kong	Investment holding in Hong Kong	25,000,000 Ordinary shares of HK$1 each	100%
REXCAPITAL Asset Management Limited	Hong Kong	Investment holding, provision of advisory and fund management services in Hong Kong	5,000,000 Ordinary shares of HK$1 each	100%
REXCAPITAL Finance Limited	Hong Kong	Money lending and investment trading in Hong Kong	2,000,000 Ordinary shares of HK$1 each	100%
REXCAPITAL Futures Limited	Hong Kong	Futures and commodities dealing in Hong Kong	25,000,000 Ordinary shares of HK$1 each	100%
REXCAPITAL Securities Limited	Hong Kong	Securities dealing and margin financing in Hong Kong	150,000,000 Ordinary shares of HK$1 each	100%
御泰投資管理（南通）有限公司	PRC	Investment holding in the PRC	HK$186,299,840	90%
Shenzhen Sinodata Technology Co Ltd	PRC	Provision of lottery machines and software system in the PRC	RMB35,560,000	64.75%
深圳市思樂數據設備服務有限公司	PRC	Provision of maintenance service for lottery machines in the PRC	RMB2,000,000	64.75%
Shenzhen Kingsail Software Tech Co Ltd	PRC	Production of lottery machines in the PRC	RMB20,000,000	58%

Name	Place of incorporation/ registration	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Effective interest held
深圳市天脉投資發展有限公司	PRC	Investment holding in the PRC	RMB1,000,000	100%
REXLot Investment (Shenzhen) Co Ltd	PRC	Investment holding in the PRC	RMB10,000,000	100%
深圳啟鴻德貿易有限公司	PRC	Investment holding in the PRC	RMB990,700	100%
深圳市派立格電子技術有限公司	PRC	Investment holding in the PRC	RMB1,000,000	100%
港樂貿易(深圳)有限公司	PRC	Investment holding in the PRC	RMB990,700	100%
深圳市鵬樂實業發展有限公司	PRC	Investment holding in the PRC	RMB5,561,600	100%

None of the subsidiaries had any loan capital outstanding at the end of the year or at any time during the year.

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

23. Interests in joint ventures

The Group, through its wholly-owned subsidiary, has a 50% interest in a joint venture, Happy Sun Technologies Ltd. and its subsidiaries (collectively as "Happy Sun Group") as mentioned in note 44. The following amounts represent the Company's 50% share of the assets and liabilities as at 31 December 2007, and sales and results of the joint venture from 14 November 2007 (the date Happy Sun Group becoming the Group's joint venture) to 31 December 2007. They are included in the Group's balance sheet and income statement as follows:

	2007	**2006**
	HK$'000	*HK$'000*
Assets		
Non-current assets	78,156	–
Current assets	75,269	–
	153,425	–
Liabilities		
Non-current liabilities	275	–
Current liabilities	1,717	–
	1,992	–
Net assets	151,433	–

	14.11.2007-31.12.2007	**2006**
	HK$'000	*HK$'000*
Income	6,446	–
Expenses	3,963	–
Profit Before taxation	2,483	–
Taxation	305	–
Profit after taxation	2,178	–

There are no contingent liabilities relating to the Company's interest in the joint venture, and no contingent liabilities of the venture itself.

At 31 December 2007, the Group's share of the joint ventures' future aggregate minimum lease payments under non-cancellable operating leases are payable as follows:

	2007	**2006**
	HK$'000	*HK$'000*
Land and buildings		
Within one year	685	–
In the second to fifth year inclusive	516	–
	1,201	–

Details of the Group's principal jointly controlled entities, which are unlisted and limited liability companies, as at 31 December 2007 are as follows:

Name	**Place of incorporation/ registration**	**Principal activities and place of operation**	**Particulars of registered capital**	**Effective interest held**
Happy Sun Technologies Ltd	British Virgin Islands	Investment holding in the PRC	4 Ordinary shares of US$1 each	50%
誠業利邦科技發展(深圳)有限公司	PRC	Investment holding in the PRC	USD9,000,000	50%
深圳樂利科技發展有限公司	PRC	Investment holding in the PRC	RMB34,006,000	50%
Beijing Guard Libang Technology Co Ltd	PRC	Provision of systems and games in the lottery market in the PRC	RMB68,580,000	50%

24. Statutory deposits

Statutory deposits are the deposits in various exchanges and clearing houses relating to securities and futures dealing businesses.

25. Deferred taxation

The Group

(i) Deferred tax assets/(liabilities) recognised

	Tax losses	Impairment losses on loans and other receivables	Other deductible temporary differences	Fair value adjustments on prepaid lease payments on land use rights and buildings on business combinations	Fair value gains on investment properties	Other taxable temporary differences	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2006	3,689	3,920	–	–	–	–	7,609
Additions through acquisition of subsidiaries	–	–	–	(558)	–	(2,435)	(2,993)
Charged to the consolidated income statement	(2,144)	(1,750)	–	–	–	(3,381)	(7,275)
At 31 December 2006	1,545	2,170	–	(558)	–	(5,816)	(2,659)
Exchange realignment	–	–	–	(73)	–	(764)	(837)
(Charged)/credited to the consolidated income statement	(1,545)	(543)	1,109	–	(3,226)	(6,971)	(11,176)
Elimination of subsidiaries	–	–	(625)	–	–	–	(625)
At 31 December 2007	–	1,627	484	(631)	(3,226)	(13,551)	(15,297)

For the purpose of balance sheet presentation, certain deferred tax assets/(liabilities) have been offset in accordance with the conditions set out in HKAS 12. The following is the analysis of deferred tax balances shown in the consolidated balance sheet:

	2007	**2006**
	HK$'000	*HK$'000*
Deferred tax liabilities	(17,408)	(6,374)
Deferred tax assets	2,111	3,715
	(15,297)	(2,659)

(ii) Deferred tax assets/(liabilities) have not been recognised in respect of the following items:

	2007	**2006**
	HK$'000	*HK$'000*
Taxable temporary differences		
– accelerated tax depreciation	–	(1,996)
– others	(244)	–
Deductible temporary differences		
– decelerated tax depreciation	3,394	2,896
– others	51,590	63,635
Tax losses	99,799	95,423
	154,539	159,958

Notes:

(i) The deductible temporary differences do not expire under the current tax legislation.

(ii) Tax losses of approximately HK$4,008,000 (2006: HK$14,984,000) arising from the Group's lottery business in the PRC would expire in the fifth year commencing from the year the loss incurred whereas tax losses of approximately HK$95,791,000 (2006: HK$80,439,000) arising from the Group's other business segments in Hong Kong do not expire under the current tax legislation.

The Company

The Company has no temporary differences as at 31 December 2007 (2006: Nil).

26. Trade and other receivables

	The Group		The Company	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current				
Investment deposits	168,620	–	–	–
Current				
Trade receivables:				
Margin client receivables, net	9,342	3,611	–	–
Other client receivables, net	1,510	9,926	–	–
Broker receivables	17,378	5,431	–	–
Amounts due from clearing houses	–	1,358	–	–
Loan receivables, net	283,219	214,713	–	–
Loan interest receivables, net	12,211	6,709	–	–
Other trade debtors	168,583	81,353	–	–
Other receivables, deposits and prepayments	332,311	106,683	1,313	115
	824,554	429,784	1,313	115
	993,174	429,784	1,313	115

The investment deposits represent the amount paid on increase in interests of subsidiaries as mentioned in note 37 to the financial statements and are classified as non-current assets.

Margin client receivables are repayable on demand, bear interest at prevailing market rates and are secured by clients' securities listed on the SEHK with a market value of approximately HK$66,274,000 as at 31 December 2007 (2006: HK$136,737,000). No ageing analysis is disclosed for margin client receivables as, in the opinion of the directors, the ageing analysis does not give additional value in view of the nature of business of securities margin financing and broking.

The settlement terms of other client receivables, broker receivables and amounts due from clearing houses are one to two days after the trade date or repayable on demand. The age of these balances is within 30 days.

The directors consider that the carrying amounts of trade receivables approximate to their fair values. The Group generally grants credit periods of up to 60 days to its other trade debtors.

The ageing analysis of loan receivables, loan interest receivables and other trade debtors is as follows:

	2007	**2006**
	HK$'000	*HK$'000*
Three months or less	378,905	245,837
One year or less but over three months	85,108	56,938
	464,013	302,775

As at 31 December 2007, trade receivables of approximately HK$84,368,000 (2006: HK$101,137,000) were impaired. The amount of the allowance for impairment was HK$84,329,000 as at 31 December 2007 (2006: HK$101,137,000). The ageing of these impaired receivables is as follows:

	2007	**2006**
	HK$'000	*HK$'000*
One year or less but over three months past due	1,033	4,133
Over one year past due	83,335	97,004
	84,368	101,137

As of 31 December 2007, trade receivables of approximately HK$32,437,000 (2006: HK$15,666,000) were past due but not impaired. These related to a number of independent customers for whom there is no recent history of default. All trade receivables that were past due in 2006 have been settled during 2007. The ageing of these receivables is as follows:

	2007	**2006**
	HK$'000	*HK$'000*
Three months or less past due	8,193	3,442
One year or less but over three months past due	24,244	12,224
	32,437	15,666

Trade receivables include the following amount denominated in the currency other than the Group's functional currency, HK dollars:

	The Group	
	2007	**2006**
	'000	*'000*
Renminbi	149,988	81,679

Movements on the allowance for impairment of doubtful debts are as follows:

	2007	**2006**
	HK$'000	*HK$'000*
At 1 January	101,137	107,975
Exchange realignment	773	–
Impairment loss recognised	620	14,118
Uncollectible amount written off	(741)	(4,656)
Impairment loss written back	(17,460)	(16,300)
At 31 December	84,329	101,137

Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the balance sheet date is the fair value of each class of receivables mentioned above.

27. Inventories

	2007	**2006**
	HK$'000	*HK$'000*
Raw materials	46,317	33,233
Work-in-progress	1,326	10,433
Finished goods	3,972	9,903
	51,615	53,569

The analysis of the amount of inventories recognised as expenses during the year amounted to approximately HK$122,557,000 (2006: HK$62,019,000).

Included in the above are raw materials stated at net realisable value amounting to approximately HK$406,000.

28. Financial assets at fair value through profit or loss

	The Group	
	2007	**2006**
	HK$'000	*HK$'000*
Listed securities held for trading:		
Market value of equity securities listed in Hong Kong	30,072	20,288

The fair value of all equity securities is based on their current bid prices in an active market.

Financial assets at fair value through profit or loss are presented within the section of operating activities as part of changes in working capital in the cash flow statement.

Changes in fair value of financial assets at fair value through profit or loss are recorded in other gains in the income statement *(note 5)*.

29. Cash and bank balances

	The Group		The Company	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Pledged bank deposit	–	123,287	–	–
Cash at banks				
– general accounts	656,290	22,555	487,543	820
– segregated accounts	31,539	17,633	–	–
Cash in hand	1,513	1,392	–	–
	689,342	164,867	487,543	820

As at 31 December 2006, the bank deposit of HK$123,287,000 together with all interest accrued thereon had been pledged to a bank by way of fixed charge to secure the banking facilities granted to the Group. The bank deposit carried interest at prevailing market rate per annum and has maturity of 10 months. The banking facilities were withdrawn during the year.

Cash and bank balances include the following amounts denominated in the currencies other than the Group's functional currency, HK dollars:

	The Group	
	2007	**2006**
	'000	*'000*
Malaysian Ringgits	122	–
US dollars	7,513	2
Renminbi	73,725	14,065

Cash and cash equivalents include the following for the purposes of the cash flow statement:

	The Group 2007 HK$'000	2006 HK$'000
Cash in hand	1,513	1,392
Cash at banks		
– general accounts	656,290	22,555
Bank overdrafts *(note 34)*	(139)	(497)
	657,664	23,450

30. Share capital

	Notes	**Number of shares** *'000*	**Amount** *HK$'000*
Ordinary shares of HK$0.01 each			
Authorised:			
At 1 January 2006, 31 December 2006 and 31 December 2007		20,000,000	200,000
Issued and fully paid:			
At 1 January 2006		3,000,000	30,000
Issue of subscription shares		1,200,000	12,000
Exercise of share options		247,000	2,470
Issue of consideration shares		740,000	7,400
Issue of top up shares		730,000	7,300
At 31 December 2006		5,917,000	59,170
Exercise of share options	*(a),(b),(c),(d),(e),(g),(h)*	273,000	2,730
Issue of consideration shares	*(f)*	300,000	3,000
Issue of subscription shares	*(i)*	648,000	6,480
At 31 December 2007		7,138,000	71,380

Notes:

(a) In January 2007, 6,000,000 share options were exercised at an exercise price of HK$0.295 each, resulting in an issue of 6,000,000 shares, for a total consideration (before expenses) of HK$1,770,000.

