



China
LotSynergy

2006 Interim Report

China LotSynergy Holdings Limited

華彩控股有限公司

(Incorporated in Bermuda with limited liability)

Stock code: 8161



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This report, for which the directors (the “Directors”) of China LotSynergy Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

INTERIM FINANCIAL STATEMENTS

The Directors of China LotSynergy Holdings Limited (the "Company") hereby present the unaudited condensed consolidated financial statements of the Company and its subsidiaries (the "Group") for the three months and six months ended 30 June 2006, together with the comparative unaudited figures for the corresponding periods in 2005, as follows:

Condensed Consolidated Income Statement

	Notes	Unaudited			
		Three months ended 30 June		Six months ended 30 June	
		2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Continuing operations:					
Turnover	3	12,413	-	12,413	-
Staff costs	4	(8,001)	(464)	(16,131)	(1,952)
Depreciation of property, plant and equipment		(1,097)	(57)	(1,167)	(111)
Advertising and promotion expenses		-	-	(13)	-
General and administrative expenses		(5,801)	(2,691)	(9,033)	(3,076)
Operating loss from continuing operations	5	(2,486)	(3,212)	(13,931)	(5,139)
Other revenues	3	3,712	9	9,835	10
Share of profit less loss of associates		912	-	912	-
Profit/(Loss) before income tax		2,138	(3,203)	(3,184)	(5,129)
Income tax	6	-	-	-	-
Profit/(Loss) for the period from continuing operations		2,138	(3,203)	(3,184)	(5,129)
Discontinued operations:					
Profit/(Loss) for the period from discontinued operations		(1,573)	288	(1,548)	(6,263)
Profit/(Loss) for the period		565	(2,915)	(4,732)	(11,392)
Attributable to:					
Equity holders of the Company		(3,756)	(2,840)	(9,034)	(10,778)
Minority interest		4,321	(75)	4,302	(614)
		565	(2,915)	(4,732)	(11,392)
Loss per share for loss attributable to the equity holders of the Company during the period					
Loss per share					
- Basic and diluted	7	(0.24) HK Cent	(0.28) HK Cent	(0.54) HK Cent	(0.99) HK Cent

Condensed Consolidated Balance Sheet

		Unaudited 30 June 2006 HK\$'000	Audited 31 December 2005 HK\$'000
	<i>Notes</i>		
Non-current assets			
Intangible assets		–	1,754
Property, plant and equipment		49,554	2,480
Goodwill		961,286	–
Investment in an associate	8	57,040	2
Available-for-sale financial asset/Long-term investment		–	390
Total non-current assets		1,067,880	4,626
Current assets			
Accounts receivable	9	27,794	–
Prepayments, deposits and other receivables		31,539	34,253
Amount due from an associate		–	10
Amount due from related companies		21,155	16,111
Deposit with a financial institution		15,385	15,385
Cash and bank balances		283,350	242,657
Total current assets		379,223	308,416
Total assets		1,447,103	313,042
Less: Current liabilities			
Accounts payable	10	12,622	–
Accruals and other payables		9,468	7,235
Amount due to an associate		29,690	–
Amounts due to related companies		8,731	197
Amount due to a director		400	–
Income tax payable		496	496
Total current liabilities		61,407	7,928
Net current assets		317,816	300,488
Total assets less current liabilities		1,385,696	305,114
Capital and reserves			
Share capital	11	17,726	14,300
Reserves	13	1,394,543	332,757
Accumulated losses		(67,539)	(58,505)
Capital and reserves attributable to equity holders of the Company		1,344,730	288,552
Minority interests		40,966	16,562
Total equity		1,385,696	305,114

Condensed Consolidated Statement of Changes in Equity

	Unaudited six months ended 30 June 2005				
	Attributable to equity holders of the Company				
	Share capital <i>HK\$'000</i>	Reserves <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Minority interest <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1 January 2005	10,000	34,742	(8,421)	16,614	52,935
Currency translation differences	—	282	—	282	564
Net income recognised directly in equity	—	282	—	282	564
Loss for the period	—	—	(10,778)	(614)	(11,392)
Total recognised income/ (expenses) for the period	—	282	(10,778)	(332)	(10,828)
Issue of shares under subscription agreements	2,000	3,200	—	—	5,200
Share issue expenses	—	(111)	—	—	(111)
	2,000	3,089	—	—	5,089
As at 30 June 2005	12,000	38,113	(19,199)	16,282	47,196