(b) In March 2007, 30,000,000 share options were exercised at an exercise price of HK$0.102 each, resulting in an issue of 30,000,000 shares, for a total consideration (before expenses) of HK$3,060,000. In addition, 36,000,000 share options were exercised at an exercise price of HK$0.295 each, resulting in an issue of 36,000,000 shares for a total consideration (before expenses) of HK$10,620,000.

(c) In June 2007, 6,000,000 share options were exercised at an exercise price of HK$0.295 each, resulting in an issue of 6,000,000 shares for a total consideration (before expenses) of HK$1,770,000.

(d) In July 2007, 28,000,000 share options were exercised at an exercise price of HK$0.138 each, resulting in an issue of 28,000,000 shares for a total consideration (before expenses) of HK$3,864,000. In addition, 41,000,000 share options were exercised at an exercise price of HK$0.295 each, resulting in an issue of 41,000,000 shares for a total consideration (before expenses) of HK$12,095,000. In addition, 4,000,000 share options were exercised at an exercise price of HK$0.79 each, resulting in an issue of 4,000,000 shares for a total consideration (before expenses) of HK$3,160,000.

(e) In August 2007, 26,000,000 share options were exercised at an exercise price of HK$0.295 each, resulting in an issue of 26,000,000 shares for a total consideration (before expenses) of HK$7,670,000. In addition, 20,500,000 share options were exercised at an exercise price of HK$1.13 each, resulting in an issue of 20,500,000 shares for a total consideration (before expenses) of HK$23,165,000.

(f) On 17 August 2007, 300,000,000 consideration shares of HK$0.01 each were issued at a price of HK$0.7 each to independent third parties. The value of shares issued were to settle part of the considerations of two further acquisitions of existing subsidiaries.

(g) In September 2007, 24,000,000 share options were exercised at an exercise price of HK$1.13 each, resulting in an issue of 24,000,000 shares for a total consideration (before expenses) of HK$27,120,000.

(h) In October 2007, 51,500,000 share options were exercised at an exercise price of HK$1.13 each, resulting in an issue of 51,500,000 shares for a total consideration (before expenses) of HK$58,195,000.

(i) On 20 November 2007, 648,000,000 shares of HK$0.01 each were issued by way of subscription at a subscription price of HK$1.52 each pursuant to a subscription agreement dated 7 November 2007. The gross proceeds of HK$984,960,000 were raised for the purposes of pursuing any opportunities that could be identified by the Company in the lottery market and for general working capital of the Group.

31. Share option scheme

The Group's share option scheme was adopted by the Group on 22 November 2002 (the "Scheme") for the purpose of enabling the Group to grant share options to executives and employees of the Group and other persons who have made contributions to the Group as incentives and/or rewards for their contributions to the Group or its subsidiaries.

According to the Scheme, the Board may grant share options to the eligible participants as defined in the Scheme to subscribe for such number of shares as the Board may determine. Share options granted should be accepted within 30 days from the date of offer. Upon acceptance of the share options, the grantee shall pay HK$1.00 to the Group by way of consideration for the grant.

The exercise price of share options shall be determined by the Board, save that such price will not be less than the highest of (a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (b) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of grant, and (c) the nominal value of a share.

The maximum number of shares which may be issued upon exercise of all share options to be granted under the Scheme and any other share option scheme(s) of the Group must not exceed 10% of the issued share capital of the Group on the date of approval and adoption of the Scheme provided that the Group may at any time seek approval from its shareholders to refresh the limit to 10% of the shares in issue as at the date of approval by the shareholders in general meeting where such limit is refreshed. Share options previously granted under any share option scheme(s) of the Group (including those outstanding, cancelled, lapsed in accordance with such schemes or exercised share options) will not be counted for the purpose of calculating the limit as refreshed.

The total number of shares issued and which may fall to be issued upon exercise of the share options granted under the Scheme and any other share option scheme(s) of the Group (including exercised, cancelled and outstanding share options) to each eligible participant in any 12-month period up to and including the date of grant shall not exceed 1% of the shares in issue as at the date of grant. Share options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Group's issued share capital on the date of grant or with a value in excess of HK$5 million must be approved in advance by the Group's shareholders.

The period during which share options may be exercised will be determined by the Board at its absolute discretion, save that no share options can be exercised more than 10 years after they have been granted. There is no general requirement that share options must be held for any minimum period before they can be exercised. The Scheme will expire on 22 November 2012.

The following table discloses movements in the Share Option Scheme:

During the year ended 31 December 2006:

Grantees	Date of offer to grant options	Exercise price per share HK$	Exercisable period	Number of share options: Outstanding at 01.01.2006	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2006
Employees	11.12.2003	0.138	03.01.2004-02.01.2014	30,000,000	–	(30,000,000)	–	–
	26.09.2005	0.102	26.10.2005-25.10.2015	30,000,000	–	–	–	30,000,000
	06.07.2006	0.295	13.07.2006-12.07.2009	–	78,000,000	(5,000,000)	–	73,000,000
Other eligible participants	11.12.2003	0.138	03.01.2004-02.01.2014	60,000,000	–	(32,000,000)	–	28,000,000
	26.09.2005	0.102	26.10.2005-25.10.2015	180,000,000	–	(180,000,000)	–	–
	06.07.2006	0.295	13.07.2006-12.07.2009	–	78,000,000	–	–	78,000,000
				300,000,000	156,000,000	(247,000,000)	–	209,000,000

During the year ended 31 December 2007:

Grantees	Date of offer to grant options	Exercise price per share HK$	Exercisable period	Number of share options: Outstanding at 01.01.2007	Granted during the year *(Note 1)*	Exercised during the year *(Note 2)*	Lapsed during the year	Outstanding at 31.12.2007
Employees	26.09.2005	0.102	26.10.2005-25.10.2015	30,000,000	–	(30,000,000)	–	–
	06.07.2006	0.295	13.07.2006-12.07.2009	73,000,000	–	(37,000,000)	–	36,000,000
	20.06.2007	0.790	09.07.2007-08.07.2010	–	60,000,000	(4,000,000)	–	56,000,000
	25.07.2007	1.130	08.08.2007-07.08.2010	–	53,000,000	(48,000,000)	–	5,000,000
Other eligible participants	11.12.2003	0.138	03.01.2004-02.01.2014	28,000,000	–	(28,000,000)	–	–
	06.07.2006	0.295	13.07.2006-12.07.2009	78,000,000	–	(78,000,000)	–	–
	25.07.2007	1.130	08.08.2007-07.08.2010	–	58,000,000	(48,000,000)	–	10,000,000
				209,000,000	171,000,000	(273,000,000)	–	107,000,000

Notes:

(1) The closing price of the share immediately before the date of grant on 20 June 2007 and 25 July 2007 was HK$0.77 and HK$1.07 respectively.

(2) Details of the share options exercised during the year are as follows:

	Exercise price per share	Exercise date	Number of share exercised	Closing price immediately before exercise date
	HK$			*HK$*
	0.102	15.03.2007	7,000,000	0.710
		21.03.2007	23,000,000	0.770
			30,000,000	
	0.138	06.07.2007	3,500,000	0.920
		13.07.2007	24,500,000	1.090
			28,000,000	
	0.295	05.01.2007	6,000,000	0.465
		28.03.2007	36,000,000	0.760
		27.06.2007	6,000,000	0.840
		03.07.2007	3,000,000	0.850
		16.07.2007	11,000,000	1.100
		25.07.2007	10,000,000	1.070
		27.07.2007	17,000,000	1.260
		13.08.2007	26,000,000	1.090
			115,000,000	
	0.790	12.07.2007	4,000,000	1.020
	1.130	16.08.2007	7,500,000	1.090
		30.08.2007	13,000,000	0.990
		28.09.2007	24,000,000	1.250
		03.10.2007	3,000,000	1.230
		09.10.2007	34,500,000	1.450
		17.10.2007	4,000,000	1.370
		22.10.2007	3,000,000	1.410
		25.10.2007	7,000,000	1.580
			96,000,000	
Total			273,000,000	

(3) No option was cancelled during the year.

During the year, 171,000,000 (2006: 156,000,000) share options were granted under the share option scheme to grantees for an aggregate consideration of HK$7 (2006: HK$6).

The exercise in full of the outstanding 107,000,000 share options at 31 December 2007 would, under the present capital structure of the Company, result in the issue of 107,000,000 additional shares for a total cash consideration, before expenses, of approximately HK$71,810,000.

During the year ended 31 December 2007, 60,000,000 and 111,000,000 options were granted on 9 July 2007 and 8 August 2007 respectively and are fully vested at the same date. The estimated fair values of the options granted on these dates are HK$13,748,000 and HK$11,119,000 respectively.

The fair value is calculated using the Black-Scholes pricing model. The weighted average inputs into the model were as follows:

	Share options granted on			
	Date of offer to grant option 25.07.2007	**Date of offer to grant option 20.06.2007**	**Date of offer to grant option 20.06.2007**	**Date of offer to grant option 06.07.2006**
Share price *(HK$)*	1.130	0.790	0.790	0.295
Exercise price *(HK$)*	1.130	0.790	0.790	0.295
Expected volatility	63.60%	64.82%	64.82%	77.22%
Expected option life (in years)	0.3	0.5	0.1	0.3
Risk-free rate	3.83	3.89	3.74	4.12
Expected dividends	0%	0%	0%	0%

The expected volatility was determined by using the historical volatility of the Company's share price over the previous two years. The expected life used in the model has been adjusted, based on the management's estimate, for the effects of non transferability, exercise restrictions and behavioral considerations.

The Group recognised the total expenses of HK$24,867,000 for the year ended 31 December 2007 (2006: HK$7,277,000) in relation to share options granted by the Company, of which approximately HK$23,908,000 (2006: HK$3,639,000) are recorded in staff costs.

32. Reserves of the Company

	Share-based payment reserve	Accumulated losses	Contributed surplus	Share premium	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2006	7,040	(122,140)	199,605	–	84,505
Recognition of share option benefits at fair value	7,277	–	–	–	7,277
Issue of new shares	–	–	–	658,521	658,521
Transaction costs attributable to issue of new shares	–	–	–	(7,978)	(7,978)
Transfer on exercise of share options	(6,268)	–	–	6,268	–
Loss for the year	–	(14,394)	–	–	(14,394)
At 31 December 2006	8,049	(136,534)	199,605	656,811	727,931
Recognition of share option benefits at fair value	24,867	–	–	–	24,867
Issue of new shares	–	–	–	1,335,239	1,335,239
Transaction costs attributable to issue of new shares	–	–	–	(18,310)	(18,310)
Transfer on exercise of share options	(16,903)	–	–	16,903	–
Loss for the year	–	(28,376)	–	–	(28,376)
At 31 December 2007	16,013	(164,910)	199,605	1,990,643	2,041,351

Under the Company Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of the contributed surplus, if:

(a) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

In the opinion of the directors, the Company's reserves available for distribution to shareholders as at the balance sheet date were as follows:

	2007	2006
	HK$'000	*HK$'000*
Contributed surplus	199,605	199,605
Accumulated losses	(164,910)	(136,534)
	34,695	63,071

33. Trade and other payables

	The Group		The Company	
	2007	2006	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables:				
Margin client payables	4,365	7,303	–	–
Other client payables	44,879	17,117	–	–
Other trade payables	54,804	16,889	–	–
Other payables and accruals	21,498	26,333	1,064	3,585
	125,546	67,642	1,064	3,585

Trade and other payables include the following amounts denominated in the currencies other than the Group's functional currency, HK dollars:

	2007	2006
	'000	*'000*
Malaysian Ringgits	91	–
Renminbi	50,074	16,956

Margin client payables and other client payables are repayable on demand and bear interest at prevailing market rates.

No ageing analysis is disclosed for margin client payables and other client payables as, in the opinion of the directors, the ageing analysis does not give additional value in view of the nature of business of securities margin financing and broking.

Trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

The directors consider that the carrying amounts of trade and other payables approximate to their fair values.

The ageing analysis of the Group's other trade payables as at 31 December 2007 is as follows:

	The Group	
	2007	**2006**
	HK$'000	*HK$'000*
Three months or less	42,509	9,625
One year or less but over three months	12,295	7,264
	54,804	16,889

34. Bank borrowings

	The Group		The Company	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Bank overdrafts				
– secured	–	497	–	–
– unsecured	139	–	–	–
Bank loans				
– secured	13,917	137,947	–	–
	14,056	138,444	–	–

These borrowings are used to finance the lottery and money lending business of the Group.

Bank loans of approximately HK$13,917,000 (2006: Nil) were secured by the investment properties of the Group. As at 31 December 2006, bank borrowings of approximately HK$13,696,000 and HK$122,509,000 were secured on the deposits for acquisition of leasehold land use rights and buildings of HK$23,500,000 *(note 21)* and pledged bank deposit respectively *(note 29).*

The effective interest rates on the Group's borrowings are also equal to contractual interest rates.

The directors consider that the fair values of bank borrowings at the balance sheet date approximate to their carrying amounts.

The maturity of borrowings is as follows:

	The Group	
	2007	2006
	HK$'000	*HK$'000*
Within one year	1,381	125,667
Between one and two years	1,251	1,126
Between two and five years	3,704	4,369
Wholly repayable within five years	6,336	131,162
Over five years	7,720	7,282
	14,056	138,444

The effective interest rates for bank loans are ranging from 6.84% to 7.83% per annum (2006: 5% to 6.84%).

Bank borrowings include the following amount denominated in the currency other than the Group's functional currency, HK dollars:

	2007	2006
	'000	*'000*
Renminbi	13,014	139,956

35. Retirement benefit scheme

(a) Retirement benefit costs

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

Pursuant to the relevant PRC regulations, the PRC subsidiaries are required to make contributions to defined contribution retirement schemes organised by the relevant Social Security Bureau in respect of the retirement benefit for the PRC subsidiaries' employees in the PRC.

(b) Employee entitlements

Employee entitlements to annual leave and long service payment are recognised when they accrue to the employees. A provision is made for the estimated liability for annual leave and long service payment as a result of services rendered by employees up to the balance sheet date.

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

36. Financial guarantees issued

The Group

At 31 December 2007, the Group has not given any significant financial guarantees (2006: Nil).

The Company

The Company has issued unlimited corporate guarantees to banks to secure general facilities granted to two subsidiaries. None (2006: approximately HK$137,000,000) of the facilities were utilised by the subsidiaries as at 31 December 2007. The Company has not recognised any deferred income and the related expense in respect of such guarantees, as in the opinion of the directors, their fair values cannot be reliably measured and their transaction price was nil.

The directors consider that the subsidiaries are financially resourceful in settling the obligations.

37. Commitments

(a) Capital commitments outstanding at 31 December 2007 not provided for in the financial statements were as follows:

	The Group	
	2007	**2006**
	HK$'000	*HK$'000*
Contracted but not provided for		
– purchase of property, plant and equipment	2,597	–
– increase in interests in subsidiaries	515,000	–
	517,597	–

The commitments in respect of increase in interests in subsidiaries include HK$155,000,000 to be satisfied by payments in cash and HK$360,000,000 to be satisfied by issue of consideration shares by the Company.

The Company

At 31 December 2007, the Company did not have any significant capital commitments (2006: Nil).

(b) At 31 December 2007, the Group's future aggregate minimum lease payments under non-cancellable operating leases are payable as follows:

The Group

	2007	**2006**
	HK$'000	*HK$'000*
Land and buildings		
Within one year	3,673	5,691
In the second to fifth year inclusive	423	4,109
	4,096	9,800

The Group leases office premises under operating leases. The leases run for an initial period of one to six years. The leases do not include any contingent rentals.

The Company

At 31 December 2007, the Company did not have any significant commitments under non-cancellable operating leases (2006: Nil).

38. Financial risk management

(a) Financial risk factors

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

(i) Market risk

(1) Foreign exchange risk

Foreign exchange risk is the risk of loss due to adverse movements in foreign exchange rate relating to receivables from foreign brokers and foreign currency deposits with banks. The Group did not have significant exposure to foreign exchange risk arising from the above receivables in the current and prior years.

In addition, foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operation. The Group's lottery business operates in the PRC with most of the transactions settled in RMB. The conversion of RMB into foreign currencies is subject to the rules and regulations of the foreign exchange control promulgated by the PRC government.

During the year ended 31 December 2007, if HK$ had strengthened/weakened by 5% against the RMB, with all other variables held constant, the effect on the profit for the year is immaterial, equity would have been approximately HK$20,906,000 (2006: HK$12,581,000) lower/higher.

The above sensitivity analysis has been determined assuming that a change in foreign exchange rate had occurred at the balance sheet date and had been applied to the exposure to foreign exchange risk for financial instruments in existence at that date. The 5% increase or decrease represents management's assessment of a reasonably possible change in exchange rate over the period until the next balance sheet date. The analysis was performed on the same basis for 2006.

(2) Cash flow and fair value interest rate risk

The Group monitors its interest rate exposure regularly to ensure that the underlying risk is monitored within an acceptable range. Most of the Group's interest bearing assets and liabilities are on a floating rate basis with maturity of one year or less.

The Group's interest rate positions arise from treasury and operating activities. Interest rate risk arises in treasury management, customer financing and investment portfolios. Interest rate risk primarily results from the timing differences in the repricing of interest-bearing assets, liabilities and commitments. It also relates to the bank borrowings carried interest at variable rates which are collateralised by margin clients' securities and investment properties to mitigate the cash flow interest risk. Certain of the bank borrowings carry fixed-rate interest. The Group also used time deposits to manage interest rate risk.

At 31 December 2007, it is estimated that a general increase/decrease of 0.1% and 1% in interest rates of the PRC and of Hong Kong respectively, with all other variables held constant, would decrease/increase profit for the year and increase/decrease accumulated losses by approximately HK$887,000 (2006: HK$523,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The 0.1% and 1% increase or decrease in the PRC and Hong Kong interest rate respectively represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2006.

(3) Price risk

The Group is exposed to equity price risk through investments in equity securities and the Company's interests in subsidiaries. The Group is not exposed to commodity price risk. The Board of directors manages the exposure by closely monitoring the portfolio of equity investments. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group. The Group did not have significant exposure to price risk during the current and prior years.

The sensitivity to price risk in relation to the interests in subsidiaries cannot be reliably determined due to numerous uncertainties regarding the future development of those subsidiaries.

(ii) Credit risk

The Group's maximum exposure to credit risk in the event of the clients' and brokers' failure to perform their obligations as at 31 December 2007 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible to compile the credit and risk management policies, to approve credit limits and determine any debt recovery action on those delinquent receivables. In addition, the Group reviews the recoverable amount for each individual account receivable at each balance sheet date to ensure that adequate allowances for impairment are made for irrecoverable amounts.

The credit risk on liquid funds is also limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. In this regard, the directors of the Group consider that the Group's credit risk is effectively controlled and significantly reduced.

At the balance sheet date, the Group has a certain concentration of credit risk as 25% (2006: 31%) of the total trade and other receivables were due from the five largest clients.

Further quantitative disclosure in respect of the Group's exposures to credit risk arising from trade and other receivables are set out in note 26.

(iii) Liquidity risk

As part of ordinary broking activities, the Group is exposed to liquidity risk arising from timing difference between settlement with Clearing House or brokers and clients. To address the risk, management is responsible for its own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the management with the borrowings exceeding certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with regulatory requirements, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meets its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the balance sheet date of the Group's non-derivatives financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group can be required to pay:

	As at 31 December 2007					
	Carrying amount	**Total contractual undiscounted cash flows**	**Within 1 year or on demand**	**More than 1 year but less than 2 years**	**More than 2 years but less than 5 years**	**More than 5 years**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Trade and other payables	125,546	125,546	125,546	–	–	–
Bank borrowings	14,056	19,111	2,260	2,260	6,665	7,926
	139,602	144,657	127,806	2,260	6,665	7,926

	As at 31 December 2006					
	Carrying amount	**Total contractual undiscounted cash flows**	**Within 1 year or on demand**	**More than 1 year but less than 2 years**	**More than 2 years but less than 5 years**	**More than 5 years**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Trade and other payables	67,642	67,642	67,642	–	–	–
Bank borrowings	138,444	143,811	125,662	2,196	6,558	9,395
	206,086	211,453	193,304	2,196	6,558	9,395

(b) Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions exiting at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The carrying values of trade receivables and payables are a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

39. Capital risk management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Consistent with industry practice, the Group monitors its capital structure on the basis of a debt-to-adjusted capital ratio. For this purpose the Group defines debts as total debts (which includes interest-bearing loans and borrowings, trade and other payables plus unaccrued proposed dividends). Adjusted capital comprises all components of equity, other than amounts recognised in equity relating to cash flow hedges, less unaccrued proposed dividends.

During 2007, the Group's strategy, which was unchanged from 2006, was to maintain the debt-to-adjusted capital ratio at the lower end of the range 20% to 30%. In order to maintain or adjust the ratio, the Group may adjust the amount of dividend paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

The debt-to-adjusted capital ratios at 31 December 2007 and 2006 were as follows:

	2007	2006
	HK$'000	*HK$'000*
Current liabilities:		
Trade and other payables	125,546	67,642
Bank borrowings	1,381	125,667
	126,927	193,309
Non-current liabilities:		
Bank borrowings	12,675	12,777
Total debts	139,602	206,086
Adjusted capital	2,441,403	930,044
Debt-to-adjusted capital ratio	6%	22%

Certain subsidiaries are subject to externally imposed capital requirements in accordance with the Hong Kong Securities and Futures Ordinance (the "SFO") and their respective liquid capital as at 31 December 2007 is in compliance with the stipulated liquidity requirement imposed by the SFO.

40. Transactions with related parties

(a) Details of the Group's significant transactions with the following related parties during the year are as follows:

	2007	2006
	HK$'000	*HK$'000*
Associates of directors:		
Commission and interest income arising from futures and securities trading	219	1,050
Interest expenses	16	–

In the opinion of the directors, including the independent non-executive directors, the above transactions were entered into in the Group's ordinary course of business and at terms agreed by both parties.

(b) During both years, compensation of key management personnel represents directors' remuneration, as stated in note 10. The directors' remuneration is determined by the remuneration committee having regard to the performance, responsibilities and experience of individuals and market trends.

41. Notes to the consolidated cash flow statement

Part of the investment cost incurred for the acquisition of the additional 18.94% interest of Sinodata as mentioned in note 42 was settled by issuing 300,000,000 ordinary shares of the Company at the issue price of HK$0.7 per share, which amounted to HK$210,000,000.

The joint venturer injected a technical know-how amounting to HK$58,823,000 shared by the Group as mentioned in note 20.

These constitute major non-cash transactions.

42. Additional interests in subsidiaries

On 17 August 2007, the Group acquired 18.94% equity interest of Shenzhen Sinodata Technology Co Ltd ("Sinodata"), a non-wholly owned subsidiary of the Group, from its minority shareholders at an aggregate consideration of HK$235,250,000 which was satisfied as to HK$25,250,000 by way of cash and HK$210,000,000 by issuing 300,000,000 ordinary shares of the Company at the issue price of HK$0.7 per share. As a result of the additional acquisition, Sinodata has become a 64.75% owned subsidiary of the Group.

On 18 October 2007, the Group acquired 30% equity interest of Beijing Guard Libang Technology Co Ltd ("Guard Libang"), a non-wholly owned subsidiary of the Group from its minority shareholder at a consideration of US dollar equivalent of RMB120,000,000 by way of cash. As a result of the additional acquisition, has become a wholly owned subsidiary of the Group.

Further information about these additional acquisitions is as follows:

	HK$'000
Net assets acquired	53,339
Goodwill arising on these additional acquisitions	333,658
Total cost of investments (including transaction costs)	386,997
Satisfied by:	
Cash	176,997
Shares of the Company issued	210,000
	386,997
Net cash outflow arising on these additional acquisitions:	
Cash consideration paid	176,997

43. Acquisition of lottery business

(i) Acquisition of Multi Glory Limited ("Multi Glory")

On 15 March 2006, the Company entered into a share purchase agreement to acquire the entire issued share capital of Multi Glory for a consideration of HK$227,800,000. Upon completion of the acquisition on 7 July 2006, the Group through the subsidiaries of Multi Glory involves in development and production of proprietary lottery machines, related operating software system and networks for welfare lottery industry in China.

(ii) Acquisition of Happy Sun Technologies Ltd ("Happy Sun")

On 25 July 2006, the Company entered into a share purchase agreement with Gain Silver, an independent third party, to acquire the entire issued share capital of Happy Sun and the shareholder's loan due from Happy Sun to Gain Silver for a consideration of HK$157,040,000. Upon completion of the acquisition on 20 November 2006, the Group through the subsidiaries of Happy Sun Technologies Limited involves in provision of systems and verification technology for Instant Lottery Games in China administered by the China Welfare Lottery Administrative Center.