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

	Unaudited six months ended 30 June 2006 Attributable to equity holders of the Company				
	Share capital HK\$'000	Reserves HK\$'000	Accumulated losses HK\$'000	Minority interest HK\$'000	Total HK\$'000
As at 1 January 2006	14,300	332,757	(58,505)	16,562	305,114
Currency translation differences	-	(1,883)	-	-	(1,883)
Net expenses recognised directly in equity	-	(1,883)	-	-	(1,883)
Profit/(Loss) for the period	-	-	(9,034)	4,302	(4,732)
Total recognised income/ (expenses) for the period	-	(1,883)	(9,034)	4,302	(6,615)
Repurchase of shares	(375)	(53,273)	-	-	(53,648)
Share option scheme:					
– value of employee services	-	7,484	-	-	7,484
– value of other participants' services	-	1,109	-	-	1,109
Issue of shares under share option scheme	1	234	-	-	235
Issue of shares under subscription agreements	1,800	659,700	-	-	661,500
Issue of consideration shares under a subscription agreement	2,000	478,000	-	-	480,000
Share issue expenses	-	(29,585)	-	-	(29,585)
Subsidiary companies acquired	-	-	-	20,102	20,102
	<u>3,426</u>	<u>1,063,669</u>	<u>-</u>	<u>20,102</u>	<u>1,087,197</u>
As at 30 June 2006	<u>17,726</u>	<u>1,394,543</u>	<u>(67,539)</u>	<u>40,966</u>	<u>1,385,696</u>

Condensed Consolidated Cash Flow Statement

	Unaudited	
	Six months ended	
	30 June	
	2006	2005
	HK\$'000	HK\$'000
Net cash used in operating activities	(12,724)	(3,776)
Net cash used in investing activities	(525,085)	(21)
Net cash generated from financing activities	578,502	5,089
	<hr/>	<hr/>
Net increase in cash and cash equivalents	40,693	1,292
Effect of foreign exchange rate changes	-	393
Cash and cash equivalents, beginning of period	242,657	6,528
	<hr/>	<hr/>
Cash and cash equivalents, end of period	283,350	8,213
	<hr/> <hr/>	<hr/> <hr/>
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	283,350	8,213
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO CONDENSED FINANCIAL STATEMENTS

1. Basis of preparation and accounting policies

The unaudited condensed consolidated financial statements has been prepared in accordance with Hong Kong Accounting Standards (“HKAS”) 34, “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants, and Chapter 18 of the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The principal accounting policies and methods of computation used in the preparation of these unaudited condensed consolidated financial statements are consistent with those used in the preparation of the Group’s audited financial statements for the nine-month period ended 31 December 2005.

The Group has adopted the following standards that have been issued and effective for the periods beginning on or after 1 January 2006. The adoption of such standards did not have material effect on these financial statements.

HKAS 19 (Amendment)	Employee Benefits – Actuarial Gains or Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement – The Fair Value Option

The Group has not early adopted the following standards that have been issued but not yet effective. The adoption of such standards will not result in substantial changes to the Group’s accounting policies.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures

2. Segment information

For the six months ended 30 June 2006, the Group was principally engaged in the provision of technologies and equipment and consultancy services in public welfare lottery business and related sectors. The entire turnover of the Group is derived in the People’s Republic of China (“PRC”). Accordingly, no business or geographic segment information is presented.

3. Turnover and revenue from continuing operations

Revenue recognised during the periods are as follows:

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover				
Income for provision of video lottery terminals ("VLT") pursuant to the VLT cooperation contract	10,445	–	10,445	–
Income for repair and maintenance of VLT pursuant to the VLT cooperation contract	2,611	–	2,611	–
Income for provision of consultancy services	10	–	10	–
Less: Business tax	(653)	–	(653)	–
	<u>12,413</u>	<u>–</u>	<u>12,413</u>	<u>–</u>
Other revenues				
Interest income from bank deposits	3,712	9	9,835	10
Total revenues	<u>16,125</u>	<u>9</u>	<u>22,248</u>	<u>10</u>

4. Staff costs

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Staff costs (including directors' remuneration)				
– salaries, bonus, allowances and benefits in kind	3,788	464	8,647	1,952
– expenses in relation to the grant of share options	4,213	–	7,484	–
	<u>8,001</u>	<u>464</u>	<u>16,131</u>	<u>1,952</u>

5. Operating loss from continuing operations

	Unaudited		Unaudited	
	Three months ended		Six months ended	
	30 June		30 June	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Operating loss from continuing operations is stated after charging:				
Depreciation of owned assets	1,097	57	1,167	111
Operating lease rentals in respect of land and buildings	638	193	1,112	218
Expenses in relation to the grant of share options to other participants	652	-	1,109	-

6. Taxation

No provision for Hong Kong and overseas profits tax has been made as the Group had no assessable profit during the three months and six months ended 30 June 2006 (2005: Nil and Nil).

7. Loss per share

The calculation of the basic loss per share for the three months and six months ended 30 June 2006 is based on the respective unaudited consolidated loss attributable to equity holders of the Company of approximately HK\$3,756,000 and HK\$9,034,000 (2005: HK\$2,840,000 and HK\$10,778,000) and the respective weighted average number of approximately 1,558,080,000 and 1,668,534,652 ordinary shares in issue during the periods (2005: 1,000,000,000 and 1,093,333,333 ordinary shares). The computation of diluted loss per share has not assumed the exercise of options outstanding during the periods because their exercise would reduce the loss per share.