(iii) Acquisition of Pentium Win Limited ("Pentium")

On 8 August 2006, a wholly owned subsidiary of the Company entered into a conditional sale and purchase agreement with Grand, an independent third party, to acquire the entire issued share capital of Pentium together with the loan due from Pentium to Grand for a consideration of HK$29,000,000. Upon completion of the acquisition, the Group through the subsidiaries of Pentium involves in the sports lottery industry in the PRC. Kingsail is one of the approved vendors for the development and production of sports lottery machines by China Sports Lottery Administration Center and has already contracted to supply sports lottery machines for certain provinces/cities in the PRC.

The above acquired business contributed revenue of approximately HK$115,043,000 and net profit for the year ended 31 December 2006 of HK$34,149,000 to the Group. If the above acquired businesses had occurred on 1 January 2006, the Group's turnover would have been approximately HK$268,221,000, and net profit for the year ended 31 December 2006 would have been approximately HK$44,587,000.

Details of the assets and liabilities acquired are as follows:

	Acquirees' carrying amount 2007	2006
	HK$'000	*HK$'000*
Assets/(liabilities) acquired		
Property, plant and equipment	–	36,207
Prepaid lease payments on land use rights	–	2,318
Intangible assets	–	12,187
Inventories	–	70,854
Trade and other receivables	–	64,597
Cash and bank balances	–	34,686
Deferred tax liabilities	–	(28,098)
Trade and other payables	–	(38,200)
Current tax liabilities	–	(2,435)
Bank borrowings	–	(119,926)
Minority interests	–	(88,661)
	–	(56,471)
Fair value adjustment	–	1,294
	–	(55,177)
Goodwill on acquisition	–	375,556
Consideration payable and related expenses after deducting bank borrowings of the acquirees assured by the acquirers	–	320,379
Total purchase consideration and related expenses satisfied by:		
Cash paid	–	156,579
Issue of consideration shares	–	163,800
	–	320,379
Net cash outflow in respect of the acquisition is analysed as follows:		
Cash and cash equivalents	–	34,686
Cash paid	–	(156,579)
	–	(121,893)

44. Elimination of subsidiaries

Pursuant to an agreement entered into between Genius Nation Limited, a wholly-owned subsidiary of the Group, and Scientific Games Corporation on 18 July 2007, the Group has agreed to dispose of 50% equity interest in Happy Sun Technologies Ltd, together with its subsidiaries, (collectively as "Happy Sun Group"), at a consideration of US dollar equivalent of RMB210,000,000. The transaction was completed on 14 November 2007. As a result of disposal, Happy Sun Group ceased to be accounted for as subsidiaries of the Group commencing from 14 November 2007, but was accounted for as a joint venture. The net assets of Happy Sun Group at the date of disposal were as follows:

	HK$'000
Net assets disposal of	
Property, plant and equipment	20,286
Investment properties	1,756
Intangible assets	12,894
Deferred tax assets	1,250
Inventories	5,310
Trade and other receivables	19,790
Cash and bank balances	7,580
Bank borrowings	(698)
Trade and other payables	(2,622)
Current tax liabilities	(300)
	65,246
Transfer to interests in joint ventures (50%)	32,623
Reversal of goodwill	122,396
Gain on disposal of partial interests in subsidiaries	63,998
Total consideration, satisfied by cash	219,017
Net cash inflow arising on disposal:	
Cash consideration received	219,017
Cash and bank balances disposed of	(3,790)
	215,227

45. Comparative figures

As a result of adoption HKFRS 7, *Financial instruments: Disclosures*, and the amendments to HKAS 1, *Presentation of financial statements: Capital disclosures*, certain comparative figures have been adjusted to conform with changes in disclosures in the current year and to show separately comparative amounts in respect of items disclosed for the first time in 2007. Further details of these developments are disclosed in note 3.

46. Post balance sheet events

On 13 April 2008, Huge Top Enterprises Inc., a wholly-owned subsidiary of the Group entered into a share transfer agreement with 廣州市彩通信息技術有限公司 and 深圳市華和光電信息有限公司 to acquire 44.496% and 45.504% respectively of the registered capital in 廣州市樂得瑞科技有限公司 at an aggregate consideration of RMB80,600,000, which has to be satisfied in cash.

In April 2008, the Company completed the transaction entered into with Giga Step Limited to acquire the entire interest in the share capital of Jertford Development Limited ("Jertford") and the shareholders' loans due from Jertford. Jertford indirectly holds 26% of the registered capital of Shenzhen Kingsail Software Tech Co Ltd ("Kingsail"), an existing subsidiary of the Group. Upon the completion of this transaction, the Group has 84% interest in Kingsail.

47. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2007

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2007 and which have not been early adopted in these financial statements as follows:

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions[3]
HK(IFRIC)-Int 12	Service Concession Arrangements[4]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[5]
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4]

1 *Effective for annual periods beginning on or after 1 January 2009*
2 *Effective for annual periods beginning on or after 1 July 2009*
3 *Effective for annual periods beginning on or after 1 March 2007*
4 *Effective for annual periods beginning on or after 1 January 2008*
5 *Effective for annual periods beginning on or after 1 July 2008*

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The application of the new standards will affect the Group's results and financial position. Other than as disclosed above and HKAS 23 (Revised), the directors of the Group anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

3. BUSINESS REVIEW OF THE GROUP

Set out below are the reproduction of the "Management Discussion and Analysis" section of the Group for the years ended 31 December 2007 and 31 December 2006 contained in the Company's annual reports for the corresponding years.

For the year ended 31 December 2007

Business review and prospects

Welfare Lottery

Operationally, the Group's businesses in the lottery market have been strengthened since its foray into the industry in 2006.

Its subsidiary, Shenzhen Sinodata Technology Co Ltd ("Sinodata"), is the leading Computer Ticket Games ("CTG") system provider for welfare lottery in China, accounting for over 50% of market shares in 2007 with coverage of 16 provinces. Extending its participation in welfare lottery market, the Group further acquired 18.94% interest in Sinodata to 64.75% during the year. In December 2007, the Group entered into an agreement to further acquire 20% interest in Sinodata.

On the side of instant lottery ("Scratch Cards") business, the Group's previously 70%-owned subsidiary, Beijing Guard Libang Technology Co Ltd ("Guard Libang") is the exclusive provider of systems and games for Scratch Cards in the Chinese welfare lottery market based on its proprietary 2D barcode anti-counterfeiting technology. The business of Guard Libang covers 23 provinces in China.

In July 2007, the Group announced that it would first acquire the remaining 30% interest in Guard Libang and then sell 50% interest in Guard Libang to US-listed Scientific Games Corporation ("Scientific Games"), the world renowned instant ticket system and games provider. The transaction was completed in November 2007 and derived a gain of HK$63,998,000. The partnership enables the Group to access to the library of games of Scientific Games and its expertise and know-how which will help to bring international Scratch Cards games development, practices and technologies to the growing Scratch Cards market in China.

Sports Lottery

Another subsidiary, Shenzhen Kingsail Software Tech Co Ltd ("Kingsail"), is one of the few approved providers to the China sports lottery machines. It has already secured supply contracts for 4 provinces in China. In December 2007, the Group entered into an agreement to further acquire 26% interest in Kingsail and thereafter increased the controlling stake to 84%. The Group will continue its effort to increase the participation in the Sports CTG market.

Our lottery business had made significant contribution to turnover and profits in the respective amount of HK$373,410,000 (2006: HK$115,043,000) and HK$243,380,000 (2006: HK$39,676,000) for the year ended 31 December 2007. The Group firmly believed that PRC lottery business has great potential and will keep generating business growth and attractive returns for years to come.

Money Lending

Interest income from money lending slightly decreased by 13% to HK$9,481,000 in 2007 (2006: HK$10,943,000). In order to implement consistent control on risk, the Group will continue to adopt conservative financing policy on loan lending.

Investment Trading and Holding

The local stock market was volatile in 2007, recording historic high in October and retreating since the outburst of US sub-prime mortgage crisis in the last quarter. Turnover for the year decreased to HK$21,991,000 (2006: HK$29,790,000) and segment profit was HK$1,441,000 (2006: HK$21,097,000) which included the unrealised profit on securities amounting to HK$1,673,000 (2006: HK$15,413,000).

Financial Services

In the first half of 2007, turnover of local stock market registered a remarkable performance. Turnover of the Group's financial services increased to HK$29,770,000 (2006: HK$18,107,000). However, due to high operating cost primarily caused by rental and staff cost, the performance of this segment was adversely affected and recorded a loss of HK$646,000 for the year ended 31 December 2007 (2006: profit of HK$1,065,000).

Looking Ahead

Citing robust and sustainable growth in lottery market in 2007, the annual sales of lotteries amounted to RMB100 billion in the PRC, of which welfare lotteries and sports lotteries accounted for 62% and 38% respectively. The Group has committed resources to provide comprehensive and professional services to the market, with an aim to consolidate its established foothold in the lottery market in China.

In February 2008, the Group has formed a strategic alliance with Scientific Games to further develop lottery business opportunities in China. Each party will contribute their respective expertise, know-how, local knowledge and distribution channels.

On sports lottery side, the Group has established a joint venture to focus on development and expansion of the Group's sports lottery distribution business in Eastern China, which includes Shanghai, Jiangsu and Zhejiang.

In April 2008, the Group extended its presence in sports lottery market by acquiring 90% stake in Guangzhou Latech Technology Co Ltd ("Guangzhou Latech"), which is one of the few approved providers for the development and production of sports lottery machines by China Sports Lottery Administration Center. Upon completion of the acquisition, the coverage of the Group's sports lottery business is expected to increase to 11 provinces/cities.

Financial review

Result

For the year ended 31 December 2007, the Group recorded a turnover of HK$434,652,000 (2006: HK$173,883,000), representing an increase of 150% over that of the last year. The increase was mainly attributable to the Group's lottery business in China which achieved a turnover of HK$373,410,000 (2006: HK$115,043,000).

Profit attributable to shareholders for the year was HK$136,688,000 (2006: HK$11,170,000). The earnings per share was 2.19 cents (2006: 0.26 cent). Fully diluted earnings per share was 2.17 cents (2006: 0.25 cent).

Liquidity, Financial Resources and Funding

At 31 December 2007, the Group's total equity amounted to HK$2,441,403,000 as compared to HK$930,044,000 at the end of the previous year. The net increase in equity was mainly attributed to the completion of the capital raising exercises by the Company during the year which included issue of consideration shares and a placement of shares. The net proceeds from the placing of 648,000,000 shares in November 2007 of approximately HK$965.5 million were mainly used to finance the acquisition of the lottery business in China and to strengthen the working capital base of the Group.

At 31 December 2007, the Group had cash reserves of approximately HK$689,342,000 (2006: HK$164,867,000), which include approximately HK$31,539,000 (2006: HK$17,633,000) of clients' funds that were kept in designated segregated bank accounts.

The gearing ratio as at 31 December 2007 was 0.58% (2006: 14.89%). The gearing ratio was derived by dividing the aggregate of bank borrowings by the amount of shareholders' equity. The liquidity ratio of the Group, represented by a ratio between current assets over current liabilities, was 1,192% (2006: 341%).

The Group had outstanding bank borrowings as at 31 December 2007 of HK$14,056,000 (2006: HK$138,444,000). The bank borrowings were denominated in Renminbi and Hong Kong dollars and interest bearing at prevailing commercial lending rates. The Group's investment properties were pledged to secure these bank borrowings. We expect that all these borrowings will be repaid by internal generated funds.

Taking into account the financial resources available to the Group including internally generated funds and available banking facilities, the Group has sufficient working capital to meet its present requirements.

Pledge of Assets

At 31 December 2007, the Group's investment properties with value of HK$49,034,000 were pledged to banks to secure the bank borrowings granted to the Group. At 31 December 2006, the Group's bank deposit of HK$123,304,000 and listed investments belonging to clients with total market value of approximately HK$21,871,000 were pledged to banks to secure the bank borrowings granted to the Group. The charge on the pledged deposit has been released as a result of repayment of certain bank borrowings during the year.

Share Capital

During the year, the Company issued 152,375,000 and 147,625,000 new shares of HK$0.01 each at a price of HK$0.7 per share pursuant to two share purchase agreements respectively dated 19 March 2007. Details of which are set out in the circular of the Company dated 29 June 2007.

Pursuant to the subscription agreement dated 7 November 2007, 648,000,000 new shares of HK$0.01 each were allotted and issued to Kingly Profits Corporation in November 2007 at a price of HK$1.52 per share. Details of which are set out in the Company's announcement dated 7 November 2007.

273,000,000 new shares of HK$0.01 each were issued and allotted during the year upon exercise of share options granted by the Company.

Save as the above, there was no change in the Company's capital structure during the year ended 31 December 2007.

Exposure to Fluctuation in Exchange Rate Risk and Interest Rate Risk

The Group's assets, liabilities and transactions are mainly denominated either in Hong Kong dollar or Renminbi. The Group did not enter into any foreign exchange forward contracts to hedge against exchange rates fluctuations. Foreign exchange risk arising from the normal course of operations is considered to be minimal and the management will closely monitor the fluctuation in the currency and take appropriate actions when condition arises.

In terms of the interest rate risk exposures, the Group does not have any significant interest rate risk as both the borrowings of the Group and the interest rates currently remain at low levels.

Material Acquisitions and Disposals of Subsidiaries

On 19 March 2007, the Company entered into a share purchase agreement with Excellot Assets Management Limited ("Excellot Assets") under which the Company has agreed to acquire 1 share of US$1.00 in the share capital of Global Union Group Limited ("Global Union"), representing the entire issued share capital of Global Union, and the shareholder's loan due from Global Union to Excellot Assets at a consideration of HK$119,487,500. The consideration has to be satisfied as to HK$12,825,000 in cash and as to HK$106,662,500 by issue of 152,375,000 ordinary shares of HK$0.01 each of the Company at a price of HK$0.7 per share to Excellot Assets or its nominees. Global Union indirectly holds approximately 9.62% of the registered capital of Sinodata. Details of the acquisition are set out in the Company's circular dated 29 June 2007. The transaction has been completed on 17 August 2007.

On 19 March 2007, the Company entered into a share purchase agreement with Sino Gateway International Limited ("Sino Gateway") under which the Company has agreed to acquire 1 share of US$1.00 in the share capital of Huge Rich Enterprises Limited ("Huge Rich"), representing the entire issued share capital of Huge Rich, and the shareholder's loan due from Huge Rich to Sino Gateway at a consideration of HK$115,762,500. The consideration has to be satisfied as to HK$12,425,000 in cash and as to HK$103,337,500 by issue of 147,625,000 ordinary shares of HK$0.01 each of the Company at a price of HK$0.7 per share to Sino Gateway or its nominees. Huge Rich indirectly holds approximately 9.32% of the registered capital of Sinodata. Details of the acquisition are set out in the Company's circular dated 29 June 2007. The transaction has been completed on 17 August 2007.

Upon completion of the acquisitions as stated above, the Group, together with its then existing interests in Sinodata, holds approximately 65% in the registered capital of Sinodata indirectly.

On 18 July 2007, Genius Nation Limited ("Genius Nation"), a direct wholly-owned subsidiary of the Company, entered into a share transfer contract (the "Gentleigh Share Transfer Contract") with, among others, Cityhorizon International Limited pursuant to which Genius Nation has agreed to acquire the entire issued share capital of Gentleigh International Limited ("Gentleigh"), a company which was indirectly holding a 30% interest in the registered capital of Guard Libang. The consideration payable for the acquisition is the US dollar equivalent of RMB120,000,000. Details of the acquisition are set out in the Company's circular dated 15 August 2007. The transaction was completed in 18 October 2007.

On 18 July 2007, the Company, Genius Nation, Scientific Games Luxembourg Holdings SARL ("Scientific Games Luxembourg") and Scientific Games Corporation ("Scientific Games") entered into a sale and purchase agreement (the "Happy Sun Sale and Purchase Agreement") pursuant to which Scientific Games Luxembourg has agreed to acquire, and Genius Nation has agreed to sell, a 50% interest in the share capital of Happy Sun Technologies Ltd ("Happy Sun") at the consideration of US dollar equivalent of RMB210,000,000. Happy Sun was indirectly interested in the entire interest in the registered capital of Guard Libang immediately before completion of the Happy Sun Sale and Purchase Agreement. Details of the disposal are set out in the Company's circular dated 15 August 2007. The transaction was completed in 14 November 2007.

Immediately after completion of the Gentleigh Share Transfer Contract, the Group indirectly owned the entire interest in the registered capital of Guard Libang. After completion of the Happy Sun Sale and Purchase Agreement, Guard Libang became a jointly controlled entity of the Group.

On 24 December 2007, Huge Top Enterprises Inc. ("Huge Top"), a wholly-owned subsidiary of the Company, entered into a share purchase agreement with, among others, Giga Step Limited ("Giga Step") under which Huge Top has agreed to acquire the entire issued share capital of Jertford Development Ltd ("Jertford") and the shareholder's loan due from Jertford to Giga Step. Jertford shall upon completion be indirectly interested in 26% of the registered capital of Kingsail. The consideration payable for the acquisition is HK$75,000,000 which was to be settled in cash. Details of the acquisition are set out in the Company's announcement dated 28 December 2007. The transaction has been completed in April 2008. Upon completion of this acquisition, the Group, together with its then existing interests in Kingsail, holds 84% in the registered capital of Kingsail indirectly.

On 31 December 2007, Multi Glory Limited ("Multi Glory"), a wholly-owned subsidiary of the Company, entered into a share purchase agreement with, among others, Billion Invest Limited ("Billion Invest") under which Multi Glory has agreed to acquire the entire issued share capital of Top Manage Group Limited ("Top Manage") and the shareholder's loan due from Top Manage to Billion Invest. Top Manage was indirectly interested in 20% of the registered capital of Sinodata. The consideration payable for the acquisition is HK$600,000,000, which was to be satisfied as to HK$240,000,000 by payment in cash and as to HK$360,000,000 by the issue of 254,000,000 ordinary shares by the Company to Billion Invest (or its nominee) at a price of approximately HK$1.4173 per share. Details of the acquisition are set out in the Company's announcement dated 9 January 2008. The transaction has not yet been completed up to the date of this report.

Apart from the above, the Group had no material acquisition and disposal of subsidiaries during the year ended 31 December 2007.

Human Resources

As at 31 December 2007, the Group had 658 employees.

The Group remunerated its employee mainly based on the individual's performance and experience. Apart from the basic remuneration, discretionary bonus and share options may be granted to eligible employees by reference to the Group's performance as well as individual's performance.

The Group will continue to emphasise on staff training and total quality management to better prepare its staff for the upcoming changes and challenges in the market and industry.

For the year ended 31 December 2006

Business review and prospects

Year 2006 has been a year of tremendous development for our Group in that we have successfully expanded our business activities from financial and brokerage into the expanding lottery market in China.

In mid 2006, the Group successfully acquired a 45.81% interest in Shenzhen Sinodata Technology Co Ltd ("Sinodata"). Sinodata is engaged in the development and production of proprietary lottery machines, related operations software system and networks for the welfare lottery industry in China. In late 2006, the Group also completed the acquisitions of a 70% stake in Beijing Guard Libang Technology Co Ltd ("Guard Libang") and a 58% stake in Shenzhen Kingsail Software Tech Co Ltd ("Kingsail"). Guard Libang is one of the leaders in the instant lottery industry in China. Kingsail is one of the approved vendors for the development and production of sports lottery machine by China Sports Lottery Administration Center.

With these acquisitions and the subsequent further expansion into new provinces, the Group now has one of the largest franchise in the lottery market in China and has operations covering multiple provinces and municipalities in China which have an addressable populations of over 900 million. It is our belief that lottery products are part of the consumer products for the mid and low income groups in China. In light of the continuing growth in GDP of China and the accompanying increase in disposable income of the Chinese people and the filtering through of the "wealth effect" from the coastal regions of China into the inland provinces, we are of the view that the lottery market in China will enjoy a period of continued sustainable growth going forward and given our Group's franchise in China, we also believe that our Group will be able to benefit from this continuing growth trend.

Welfare Lottery

The Group has a substantial participation in the Welfare Lottery Computer Ticket Games ("Welfare CTG") business through its subsidiary Sinodata. Our Group's Welfare CTG business involves the provision of operating system, hardware, maintenance and development for Welfare CTG games for the China Welfare Lottery. In 2006, the sales of Welfare CTG games achieved a new record high of approximately RMB44 billion, which accounted for approximately 90% of the total sales of the China Welfare Lottery. Given the already substantial and more established base for the Welfare CTG business, we believe that the Welfare CTG market will enjoy a period of stable, sustainable and continuing growth for the coming years which is likely to track the growth in disposable income for China.

Our Welfare CTG business covered 13 provinces in China in 2006 (which has since been further increased as more provinces have been added after the end of the financial year out of which approximately 50% of the provinces covered is on a revenue sharing basis). Currently, it has deployed over 40,000 lottery machines in China. Our Group is the largest provider for the Welfare CTG business in China in 2006 commanding approximately 50% market share.

Furthermore, the Group's initiative in Welfare CTG games development has also achieved significant breakthrough in that our High Frequency 2D game will be officially rolled out in the third quarter of 2007 after our successful completion of the testing and review by various regulatory authorities in China. Our income from the provision of games is on a revenue sharing basis.

The Group is also actively involved in the Instant Lottery business for Welfare Lottery (Scratch Cards) in China ("SC business") through our subsidiary Guard Libang. In the SC business, the Group provides games, system software and hardware, verifications and anti-counterfeiting technologies as well as logistical tracking systems to the Instant Ticket Games for Welfare Lottery based on the approved proprietary and patented technology of Guard Libang. Guard Libang is the sole system provider to the SC business in China Welfare Lottery. Our SC business covers 14 provinces and we plan to further expand our coverage in SC business by expanding into more provinces in China. Our Group's revenue from the SC business is based on a revenue sharing model.

Instant Ticket Games have seen its fair share of ups and downs in the past and has, in our view, rejuvenated after the re-launch of the SC business in 2005 with improved anti-counterfeiting measures and more efficient system and distribution support. With the implementation of the 2D bar code verification system and the logistical tracking system, the SC business has gradually regained confidence and popularities with the general public in China which led to a speedy recovery in its sales. In 2005, SC games generated approximately RMB100 million in ticket sales and the figure has already exceeded RMB500 million in 2006. We are very much encouraged by the growth of the SC business in 2006 (i.e. a growth of approximately 500% in a year). We are committed to further developing the SC business in China in 2007 and beyond and we believe that substantial growth opportunities still lie ahead in the coming years.

Sports Lottery

Through our subsidiary Kingsail, our Group is one of the 7 licensed providers to the China Sports Lottery Computer Ticket Games ("Sports CTG"). At the end of 2006, our Group has already won contracts to supply Sports CTG to 2 provinces in China and since then a further province has been added to the list in 2007. Looking into 2007, more provinces will be inviting tender for their Sports CTG systems and our Group will continue its efforts to increase our participations in the Sports CTG market. Since the acquisition of Kingsail was only completed in late December 2006, the results of Kingsail have not been included in the results of the Group for the year ended 31 December 2006.

The results of the lottery business was encouraging. The post-acquisition turnover of the lottery business was approximately HK$115,043,000, representing 66% of the total turnover. Profit arising from this segment amounted to approximately HK$39,676,000.

Money Lending

Interest income from money lending decreased slightly by 16% to HK$10,943,000 (2005: HK$13,071,000). The Group will continue to adopt strict credit monitoring measures on loan lending.

Investment Trading and Holding

In view of huge activities in the capital market and buoyant IPO activities during the year, turnover increased to HK$29,790,000 and the segment profit was HK$21,097,000 which included the unrealized profit on securities amounted to HK$15,412,000. The Group is optimistic to see income generated from this business segment.

Financial Services

Notwithstanding a surge of securities trading volume on the Stock Exchange that the average daily turnover increased from HK$18.3 billion in 2005 to HK$33.9 billion in 2006, the performance of the Group's broking business and asset management business was affected by increase in interest rate and operating costs as well as keen competition in the industry, including securities trading services offered by retail banks. Turnover of the Group's financial services decreased by 35% to HK$18,107,000, representing 10% of the total turnover.

Looking Ahead

According to the Ministry of Finance People's Republic of China, the annual sales of lotteries amounted to RMB81.9 billion in 2006. The sales of Welfare Lottery was RMB49 billion in 2006, representing an increase of 20% from 2005, on the other hand, the sales of Sports Lottery increased by RMB2.1 billion to RMB32.3 billion in 2006. According to the Development Research Center of State Council PR China, total lottery revenues in China are forecast to reach RMB100 billion in 2007. We are optimistic about the prospect of the lottery market in China in the coming year. Together with the determination of the Chinese government to clamp down on illegal gambling, the Group believes that there will be a huge growth potential in the lottery market in China. We will continue to identify appropriate investment opportunities to enhance the Group's revenue base and profitability.