8. Investment in an associate

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2006	2005
	HK\$'000	HK\$'000
Share of net assets	57,040	2

Particulars of the associate of the Group are as follows:

Name of company	Particular of issued shares held by the Group	Place of incorporation	Interest held	Principal activities
Tabcorp International Hong Kong Limited ("TIHK")	9,900,000 ordinary shares of A\$1 each	British Virgin Islands	33%	Development of nationwide unified platform for lottery operation

9. Accounts receivable

Ageing analysis of accounts receivable is as follows:

	Unaudited As at 30 June 2006 HK\$'000	Audited As at 31 December 2005 HK\$'000
0 – 30 days	7,506	–
31 – 60 days	5,550	–
61 – 90 days	5,424	–
91 – 120 days	5,769	–
121 – 150 days	3,545	–
	<hr/> 27,794 <hr/>	<hr/> – <hr/>

10. Accounts payable

Ageing analysis of accounts payable is as follows:

	Unaudited As at 30 June 2006 HK\$'000	Audited As at 31 December 2005 HK\$'000
0 – 30 days	6,644	–
31 – 60 days	443	–
61 – 90 days	1,261	–
91 – 120 days	1,088	–
Over 120 days	3,186	–
	<hr/> 12,622 <hr/>	<hr/> – <hr/>

11. Share capital

	Unaudited Authorised ordinary shares of HK\$0.01 each	
	Number of shares	HK\$'000
As at 1 January and 30 June 2005	2,000,000,000	20,000
Increase of authorised share capital (<i>Note (i)</i>)	2,000,000,000	20,000
	<u>4,000,000,000</u>	<u>40,000</u>
As at 30 June 2006	<u>4,000,000,000</u>	<u>40,000</u>
	Unaudited Issued and fully paid ordinary shares of HK\$0.01 each	
	Number of shares	HK\$'000
As at 1 January 2005	1,000,000,000	10,000
New issue of shares under subscription agreements (<i>Note (ii)</i>)	200,000,000	2,000
As at 30 June 2005	<u>1,200,000,000</u>	<u>12,000</u>
As at 1 January 2006	1,430,000,000	14,300
New issue of shares under share option scheme (<i>Note (iii)</i>)	120,000	1
New issue of shares under subscription agreements (<i>Note (iv)</i>)	180,000,000	1,800
New issue of consideration shares under a subscription agreement (<i>Note (v)</i>)	200,000,000	2,000
Repurchase of shares (<i>Note (vi)</i>)	(37,538,000)	(375)
As at 30 June 2006	<u>1,772,582,000</u>	<u>17,726</u>

11. Share capital (Cont'd)

Notes:

- (i) By an ordinary resolution passed at the special general meeting of the Company held on 21 March 2006, the Company's authorised ordinary share capital was increased to HK\$40,000,000 by the creation of an additional 2,000,000,000 ordinary shares of HK\$0.01 each (the "Shares").
- (ii) Pursuant to the two placing agreements dated 7 March 2005 entered with Centrix Investments Limited and Wealthmost Holdings Limited respectively (together, the "Placees"), the Company issued and allotted a total of 200,000,000 new Shares to the Placees on 8 April 2005 upon completion thereof at a placing price of HK\$0.026 per Share. Total net proceeds from the placing of approximately HK\$5 million was used as the Group's general working capital.
- (iii) Share options were exercised by optionholders in January 2006 to subscribe for a total of 120,000 Shares in the Company by payment of subscription monies of approximately HK\$235,000, of which HK\$1,000 was credited to share capital and the balance of HK\$234,000 was credited to the share premium account.
- (iv) Pursuant to the subscription agreements dated 17 January 2006, the Company issued and allotted a total of 180,000,000 new Shares (the "Subscription Share(s)") at a subscription price of HK\$3.675 per Subscription Share to the subscribers on 27 January 2006 (the "Subscription") following the completion of the placing agreements for the placing of 180,000,000 existing Shares (the "Placing"). The Company raised a net sum of approximately HK\$631.9 million through the Placing and the Subscription and the fund was partly used to settle the balance of the cash consideration of HK\$470 million for the subscription of interest in Corich International Limited and as Group's general working capital.
- (v) Pursuant to the subscription agreement dated 9 January 2006, the Company issued and allotted a total of 200,000,000 new Shares (the "Consideration Share(s)") at an issue price of HK\$2.40 per Consideration Share to Toward Plan Investments Limited and Win Key Development Limited on 28 April 2006 as payment of part of the consideration for the subscription of 1,000,000 ordinary shares of US\$1.00 each in the share capital of Corich International Limited.
- (vi) The Company purchased 37,538,000 of its own Shares on the Stock Exchange in February and May 2006. The highest price and lowest price paid per Share were HK\$2.95 and HK\$0.87 respectively. The total consideration and expenses for the repurchase of Shares was approximately HK\$53,648,000 and has been deducted from shareholders' equity. The Shares repurchased were cancelled subsequently.