Subsequent to the year end in March 2007, the Group entered into two agreements to further acquire an aggregate of 18.94% interest in Sinodata for a total consideration of HK$235,250,000. Upon completion of the acquisitions, its shareholding in Sinodata will increase to approximately 65%. Details of the transactions are set out in the Company's announcement dated 22 March 2007.

In April 2007, the Group further extended its market reach to more provinces in the lottery market in China. Sinodata was awarded the contract to provide lottery system software and machines for Xizang (Tibet Autonomous Region) Welfare Lottery Issuance Centre for its Welfare CTG games, while Kingsail secured contract with Sports Lottery Issuance Centre in Liaoning to supply Sports CTG terminals.

During the year, the Group has been proactively identifying suitable investment opportunities in order to enhance the Group's income base and profitability. The Group will continue to focus on lottery-related businesses in China and put in more resources to offer more comprehensive and quality services to the lottery market with a view to enriching its business portfolio and bringing long-term stable returns to our shareholders.

Financial review

Result

For the year ended 31 December 2006, the Group recorded a turnover of HK$173,883,000 (2005: HK$41,938,000), representing an increase of 315% over the last year. The increase was mainly attributable to the Group's lottery business in China which achieved a turnover of HK$115,043,000 (represented a partial year impact on turnover after the completion of the respective acquisition in July 2006) and also partly due to the growth in investment trading and holdings activities. Turnover from the trading of listed securities increased to HK$29,137,000 for the year ended 31 December 2006 (2005: HK$617,000).

Profit attributable to shareholders for the year was HK$11,170,000 (2005: loss of HK$50,700,000). The earnings per share was 0.26 cents (2005: loss per share of 1.69 cents). Fully diluted earnings per share was 0.25 cents (2005: Nil).

Liquidity, Financial Resources and Funding

At 31 December 2006, the Group's total equity amounted to HK$930,044,000 as compared to HK$114,572,000 at the end of the previous year. The net increase in equity was mainly attributed to the completion of the capital raising exercises by the Company during the year. The proceeds from the capital raising exercises were mainly used to finance the acquisition of the lottery business in China and to strengthen the working capital base of the Group.

At 31 December 2006, the Group had cash reserves of approximately HK$164,867,000 (2005: HK$27,181,000), which include approximately HK$17,633,000 (2005: HK$22,161,000) of clients' funds that were kept in designated segregated bank accounts.

The gearing ratio as at 31 December 2006 was 14.89% (2005: 179%). The gearing ratio was derived by dividing the aggregate of bank borrowings by the amount of shareholders' equity. The liquidity ratio of the Group, represented by a ratio between current assets over current liabilities, was 341% (2005: 142%).

The Group had outstanding bank borrowings as at 31 December 2006 of HK$138,444,000 (2005: HK$205,579,000). The bank borrowings were denominated in Hong Kong dollars and Renminbi and interest bearing at prevailing commercial lending rates. The Group's bank deposit of HK$123,304,000 and listed investments belonging to clients were pledged to secure these bank borrowings which were used to finance the Group's operations. We expect that all these borrowings will be repaid by internal generated funds. Subsequently after the year end, the secured loan of HK$122,509,000 has been repaid.

Taking into account the financial resources available to the Group including internally generated funds and available banking facilities, the Group has sufficient working capital to meet its present requirements.

Pledge of Assets

At 31 December 2006, the Group's bank deposit of HK$123,304,000 and listed investments belonging to clients and the Group with total market value of approximately HK$21,871,000 and HK$nil respectively (2005: HK$89,042,000 and HK$13,348,000 respectively) were pledged to banks to secure the bank borrowings granted to the Group. Subsequently after the year end, the charge on the pledged deposit has been released as a result of repayment of certain bank borrowings after year end.

Share Capital

During the year, the Company issued 1,200,000,000 new shares of HK$0.01 each at a price of HK$0.2 per share pursuant to a subscription agreement dated 23 March 2006. Details of which are set out in the circular of the Company dated 12 June 2006. 730,000,000 new shares of HK$0.01 each were issued at a price of HK$0.35 per share pursuant to a subscription agreement dated 1 August 2006 as amended by a supplemental agreement dated 2 August 2006.

Pursuant to the share purchase agreement dated 15 March 2006, 500,000,000 new shares of HK$0.01 each were issued by the Company in July 2006 at a price of HK$0.15 per share to satisfy part of the consideration for the acquisition of the entire issued share capital of Multi Glory Limited. Details of the acquisition are set out in the Company's circular dated 12 June 2006.

Pursuant to the share purchase agreement dated 25 July 2006, 240,000,000 new shares of HK$0.01 each were issued by the Company in November 2006 at a price of HK$0.37 per share to satisfy part of the consideration for the acquisition of the entire issued share capital of Happy Sun Technologies Ltd. Details of the acquisition are set out in the Company's circular dated 18 August 2006.

247,000,000 new shares of HK$0.01 each were issued and allotted during the year upon exercise of share options granted by the Company.

Save as the above, there was no change in the Company's capital structure during the year ended 31 December 2006.

Exchange Rate Risk

All the Group's assets, liabilities and transactions are denominated either in Hong Kong dollar or Renminbi. The Group did not enter into any foreign exchange forward contracts to hedge against exchange rates fluctuations. Foreign exchange risk arising from the normal course of operations is considered to be minimal and the management will closely monitor the fluctuation in the currency and take appropriate actions when condition arises.

Material Acquisitions and Disposals of Subsidiaries

On 15 March 2006, the Group entered into a share purchase agreement with Magic Dynasty Limited under which the Group agreed to acquire the entire issued share capital of Multi Glory Limited, a company which was holding an indirect interest in 45.436% of the registered capital of Sinodata. The consideration payable for the acquisition is HK$227,880,000 which is to be satisfied as to HK$152,880,000 in cash and as to HK$75,000,000 by the issue of 500,000,000 consideration shares at a price of HK$0.15 per share. Details of the acquisition are set out in the Company's circular dated 12 June 2006. The transaction has been completed in July 2006.

On 25 July 2006, the Group entered into a share purchase agreement with Gain Silver International Limited under which the Group agreed to acquire the entire share capital of Happy Sun Technologies Ltd which, upon completion, will indirectly own 70% of Guard Libang. The consideration payable for the acquisition is HK$157,040,000 which is to be satisfied as to HK$68,240,000 in cash and as to HK$88,800,000 by the issue of 240,000,000 consideration shares at a price of HK$0.37 per share. Details of the acquisition are set out in the Company's circular dated 18 August 2006. The transaction has been completed in November 2006.

On 8 August 2006, the Group entered into a sale and purchase agreement with Grand Langley Limited for the acquisition of the entire issued share capital of Pentium Win Limited at the consideration of HK$29,000,000. Upon completion of the transaction, Pentium Win Limited shall be indirectly interested in 58% of the registered capital of Kingsail. Details of the acquisition are set out in the Company's announcement dated 9 August 2006. The transaction has been completed in December 2006.

Apart from the above, the Group had no material acquisition and disposal of subsidiaries during the year ended 31 December 2006.

Human Resources

As at 31 December 2006, the Group had 406 employees.

The Group remunerated its employee mainly based on the individual's performance and experience. Apart from the basic remuneration, discretionary bonus and share options may be granted to eligible employees by reference to the Group's performance as well as individual's performance.

The Group will continue to emphasize on staff training and total quality management to better prepare its staff for the upcoming changes and challenges in the market and industry.

(A) LETTER ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the text of a report dated 5 June 2008 made by the independent reporting accountants, Ting Ho Kwan & Chan, for the purpose of incorporation in this circular.

TING HO KWAN & CHAN
CERTIFIED PUBLIC ACCOUNTANTS (PRACTISING)

The Directors
REXCAPITAL Financial Holdings Limited
Suite 3401, 34/F., COSCO Tower
Grand Millennium Plaza
183 Queen's Road Central
Hong Kong

Dear Sirs,

We report on the unaudited pro forma financial information of REXCAPITAL Financial Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the proposed acquisition (the "Acquisition") of an additional 20% equity interests in Shenzhen Sinodata Technology Co., Ltd., an indirect 64.75% owned subsidiary of the Company might have affected the financial information presented, for inclusion in the circular dated 5 June 2008 (the "Circular"). The basis of preparation of the unaudited pro forma financial information is set out on pages 196 to 205 to the Circular.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The unaudited pro forma financial information is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Group as at 31 December 2007 or any future date; and
- the results and cash flows of the Group for the year ended 31 December 2007 or any future period.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,
TING HO KWAN & CHAN
Certified Public Accountants (Practising)

Hong Kong, 5 June 2008

(B) PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following unaudited pro forma financial information of the Enlarged Group has been prepared based on the audited financial statements of the Group for the year ended 31 December 2007 and the financial information of Sinodata Group for the year ended 31 December 2007 extracted from the Accountants' Report set out in Appendix I to this Circular and adjusted for the transaction resulting from the Acquisition. The financial information of Sinodata Group is translated from RMB to HK$ at the following rates:

Pro forma income statement:	HK$1 = RMB0.975
Pro forma balance sheet:	HK$1 = RMB0.935
Pro forma cash flow statement:	HK$1 = RMB0.975

Unaudited Pro Forma Income Statement of the Enlarged Group

The following is a summary of the unaudited pro forma income statement of the Enlarged Group, assuming that the Acquisition had been taken place on 1 January 2007 for the purpose of illustrating how the Acquisition might have affected the results of the Group.

The unaudited pro forma income statement is prepared to provide financial information on the Enlarged Group as a result of completion of the Acquisition. As it is prepared for illustrative purpose only, it may not purport to represent what the results of the Enlarged Group for the year ended 31 December 2007 or any future period shall be.

	The Group	Sinodata Group	Total	Pro-forma adjustments		Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Note (1))		*(Note (2))*	*(Note (3))*	
Turnover	434,652	317,435	752,087	(317,435)	–	434,652
Other income	5,561	2,332	7,893	(2,332)	–	5,561
Other gains, net	23,180	21,966	45,146	(21,966)	–	23,180
Bad debts recovery, net	2,208	–	2,208	–	–	2,208
Reversal of allowance for impairment of bad and doubtful debts, net	16,840	–	16,840	–	–	16,840
Gain on disposal of partial interests in subsidiaries	63,998	–	63,998	–	–	63,998
Changes in inventories of finished goods and work in progress	(6,899)	(6,899)	(13,798)	6,899	–	(6,899)
Raw materials consumed	(119,167)	(102,442)	(221,609)	102,442	–	(119,167)
Outsourcing costs for software development	(13,333)	(13,333)	(26,666)	13,333	–	(13,333)
Cost of trading of listed securities	(22,142)	–	(22,142)	–	–	(22,142)
Commission expenses	(9,978)	–	(9,978)	–	–	(9,978)
Research and development costs	(3,921)	(3,921)	(7,842)	3,921	–	(3,921)
Depreciation and amortisation expenses	(19,241)	(10,285)	(29,526)	10,285	–	(19,241)
Staff costs	(60,410)	(16,428)	(76,838)	16,428	–	(60,410)
Other operating expenses	(68,832)	(20,973)	(89,805)	20,973	–	(68,832)
Operating profit	222,516	167,452	389,968			222,516
Finance costs	(2,506)	(1,007)	(3,513)	1,007	–	(2,506)
Profit before taxation	220,010	166,445	386,455			220,010
Taxation	(26,369)	(26,024)	(52,393)	26,024	–	(26,369)
Profit for the year	193,641	140,421	334,062			193,641
Attributable to:						
Equity holders of the Company	136,688	140,421	277,109	(86,637)	(21,414)	169,058
Minority interests	56,953	–	56,953	(53,784)	21,414	24,583
	193,641	140,421	334,062			193,641
						HK$
Pro forma earnings per share *(Note 4)*						0.0261

Notes:

(1) This represents the effect of the incorporation of the results for Sinodata Group for the year ended 31 December 2007 as set out in Appendix I to this Circular. These results would be attributed to the Group assuming the Acquisition had been consummated as at the beginning of the financial year ended 31 December 2007.

(2) The adjustment represents the elimination of the Group's share of 64.75% of the post acquisition results of Sinodata Group from the Previous Acquisition.

(3) The adjustment represents the minority interests' share of profit of the Sinodata Group for the year.