12. Share option scheme

Details of share options granted under the share option scheme of the Company and the share options outstanding as at 30 June 2006 were as follows:

Date of grant	Exercise price HK\$	Exercisable period	As at 1 January 2006	Granted	Exercised	As at 30 June 2006
1 September 2005	1.96	31 October 2005 to 30 October 2007	15,550,000	-	(120,000)	15,430,000
1 September 2005	1.96	31 October 2006 to 30 October 2007	15,550,000	-	-	15,550,000
15 December 2005	2.70	15 December 2006 to 14 December 2008	1,500,000	-	-	1,500,000
8 June 2006	1.22	8 June 2007 to 7 June 2011	-	6,700,000	-	6,700,000
8 June 2006	1.22	8 June 2008 to 7 June 2011	-	6,700,000	-	6,700,000
8 June 2006	1.22	8 June 2009 to 7 June 2011	-	6,700,000	-	6,700,000
8 June 2006	1.22	8 June 2010 to 7 June 2011	-	6,700,000	-	6,700,000
30 June 2006	1.14	16 August 2007 to 29 June 2016	-	4,400,000	-	4,400,000
30 June 2006	1.14	16 August 2008 to 29 June 2016	-	4,400,000	-	4,400,000
30 June 2006	1.14	16 August 2009 to 29 June 2016	-	4,400,000	-	4,400,000
30 June 2006	1.14	16 August 2010 to 29 June 2016	-	4,400,000	-	4,400,000
			<u>32,600,000</u>	<u>44,400,000</u>	<u>(120,000)</u>	<u>76,880,000</u>

The fair value of the options granted as at the date of grant was estimated using the Black-Scholes options pricing model with the following assumptions:

- (i) Risk-free rate – the yield of three years Exchange Fund Notes;
- (ii) Expected volatility of share price – annualized volatility for 3 months immediately preceding the date of grant; and
- (iii) Expected life of share options – one to nine years.

12. Share option scheme (Cont'd)

The Company's share prices over the one year immediately preceding the date of grant were extraordinarily volatile. It is considered that using the share prices over the three months immediately preceding the date of grant is more appropriate for calculating expected volatility of options granted. The expected volatility reflects the assumption that the historical volatility of future trends, which may not necessarily be the actual outcome. According to Black-Scholes options pricing model, the fair value of all options granted was approximately HK\$82,629,000. The amount expensed in the income statement for the six months ended 30 June 2006 was HK\$8,593,000 (2005: Nil). The accumulated amount expensed as at 30 June 2006 was approximately HK\$34,872,000.

If annualized volatility of share prices over the one year immediately preceding the date of grant is used, the value of all options granted, using the Black-Scholes options pricing model, would be approximately HK\$102,252,000.

As at 30 June, 2006, the Company had 76,880,000 options outstanding under the option scheme. The exercise in full of the remaining options would, under the present capital structure of the Company, result in the issue of 76,880,000 additional ordinary shares of the Company and additional share capital of HK\$768,800 and share premium of approximately HK\$151,467,000.

13. Reserves

	Unaudited six months ended 30 June 2005				Total HK\$'000
	Share premium HK\$'000	Capital reserve HK\$'000	Cumulative translation reserve HK\$'000	Share-based compensation reserve HK\$'000	
As at 1 January 2005	19,865	15,158	(281)	-	34,742
Currency translation differences on financial statements of overseas subsidiaries	-	-	282	-	282
Issue of shares under subscription agreements	3,200	-	-	-	3,200
Share issue expenses	(111)	-	-	-	(111)
As at 30 June 2005	<u>22,954</u>	<u>15,158</u>	<u>1</u>	<u>-</u>	<u>38,113</u>

13. Reserves (Cont'd)

	Unaudited six months ended 30 June 2006				
	Share premium HK\$'000	Capital reserve HK\$'000	Cumulative translation reserve HK\$'000	Share-based compensation reserve HK\$'000	Total HK\$'000
As at 1 January 2006	291,319	15,158	1	26,279	332,757
Currency translation differences on financial statements of an overseas associate	-	-	(1,883)	-	(1,883)
Repurchase of shares	(53,273)	-	-	-	(53,273)
Share option scheme:					
– value of employee services	-	-	-	7,484	7,484
– value of other participants' services	-	-	-	1,109	1,109
Issue of shares under share option scheme	401	-	-	(167)	234
Issue of shares under subscription agreements	659,700	-	-	-	659,700
Issue of consideration shares under a subscription agreement	478,000	-	-	-	478,000
Share issue expenses	(29,585)	-	-	-	(29,585)
As at 30 June 2006	<u>1,346,562</u>	<u>15,158</u>	<u>(1,882)</u>	<u>34,705</u>	<u>1,394,543</u>

14. Discontinued operations

The operation of the Group's metal trading related business was ceased on 1 June 2006. An analysis of the result of discontinued operations is as follows:

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Turnover	3,736	1,390	7,335	4,318
Cost of sales	(3,684)	(1,072)	(7,229)	(4,270)
Expenses	(1,625)	(30)	(1,654)	(6,311)
	(1,573)	288	(1,548)	(6,263)
Income tax	-	-	-	-
Profit/(Loss) for the period from discontinued operations	<u>(1,573)</u>	<u>288</u>	<u>(1,548)</u>	<u>(6,263)</u>

14. Discontinued operations (Cont'd)

The net cash flows attributable to the discontinued operations are as follow:

	Unaudited	
	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Net cash generated from operating activities	106	48

15. Operating lease commitments

As at 30 June 2006, the Group had future aggregate minimum lease payments under non-cancellable operating lease in respect of rented premises as follows:

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2006	2005
	HK\$'000	HK\$'000
Not later than one year	4	2,349
Later than one year and not later than five years	5,318	2,957
	5,322	5,306

16. Related party transactions

	Unaudited	
	Six months ended 30 June	
Nature of transaction	2006	2005
	HK\$'000	HK\$'000
Sale of domain names, trademarks and software applications to a subsidiary of a substantial shareholder	100	–

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2006 (2005: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Outlook

The Group is principally engaged in investment, project development and the provision of technologies and equipment and consultancy services in public welfare lottery business and related sectors.

Business Review

During the period under review, the Group achieved progress in the development of all its welfare-lottery-related businesses and recorded turnover of over HK\$10 million for the first time. To become focused on the development of lottery-related businesses, the Group had discontinued its original business operations. Excluding the value of share options expensed and the loss for the discontinued businesses, the lottery business of the Group recorded profits.

In July 2005, Tabcorp International Hong Kong Limited (“TIHK”), a joint venture of the Group and Tabcorp Holdings Limited in Australia, entered into a Technical Cooperation Agreement (“TCA”) with Beijing Lottery Online Technology Co., Ltd. (“CLO”), a company licensed for the operations of nationwide online instant lottery, to provide sales terminals, software and technology-related services to CLO for establishing a nationwide platform for lottery operation in the PRC. As a joint venture partner holding 33% interest in TIHK, the Group assisted the Australian party in the project implementation in the PRC under the TCA and provided consultation services to TIHK for dealing with governmental and commercial entities.

KENO is currently the only nationwide high frequency lottery product in the PRC. Its trial run operation was commenced in January 2006 at designated welfare lottery sales outlets. Recently, trial run of KENO has been extended to the CLO Halls covering 25 provinces and municipals throughout the nation. During the trial run, localisation and stress test of the system were done through cooperation of the technicians and marketing staff of TIHK and CLO. Optimization, technical enhancement and marketing efforts were also done to prepare for the roll out of the system across the nation.

During the period under review, the Group completed the acquisition of 50% equity interests of Corich International Limited (“Corich”) and was in full participation in the management and operations of Dongguan Tianyi Electronics Company Limited (“Tianyi Electronics”), a wholly-owned subsidiary of Corich. Tianyi Electronics is a manufacturer specialising in research and development, production and provision of VLTs. It exclusively provides VLTs for the CLO Halls for a term of ten years pursuant to the relevant contract.

VLT (Video Lottery Terminal) enjoys growing prevalence in the lottery industry. Instant lottery of the China Welfare Lottery Online ("Online Instant Lottery") adopted foreign advanced VLT technology and realised paper-free lottery through computation network and betting terminals. Online Instant Lottery is operated exclusively by China Welfare Lottery Online with a national betting pool and sales network. Rules of online lottery were formulated by China Welfare Lottery Issuance and Administration Centre and approved by the PRC Ministry of Finance. The issuance and sales of the video lottery products are restricted to the CLO Halls under a unified label and the Halls are set up and operated by the provincial and municipal lottery welfare centres. The lottery terminals are exclusively provided by Tianyi Electronics, a subsidiary of the Group.

For the first half of 2006, the number of CLO Halls and sales were growing steadily. The CLO Halls cover 159 cities under 25 provincial issuance institutions throughout the nation. Currently, there are over 300 Halls in operation with over 8,000 VLTs. Weekly national sales increased from approximately RMB40 million early this year to over RMB78 million at the end of June. Video lottery is relatively new and has shown a rapid blossoming prospect in the PRC.

Upon the exercise of subscriber's redemption right on 28 April 2006, the Group's interest in Corich has been consolidated into the financial statements of the Group as a subsidiary.

To expand its international lottery business, the Group made aggressive efforts in finding a leading operator in the industry as its partner. On 29 June 2006, China LotSynergy Investment Limited ("CLS"), a wholly-owned subsidiary of the Group, and Octavian International Limited ("Octavian") entered into a joint venture agreement to establish Aceteam Investment Limited ("AIL") with an aim to jointly develop lottery business, in particular the VLT business, in the PRC and overseas markets. AIL be held as to 60% by CLS and 40% by Octavian. The total paid up capital committed by both parties amounts to HK\$46.8 million.

Octavian is an international provider of networked gaming systems and solutions. Headquartered in the United Kingdom, Octavian operates branches and technical centres in Russia, Argentina, Colombia, India, Italy and Spain to develop, supply and support gaming lottery system and games, as well as to provide various products and professional services.

To focus its resources and efforts on welfare-lottery-related business, the Group had discontinued the original metal businesses in the second quarter.

Business Outlook

The Group is actively engaged in welfare-lottery-related business and is confident in the prospect of its development.