(4) The pro forma earnings per share is calculated by dividing the pro forma profit for the year attributable to the equity holders of the Company by the weighted average number of shares outstanding during the period, adjusted as if the Consideration Shares had taken place at the beginning of the period.

Unaudited Pro Forma Balance Sheet of the Enlarged Group

The following is a summary of the unaudited pro forma balance sheet of the Enlarged Group, assuming that the Acquisition had been completed on 31 December 2007 for the purpose of illustrating how the Acquisition might have affected the financial position of the Group.

The unaudited pro forma balance sheet is prepared to provide financial information on the Enlarged Group as a result of Completion of the Acquisition. As it is prepared for illustrative purpose only, it may not purport to represent what the financial position of the Enlarged Group shall be on actual Completion of the Acquisition.

	The Group	Sinodata Group	Total	Pro-forma adjustments		Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Note (1))	*(Note (2))*	
ASSETS						
Non-current assets						
Property, plant and equipment	89,445	73,393	162,838	(73,393)	–	89,445
Prepaid lease payments on land use rights	4,910	1,378	6,288	(1,378)	–	4,910
Investment properties	49,034	48,128	97,162	(48,128)	–	49,034
Goodwill	595,357	–	595,357	–	531,512	1,126,869
Intangible assets	95,638	30,368	126,006	(30,368)	–	95,638
Statutory deposits	2,178	–	2,178	–	–	2,178
Deferred tax assets	2,111	–	2,111	–	–	2,111
Other receivables	168,620	–	168,620	–	(120,000)	48,620
Total non-current assets	1,007,293	153,267	1,160,560			1,418,805
Current assets						
Inventories	51,615	50,217	101,832	(50,217)	–	51,615
Trade and other receivables	824,554	180,095	1,004,649	(180,095)	–	824,554
Financial assets at fair value through profit or loss	30,072	–	30,072	–	–	30,072
Current tax refundable	2,698	–	2,698	–	–	2,698
Cash and bank balances	689,342	64,304	753,646	(64,304)	(120,000)	569,342
Total current assets	1,598,281	294,616	1,892,897			1,478,281
Total assets	2,605,574	447,883	3,053,457			2,897,086

	The Group	Sinodata Group	Total	Pro-forma adjustments		Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Note (1))	*(Note (2))*	
EQUITY						
Capital and reserves attributable to the equity holders of the Company						
Share capital	71,380	34,600	105,980	(34,600)	2,540	73,920
Reserves	2,242,586	307,838	2,550,424	(307,838)	357,460	2,600,046
	2,313,966	342,438	2,656,404			2,673,966
Minority interests	127,437	–	127,437	–	(68,488)	58,949
Total equity	2,441,403	342,438	2,783,841			2,732,915
LIABILITIES						
Non-current liabilities						
Bank borrowings	12,675	12,400	25,075	(12,400)	–	12,675
Deferred tax liabilities	17,408	16,850	34,258	(16,850)	–	17,408
Total non-current liabilities	30,083	29,250	59,333			30,083
Current liabilities						
Trade and other payables	125,546	68,232	193,778	(68,232)	–	125,546
Bank borrowings	1,381	1,170	2,551	(1,170)	–	1,381
Current tax liabilities	7,161	6,793	13,954	(6,793)	–	7,161
Total current liabilities	134,088	76,195	210,283			134,088
Total liabilities	164,171	105,445	269,616			164,171
Total equity and liabilities	2,605,574	447,883	3,053,457			2,897,086
						HK$
Pro forma net asset value per share *(Note 3)*						0.362

Notes:

(1) The assets and liabilities of Sinodata Group have already been incorporated into the Group's consolidated balance sheet as at 31 December 2007 following the completion of the Previous Acquisition. The adjustment represents the exclusion of the assets and liabilities of Sinodata Group.

(2) These adjustments represent the accounting for the financial effect immediately upon Completion of the Acquisition including:

(i) the arising of goodwill from the acquisition of additional 20% equity interests of Sinodata Group. The goodwill is calculated based on the net assets value of Sinodata Group as at 31 December 2007 and the amount of goodwill may be different at the Completion date;

(ii) the elimination of the deposit paid upon Completion;

(iii) the settlement of the balance of the Cash Consideration upon Completion;

(iv) the issuance of 254 million new shares of the Company at HK$0.01 each;

(v) the increase in share premium by issuing 254 million new shares at issue price of approximately HK$1.4173 per Share; and

(vi) the elimination of 20% minority interests of Sinodata Group due to the acquisition of the additional equity interests of Sinodata Group.

(3) The pro forma net asset value per share is calculated by dividing the pro forma net assets value, excluding minority interests, by the number of shares outstanding during the period, adjusted as if the Consideration Shares had taken place at the balance sheet date.

Unaudited Pro Forma Cash Flow Statement of the Enlarged Group

The following is a summary of the unaudited pro forma cash flow statement of the Enlarged Group, assuming that the Acquisition had been taken place on 1 January 2007 for the purpose of illustrating how the Acquisition might have affected the cash flows of the Group.

The unaudited pro forma cash flow statement is prepared to provide financial information on the Enlarged Group as a result of completion of the Acquisition. As it is prepared for illustrative purpose only, it may not give a true picture of the cash flows of the Enlarged Group for the year ended 31 December 2007 or any future period.

	The Group	Sinodata Group	Total	Pro-forma adjustments		Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Note (1))		*(Note (2))*	*(Note (3))*	
OPERATING ACTIVITIES						
Profit before taxation	220,010	166,444	386,454	(166,444)	–	220,010
Adjustments for:						
Fair value gains on investment properties	(21,967)	(21,967)	(43,934)	21,967	–	(21,967)
Interest income	(21,245)	(201)	(21,446)	201	–	(21,245)
Interest expenses	2,506	1,007	3,513	(1,007)	–	2,506
Share option benefits	24,867	–	24,867	–	–	24,867
Reversal of allowance for impairment of bad and doubtful debts, net	(16,840)	–	(16,840)	–	–	(16,840)
Gain on disposal of partial interests in subsidiaries	(63,998)	–	(63,998)	–	–	(63,998)
Depreciation and amortisation expenses	19,241	10,287	29,528	(10,287)	–	19,241
Fair value gains on financial assets at fair value through profit or loss	(1,673)	–	(1,673)	–	–	(1,673)
Operating profit before changes in working capital	140,901	155,570	296,471			140,901
Increase in statutory deposits	(46)	–	(46)	–	–	(46)
(Increase)/decrease in inventories	(701)	(3,704)	(4,405)	3,704	–	(701)
(Increase)/decrease in trade and other receivables	(556,445)	(76,415)	(632,860)	76,415	120,000	(436,445)
Increase in financial assets at fair value through profit or loss	(8,111)	–	(8,111)	–	–	(8,111)
Increase in bank balances – segregated accounts	(13,906)	–	(13,906)	–	–	(13,906)
Decrease/(increase) in trade and other payables	59,215	37,328	96,543	(37,328)	–	59,215
Net cash (used in)/generated from operations	(379,093)	112,779	(266,314)			(259,093)
Interest received	21,245	201	21,446	(201)	–	21,245
Interest paid	(2,506)	(1,007)	(3,513)	1,007	–	(2,506)
Taxation paid – PRC income tax paid	(11,092)	(10,639)	(21,731)	10,639	–	(11,092)
Net cash (used in)/generated from operating activities	(371,446)	101,334	(270,112)			(251,446)

	The Group	Sinodata Group	Total	Pro-forma adjustments		Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Note (1))		*(Note (2))*	*(Note (3))*	
INVESTING ACTIVITIES						
Decrease in pledged bank deposits	123,287	–	123,287	–	–	123,287
Purchase of property, plant and equipment	(71,951)	(53,090)	(125,041)	53,090	–	(71,951)
Capital injection in the joint venture	(57,809)	–	(57,809)	–	–	(57,809)
Increase in intangible assets	(32,684)	–	(32,684)	–	–	(32,684)
Increase in interests in subsidiaries	(176,997)	–	(176,997)	–	–	(176,997)
Disposal of partial interests in subsidiaries	215,227	–	215,227	–	–	215,227
Cash rebate	–	11	11	(11)	–	–
Acquisition of subsidiaries	–	–	–	–	(240,000)	(240,000)
Net cash used in investing activities	(927)	(53,079)	(54,006)			(240,927)
FINANCING ACTIVITIES						
Issue of share, net of issuing costs	1,119,139	–	1,119,139	–	–	1,119,139
Repayment of bank borrowings	(123,681)	(1,089)	(124,770)	1,089	–	(123,681)
Net cash generated from/ (used in) financing activities	995,458	(1,089)	994,369			995,458
INCREASE IN CASH AND CASH EQUIVALENTS	623,085	47,166	670,251			503,085
CASH AND CASH EQUIVALENTS AT 1 JANUARY 2007	23,450	14,080	37,530	(14,080)	–	23,450
Effect of foreign exchange rate changes	11,129	3,058	14,187	(3,058)	–	11,129
CASH AND CASH EQUIVALENTS AT 31 DECEMBER 2007	657,664	64,304	721,968			537,664

Notes:

(1) The adjustment represents the incorporation of the cash flow statement of Sinodata Group for the year ended 31 December 2007 as set out in Appendix I to this Circular.

(2) The adjustment represents the elimination of the effect on the consolidated cash flow statements of the Group's Share of 64.75% of the post acquisition results of Sinodata Group from the Previous Acquisition.

(3) The adjustment of HK$240,000,000 represents the amount of the Cash Consideration of the Acquisition of which HK$120,000,000 was paid before balance sheet date.

RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts not contained in this circular, the omission of which would make any statement herein misleading.

SHARE CAPITAL

The authorized and issued share capital of the Company as at the Latest Practicable Date were as follows:

		Par value per Share *(HK$)*	*HK$*
Authorized:			
20,000,000,000	Shares authorized as at the Latest Practicable Date	0.01	200,000,000
Issued and fully paid:			
7,158,000,000	Shares issued as at the Latest Practicable Date	0.01	71,580,000
254,000,000	Consideration Shares	0.01	2,540,000
7,412,000,000	Shares	0.01	74,120,000

DISCLOSURE OF INTERESTS

Directors and chief executive

As at the Latest Practicable Date, the interest and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO); or are required pursuant to section 352 of the SFO to be entered in the register referred to therein; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers:

Long position in the Shares

Name of Director	Number of Shares held	Nature of interests	Approximate percentage of issued share capital
Chan How Chung, Victor	1,198,805,635 *(Note)*	Interest of a controlled corporation	16.75%

Note:

These shares are held by Kingly Profits Corporation as beneficial owner. Kingly Profits Corporation is wholly-owned by Smart Ease Corporation, which in turn, is wholly-owned by Mr. Chan How Chung, Victor.

Save as disclosed above, as at the Latest Practicable Date, none of the directors and the chief executive of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interest and short position which he/she was taken or deemed to have under such provisions of the SFO); or are required pursuant to section 352 of the SFO to be entered in the register referred to therein; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

As at the Latest Practicable Date, none of the Directors or proposed directors of the Company had any interest in any assets which have been, since 31 December 2007 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

As at the Latest Practicable Date, none of the Directors of the Company was materially interested in any contract or arrangement, subsisting at the date of this circular, which is significant in relation to the business of the Enlarged Group.

Substantial shareholders

Interests in the Company

So far as is known to the Directors, as at the Latest Practicable Date, each of the following persons, other than a Director or chief executive of the Company, had an interest and/or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who are directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any member of the Group.

Name of Shareholder	Nature of interests	Number of Shares held	Approximate percentage of issued share capital
Kingly Profits Corporation	Beneficial	1,198,805,635 *(Note)*	16.75%
Gandhara Master Fund Limited	Investment Manager	524,875,000	7.33%

Note:

These shares are held by Kingly Profits Corporation as beneficial owner. Kingly Profits Corporation is wholly-owned by Smart Ease Corporation, which in turn, is wholly-owned by Mr. Chan How Chung, Victor. The interest disclosed herein was the same as the interest of Mr. Chan How Chung, Victor as disclosed in the section under "Disclosure of Interests – Directors and chief executive" in this Appendix.

Interests in non wholly-owned subsidiaries

Name of shareholder	Name of subsidiary	Approximate percentage of interest in such subsidiary
好客投資管理咨詢（深圳）有限公司	深圳市思樂數據技術有限公司	20%
徐曉生	深圳市金帆軟件技術有限公司	16%

Save as disclosed above and so far as is known to the Directors, as at the Latest Practicable Date, no other person has an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or is directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

COMPETING INTERESTS

Pursuant to Rule 8.10(2) of the Listing Rules, details of the interests held by the Directors in business which is considered to compete or are likely to compete, either directly or indirectly, with the business of the Group, are disclosed as follows:

Name of company	Competing business
D & M Finance Limited ("D&M")	Money lending
RPI Finance Limited ("RPI")	Money lending
TKR Finance Limited ("TKR")	Money lending
Drake & Morgan Limited ("Drake & Morgan")	Securities dealing

Mr. Chan How Chung, Victor is a director and deemed to be the substantial shareholder of RPI, TKR and Drake & Morgan. He is a director of D&M. The terms and conditions of the financing loans of each of D&M, RPI and TKR are market driven and agreed at arm's length between the borrowers and the financiers. The client base of Drake & Morgan is different from that of the Group and the business transactions are carried out at arm's length and at the prevailing market prices. When making decisions on the above competing business, the relevant Director, in the performance of his duty as a director of the Company, has acted and will continue to act in the best commercial interest of the Group.

EXPERT STATEMENTS

This circular includes statement(s), opinion(s) or advice(s) made by the following experts:

Name	Qualification
Ting Ho Kwan and Chan	Certified Public Accountants (Practising)
Veda Capital	Licensed corporation to carry out type 6 (advising on corporate finance) regulated activities under the SFO

The above experts have given and have not withdrawn their written consent to the issue of this circular with their statements and references to their names included in the form and context in which they respectively included.

As at the Latest Practicable Date, the above experts did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, the above experts did not have any interest in any assets which have been, since 31 December 2007 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

MATERIAL ADVERSE CHANGES

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2007, the date to which the latest published consolidated audited accounts of the Group had been made up.

LITIGATION

As at the Latest Practicable Date, the Directors were not aware of any litigation or claim of material importance pending or threatened against any member of the Group or the Enlarged Group.

SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors or proposed directors of the Company had any existing or proposed service contract with any member of the Enlarged Group (excluding contracts expiring or terminable by the employer within a year without payment of any compensation (other than statutory compensation)).

MATERIAL CONTRACTS

The particulars of all material contracts (not being contracts entered into in the ordinary course of business) entered into by any member of the Group within the two years immediately preceding the issue of this circular are set out as follows:

(a) the Share Purchase Agreement;

(b) the sale and purchase agreement entered into between Huge Top Enterprises Inc., a wholly-owned subsidiary of the Company ("Huge Top"), 廣州市彩通信息技術有限公司 and 深圳市華和光電信息有限公司 on 13 April 2008 in relation to the acquisition of 90% interest of Guangzhou Latech Technology Co Ltd, details of which are set out in the Company's circular dated 14 May 2008;

(c) the sale and purchase agreement entered into between Huge Top and Giga Step Limited on 24 December 2007 in relation to the acquisition of the entire issued share capital of Jertford Development Ltd, details of which are set out in the Company's announcement dated 28 December 2007;

(d) the placing agreement entered into between the Company, CLSA Limited and Kingly Profits Corporation, details of which are set out in the Company's announcement dated 7 November 2007;

(e) the subscription agreement entered into between the Company and Kingly Profits Corporation, details of which are set out in the Company's announcement dated 7 November 2007;

(f) the share transfer contract entered into between Genius Nation Limited, a direct wholly-owned subsidiary of the Company, and Cityhorizon International Limited on 18 July 2007 in relation to the acquisition of the entire issued share capital of Gentleigh International Limited, details of which are set out in the Company's circular dated 15 August 2007;

(g) the sale and purchase agreement entered into between the Company, Genius Nation Limited, Scientific Games Luxembourg Holdings SARL and Scientific Games Corporation on 18 July 2007 in relation to the disposal of 50% interest in the share capital of Happy Sun Technologies Ltd, details of which are set out in the Company's circular dated 15 August 2007;

(h) the sale and purchase agreement entered into between the Company and Excellot Assets Management Limited on 19 March 2007 in relation to the acquisition of the entire issued share capital of Global Union Group Limited, details of which are set out in the Company's circular dated 29 June 2007;

(i) the sale and purchase agreement entered into between the Company and Sino Gateway International Limited on 19 March 2007 in relation to the acquisition of the entire issued share capital of Huge Rich Enterprises Limited, details of which are set out in the Company's circular dated 29 June 2007;

(j) the sale and purchase agreement entered into between Huge Top and Grand Langley Ltd. on 8 August 2006 in relation to the acquisition of the entire issued share capital of Pentium Win Limited, details of which are set out in the Company's announcement dated 9 August 2006;

(k) the placing agreement dated 1 August 2006 (as amended by the supplemental placing agreement dated 2 August 2006) entered into between the Company, Bears Sterns Asia Limited and Kingly Profits Corporation, details of which are set out in the Company's announcement dated 3 August 2006;

(l) the subscription agreement dated 1 August 2006 (as amended by the supplemental subscription agreement dated 2 August 2006) entered into between the Company and Kingly Profits Corporation, details of which are set out in the Company's announcement dated 3 August 2006; and

(m) the sale and purchase agreement entered into between the Company, Genius Nation Limited, Gain Silver International Limited and 2 Independent Third Parties on 25 July 2006 in relation to the acquisition of the entire issued share capital of Happy Sun Technologies Ltd., details of which are set out in the Company's circular dated 18 August 2006.

MISCELLANEOUS

(a) The English language text of this document shall prevail over the Chinese language text.

(b) The Secretary of the Company is Ms. Ng Yuen Yee, *ACS, ACIS*.

(c) The qualified accountant of the Company appointed pursuant to Rule 3.24 of the Listing Rules is Mr. Woo Ming Wah, *CPA*.

(d) The Company's branch share registrar and transfer office in Hong Kong is Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the Company's principal place of business in Hong Kong at Suite 3401, 34th Floor, COSCO Tower, Grand Millennium Plaza, 183 Queen's Road Central, Hong Kong for a period of 14 days (excluding Saturdays) from the date of this circular:

(a) the bye-laws of the Company;

(b) each of the contracts set out under the paragraph headed "Material Contracts" in this Appendix;

(c) the annual reports of the Group for the three financial years ended 31 December 2005, 2006 and 2007;

(d) the written statement signed by Ting Ho Kwan & Chan setting out the adjustments made in arriving at the figures shown in their report;

(e) the accountants' report on the Sinodata Group as signed by Ting Ho Kwan & Chan, the text of which is set out in Appendix I to this circular;

(f) the letter from Ting Ho Kwan & Chan regarding the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular;

(g) the letter from the Independent Board Committee dated 5 June 2008, the text of which is set out on page 24 of this circular;

(h) the letter from Veda Capital dated 5 June 2008, the text of which is set out on pages 25 to 43 of this circular;

(i) the written consents from Ting Ho Kwan & Chan and the Independent Financial Adviser respectively referred to under the section headed "Expert Statements" in this Appendix; and

(j) a copy of each circular issued pursuant to the requirements set out in Chapters 14 and/or 14A of the Listing Rules which has been issued since the date of the latest published audited accounts of the Company.

REXCAPITAL Financial Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock code: 555)

NOTICE IS HEREBY GIVEN that a special general meeting (the "Special General Meeting") of REXCAPITAL Financial Holdings Limited (the "Company") will be held at 34/F., COSCO Tower, Grand Millennium Plaza, 183 Queen's Road Central, Hong Kong on Monday, 23 June 2008 at 4:30 p.m. for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolutions as ordinary resolutions:

ORDINARY RESOLUTIONS

1. "**THAT**

(a) the conditional share sale and purchase agreement dated 31 December 2007 (the "Share Purchase Agreement") entered into between Multi Glory Limited (the "Purchaser") and Billion Invest Limited (the "Vendor") in relation to the proposed acquisition of the entire issued share capital of Top Manage Group Limited by the Purchaser from the Vendor pursuant to the Share Purchase Agreement at a consideration of HK$600,000,000 which is to be satisfied as to HK$240,000,000 in cash and as to HK$360,000,000 by the issue of 254,000,000 new shares of HK$0.01 each in the share capital of the Company (the "Consideration Shares") at an issue price of approximately HK$1.4173 per Consideration Share to the Vendor (or its nominee) (the "Acquisition"), a copy of the Share Purchase Agreement has been produced to the meeting and initialed by the chairman of the meeting for identification purpose and the Acquisition, the issue of the Consideration Shares and the performance by the Company thereof and the transactions contemplated therein be and are hereby confirmed, ratified and approved; and that any one or more of the directors of the Company be and are hereby authorized to sign, seal, execute, perfect, deliver or do all such other documents or supplemental agreements or deeds on behalf of the Company and to do all such things, matters and take all such actions as he or they may in his or their discretion consider necessary or desirable for the purpose of or in connection with effecting and implementing the Share Purchase Agreement and the exercise or enforcement of any of the Company's rights under the Share Purchase Agreement including, inter alias, upon the Share Purchase Agreement becoming unconditional, the authority to complete the transactions contemplated by the Share Purchase Agreement or to procure completion of the same and to make and agree with such changes in the terms of the Share Purchase Agreement as any such director(s) may in his or their discretion consider necessary, desirable or expedient and in the interest of the Company; and

(b) the directors of the Company be and are hereby authorized to allot and issue the Consideration Shares to the Vendor (or its nominee) upon the completion of the Acquisition or any part thereof, credited as fully paid pursuant to the terms of the Share Purchase Agreement, such Consideration Shares shall, when allotted and issued, rank pari passu in all respects with the existing shares of the Company in issue at the date of allotment and issue of the Consideration Shares."

2. "**THAT** subject to and conditional upon the granting by the Listing Committee of The Stock Exchange of Hong Kong Limited of the listing of and permission to deal in the shares in the share capital of the Company (the "Shares") to be issued pursuant to the exercise of options granted under the refreshed scheme mandate limit (the "Scheme Mandate Limit") under the share option scheme adopted on 22 November 2002 ("Share Option Scheme") in the manner as set out in paragraph (a) of this resolution below,

(a) the refreshment of the Scheme Mandate Limit be and is hereby approved provided that the total number of Shares which may be allotted and issued pursuant to the exercise of options granted or to be granted under the Share Option Scheme (excluding options previously granted, outstanding, cancelled, lapsed or exercised under the Share Option Scheme) shall not exceed 10% of the Shares of the Company in issue as at the date of passing of this resolution; and

(b) the directors of the Company be and are hereby authorized to do all such acts and things and execute all such documents, including under seal where applicable, as they consider necessary or expedient to give effect to the foregoing arrangement."

By order of the board of
REXCAPITAL Financial Holdings Limited
Chan How Chung, Victor
Executive Director

Hong Kong, 5 June 2008

Notes:

1. Any member of the Company (the "Member") entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person as his proxy to attend and vote on behalf of him. Vote may be given either personally or by a duly authorized corporate representative or by proxy. A Member who is the holder of two or more shares of the Company (the "Shares") may appoint more than one proxy to attend on the same occasion provided that, if more than one proxy is so appointed, the appointment shall specify the number and class of Shares in respect of which each such proxy is so appointed. A proxy need not be a Member. In addition, a proxy or proxies representing either an individual Member or a Member which is a corporate, shall be entitled to exercise the same powers on behalf of the Member which he or they represent as such Member could exercise, including, without limiting the generality of foregoing, but subject to the right to vote individually on a show of hands.

2. The instrument appointing a proxy shall be in writing under hand of the appointor or of his attorney duly authorized in writing or, if the appointor is corporation, either under seal or under hand of an officer or attorney duly authorized.

3. A form of proxy for the Special General Meeting is enclosed. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority shall be deposited at the Company's share registrar in Hong Kong, Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time fixed for holding the Special General Meeting or any adjournment thereof. Delivery of the form of proxy shall not preclude of a Member from attending and voting in person at the meeting or poll concerned.

4. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date of its execution unless it states that it is valid for all meetings whatsoever until revoked with the exception that any instrument may be used at any adjournment of the meeting for which it was originally intended and on a poll demanded at a meeting or adjourned meeting provided that in all these cases the meeting was originally held within 12 months from such date.

5. The instrument appointing a proxy to vote shall be deemed to confer authority to demand or join in demanding a poll and to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit.

6. A vote given in accordance with the terms of an instrument of proxy or power of attorney or by the duly authorized corporate representative of a corporation shall be valid notwithstanding the previous death or insanity of the principal or the revocation of the proxy or power of the attorney or other authority under which the proxy was executed or transfer of the Share in respect of which the proxy is given provided that no intimation in writing of the death, insanity, revocation or transfer has been received at the office or such other place as was specified for the deposit of instrument of proxy or by the chairman of the meeting at least 2 hours before the commencement of the meeting or any adjourned meeting at which the instrument of proxy is used.