Emerging along with development in modern telecommunication and networking technologies, online lottery games (including KENO and VLT) are a new type of lottery that embodies entertainment, amusement and interactivity altogether and prevails in today's global lottery industry. It will appeal to the higher-income group in the PRC's gigantic lottery market.

KENO is the first lottery game introduced to the national sales network system of the PRC from overseas. To ensure safe, reliable and accurate operation, repetitive tests and modifications are required. Currently, trial run of the system is being carried out in the CLO Halls covering 25 provinces and municipals throughout the nation. Through the cooperation of TIHK and the PRC's lottery regulatory authorities and its authorised organisations, the system was localised and enhanced. Preparation is being made for the distribution of sales network, installation of terminal equipments, technological and maintenance support and marketing activities. It is expected that sales of KENO will enjoy robust growth following a planned and regulated large-scale nationwide roll out of the KENO system.

VLT has emerged as a promising revenue source of welfare lottery of the PRC. In addition to the 300 odds of CLO Halls in operation, there are hundreds of approved lottery halls under renovation for imminent operation and those pending for approval. With the rapid growing number of both lottery halls and VLTs for the second half of the year, it is expected that annual sales will increase several times over that of the previous year. Given the backdrop where the PRC government severely combats illegal lottery, underground casino and online betting on the one hand, and aggressively promotes welfare lottery on the other, the Group believes the prospects of the VLT business are encouraging.

To collaborate in expanding domestic and foreign lottery-related business, the Group and Octavian, an international provider of network gaming systems and software solutions, established a joint venture company, AIL. By incorporating Octavian's expertise and management team in lottery-related business and the Group's bountiful resources in the PRC market, AIL will facilitate their extensive cooperation in lottery business, in particular in VLT, including improvements of technology and games, software development, hardware engineering, terminal production, as well as in exploration of the PRC and international markets. As such, synergy will be created for optimising commercial interests of both the Group and Octavian.

The Group is committed to providing strong support to the welfare lottery sector by focusing on the development of its lottery business. As always, it is dedicated to endeavouring for the sustained and steady growth of return to its shareholders.

Financial Review

The Group recorded an unaudited consolidated turnover of approximately HK\$12,413,000 (2005: Nil) for the six months ended 30 June 2006. All the turnover during the period under review derived from the provision of technologies and equipment and consultancy services in public welfare lottery business and related sectors. The unaudited consolidated loss attributable to equity holders of the Company for the six months ended 30 June 2006 amounted to approximately HK\$9,034,000 (2005: HK\$10,778,000).

Liquidity, Financial Resources and Gearing Ratio

The Group's total equity increased to HK\$1,385,696,000 at 30 June 2006 from HK\$305,114,000 at 31 December 2005. The net current asset of the Group were approximately HK\$317,816,000 (As at 31 December 2005: HK\$300,488,000) as at 30 June 2006, including cash and deposits with banks and financial institution of approximately HK\$298,735,000 (As at 31 December 2005: HK\$258,042,000). At 30 June 2006, the Group had no banking facilities nor bank borrowings (As at 31 December 2005: Nil and Nil).

The gearing ratio (defined as total liabilities over total assets) of the Group on 30 June 2006 was approximately 4.2% (As at 31 December 2005: 2.5%).

Material Acquisitions and Disposals of Investments and Future Plans for Material Investment

China LotSynergy Group Limited ("CLG"), a wholly-owned subsidiary of the Company, Corich International Limited ("Corich"), the Company and others entered into a subscription agreement on 9 January 2006, pursuant to which the Group would subscribe for 1,000,000 shares of Corich, representing either approximately 33.3% or 50% (depending on whether the redemption rights under the agreement would be exercised) in the issued share capital of Corich as a result of the subscription, for a consideration of HK\$980 million, to be satisfied as to HK\$500 million by cash and as to HK\$480 million by the allotment and issue of 200,000,000 shares of the Company. An initial deposit of HK\$10 million was paid on 20 December 2005 and a further deposit of HK\$20 million was paid on 12 January 2006 in accordance with the agreement. The Group completed a placing and top-up subscription of 180,000,000 shares of the Company in January 2006, raising a net proceeds of approximately HK\$631.9 million which had been partly used to settle the balance of the cash consideration of HK\$470 million. On 4 April 2006, the Group completed the subscription by payment of the remaining cash consideration of HK\$470 million and on 28 April 2006, the subscriber's redemption right was exercised by the Group, where the 200,000,000 consideration shares were issued and allotted. After the exercise of the redemption right, the Group holds 50% interest in the total issued share capital of Corich.

China LotSynergy Investment Limited (“CLS”), a wholly-owned subsidiary of the Group, and Octavian International Limited (“Octavian”) entered into a joint venture agreement on 29 June 2006 to establish a joint venture company, namely Aceteam Investment Limited (“AIL”), with an aim to jointly develop lottery business, in particular the VLT business, in the PRC and overseas markets. Pursuant to the agreement, AIL be held as to 60% by CLS and 40% by Octavian. The total paid up capital committed by both parties amounts to HK\$46,800,000.

Capital Structure

The Directors believe that the Group has sufficient working capital which will be generated from operations and funded by the net proceeds from the placing of shares in 2005 and 2006.

Exposure to Exchange Rates Fluctuation

All the Group’s assets, liabilities and transactions are denominated either in Hong Kong dollar, Australian dollar or RMB. As the exchange rates among Hong Kong dollar, Australian dollar and RMB were relatively stable during the period under review, the Group is in the view that exposure to exchange rate risks is considered very minimal. The Group did not enter any foreign forward contracts to hedge against exchange rates fluctuations.

Pledge of Asset

As at 30 June 2006, the Group did not pledge any of its assets to obtain banking facilities nor have any charge on its assets (As at 31 December 2005: Nil).

Contingent Liabilities

As at 30 June 2006, the Group did not have any material contingent liabilities (As at 31 December 2005: Nil).

Staff

As at 30 June 2006, the Group employed 139 staff. The management is strongly convinced that the competence of employees is a major contributing factor to the Group’s sustained growth and advancement in profitability. Staff remuneration is based on performance and experience. In addition to basic salary, benefits for employees include a performance-related bonus, contributory provident fund and medical insurance. The Group also adopted a share option scheme under which options may be granted to eligible staff based on individual performance. Training programmes for staff are provided as and when required.

MAJOR TRANSACTION – SUBSCRIPTION OF INTEREST IN PROVIDER OF VIDEO LOTTERY TERMINALS

On 9 January 2006, China LotSynergy Group Limited (“CLG”), a wholly-owned subsidiary of the Company, Corich International Limited (“Corich”), the Company and others entered into a subscription agreement, pursuant to which the Group would subscribe for 1,000,000 shares of Corich (the “Subscription”), representing either approximately 33.3% or 50% (depending on whether the redemption rights under the agreement would be exercised) in the issued share capital of Corich as a result of the Subscription, for a consideration of HK\$980 million, to be satisfied as to HK\$500 million by cash and as to HK\$480 million by the allotment and issue of 200,000,000 shares of the Company (the “Consideration Shares”).

The Subscription constituted a major transaction for the Company under the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “GEM Listing Rules”). The Subscription as well as the allotment and issue of the Consideration Shares was approved pursuant to the ordinary resolution passed by the shareholders at the special general meeting held on 21 March 2006 and completion of the transaction was conditional upon the fulfillment or waiver of certain conditions precedent, details of which were set out in the Company’s circular dated 1 March 2006.

On 4 April 2006, CLG completed the Subscription for 1,000,000 shares of Corich and on 28 April 2006, CLG exercised its redemption right to request Corich to redeem all (but not part) of the preference shares of Corich in issue, where the Company had allotted and issued the Consideration Shares. Upon the exercise of the redemption right, CLG holds 50% of the total issued share capital of Corich, which has been accounted for as a subsidiary of the Group.

PLACING OF SHARES

Pursuant to the subscription agreements dated 17 January 2006, the Company issued and allotted a total of 180,000,000 new shares of the Company at a subscription price of HK\$3.675 per subscription share to the subscribers on 27 January 2006, following the completion of the placing agreements for the placing of 180,000,000 existing shares to more than six placees at a placing price of HK\$3.675 per placing share. The closing price per share on 16 January 2006 (being the last trading day prior to the entering into of the placing agreements) as quoted on the Stock Exchange was HK\$3.80 and the net price of the issue to the Company was HK\$3.51 per share. The Company raised a net proceeds of approximately HK\$631.9 million through the placing and the subscription and the fund was used: (i) as to approximately HK\$470 million to pay the balance of the cash consideration under the subscription agreement amongst CLG, Corich, the Company and others dated 9 January 2006; and (ii) for the Company’s general working capital.

The above subscription shares were issued pursuant to the general mandate to allot, issue and deal with shares granted to the Directors of the Company by resolution of the shareholders passed at the annual general meeting of the Company held on 29 September 2005.

ISSUE OF SHARES

- (1) The Company issued a total of 120,000 new shares of the Company upon the exercise of share options by the optionholders in January 2006.
- (2) Pursuant to the subscription agreement dated 9 January 2006 entered into between CLG, Corich, the Company and others, the Company issued and allotted a total of 200,000,000 new shares of the Company on 28 April 2006 as part of the consideration for the subscription of interest in Corich, following the exercise by CLG of its subscriber's redemption right on 28 April 2006 to request Corich to redeem all (but not part) of the preference shares of Corich in issue. The above consideration shares were issued pursuant to the specific mandate given to the Directors of the Company by resolution of the shareholders passed at the special general meeting of the Company held on 21 March 2006.

JOINT VENTURE WITH OCTAVIAN

On 29 June 2006, China LotSynergy Investment Limited ("CLS"), a wholly-owned subsidiary of the Company, Octavian International Limited ("Octavian") and Aceteam Investment Limited entered into a joint venture agreement ("JV Agreement") with the view to jointly develop lottery related businesses in the PRC and internationally. Pursuant to the JV Agreement, CLS and Octavian agreed to establish a joint venture company namely Aceteam Investment Limited, in which 60% of the shareholding be owned by CLS and 40% of the shareholding be owned by Octavian. The total paid-up capital committed by both parties amounts to HK\$46,800,000.

RETIREMENT AND APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTOR AND CHANGES IN AUDIT COMMITTEE

Mr. KING Roger, due to his other personal commitments, had not offered himself for re-election of director at the 2006 annual general meeting of the Company held on 24 April 2006 and therefore had retired from his office as an Independent Non-Executive Director of the Company and, ipso facto, a member of the Audit Committee of the Company, with effect from 24 April 2006 at the conclusion of 2006 annual general meeting of the Company. Following his retirement of office, the Company had then only two Independent Non-Executive Directors and two members in the Audit Committee of the Company and as such, was temporarily not be compliant with Rule 5.05 and Rule 5.28 of the GEM Listing Rules.

Mr. CHAN Ming Fai was appointed as an Independent Non-Executive Director and a member of Audit Committee of the Company on 12 May 2006 and that accordingly Rule 5.05 and Rule 5.28 of the GEM Listing Rules are complied with.

APPOINTMENT OF EXECUTIVE DIRECTOR

Mr. WANG Taoguang was appointed as an Executive Director of the Company on 28 June 2006.

SHARE OPTION SCHEME

As at 30 June 2006, there were options for 76,880,000 ordinary shares of HK\$0.01 each in the share capital of the Company (the "Share(s)") granted by the Company pursuant to the option scheme, as adopted by the shareholders of the Company on 30 July 2002 (the "Option Scheme"), which were valid and outstanding. No options were lapsed during the six months ended 30 June 2006.

Movement of share options granted under the Option Scheme during the six months ended 30 June 2006:

	Date of grant	Exercise price per share HK\$	Exercise period		held as at 1/1/2006	No. of Shares under the options exercised during the period granted during the period		held as at 30/6/2006	Approximate percentage interest in the Company's issued share capital	
			from	until		during the period	during the period (Note 2)			
(i) Name of Substantial Shareholder	CHAN Shing	01/09/2005	1.96	31/10/2005	30/10/2007	500,000	-	-	500,000	0.028%
		01/09/2005	1.96	31/10/2006	30/10/2007	500,000	-	-	500,000	0.028%
		08/06/2006	1.22	08/06/2007	07/06/2011	-	-	150,000	150,000	0.008%
		08/06/2006	1.22	08/06/2008	07/06/2011	-	-	150,000	150,000	0.008%
		08/06/2006	1.22	08/06/2009	07/06/2011	-	-	150,000	150,000	0.008%
		08/06/2006	1.22	08/06/2010	07/06/2011	-	-	150,000	150,000	0.008%
		08/06/2006	1.22	08/06/2010	07/06/2011	-	-	150,000	150,000	0.008%
(ii) Name of Director	LAU Ting	01/09/2005	1.96	31/10/2005	30/10/2007	500,000	-	-	500,000	0.028%
		01/09/2005	1.96	31/10/2006	30/10/2007	500,000	-	-	500,000	0.028%
		08/06/2006	1.22	08/06/2007	07/06/2011	-	-	150,000	150,000	0.008%
		08/06/2006	1.22	08/06/2008	07/06/2011	-	-	150,000	150,000	0.008%
		08/06/2006	1.22	08/06/2009	07/06/2011	-	-	150,000	150,000	0.008%
		08/06/2006	1.22	08/06/2010	07/06/2011	-	-	150,000	150,000	0.008%
		08/06/2006	1.22	08/06/2010	07/06/2011	-	-	150,000	150,000	0.008%
		08/06/2006	1.22	08/06/2010	07/06/2011	-	-	150,000	150,000	0.008%
		08/06/2006	1.22	08/06/2010	07/06/2011	-	-	150,000	150,000	0.008%
		08/06/2006	1.22	08/06/2010	07/06/2011	-	-	150,000	150,000	0.008%
		08/06/2006	1.22	08/06/2010	07/06/2011	-	-	150,000	150,000	0.008%
		08/06/2006	1.22	08/06/2010	07/06/2011	-	-	150,000	150,000	0.008%
		08/06/2006	1.22	08/06/2010	07/06/2011	-	-	150,000	150,000	0.008%
		08/06/2006	1.22	08/06/2010	07/06/2011	-	-	150,000	150,000	0.008%
	08/06/2006	1.22	08/06/2010	07/06/2011	-	-	150,000	150,000	0.008%	
SUN Ho		01/09/2005	1.96	31/10/2005	30/10/2007	6,900,000	-	-	6,900,000	0.389%
		01/09/2005	1.96	31/10/2006	30/10/2007	6,900,000	-	-	6,900,000	0.389%
		08/06/2006	1.22	08/06/2007	07/06/2011	-	-	950,000	950,000	0.054%
		08/06/2006	1.22	08/06/2008	07/06/2011	-	-	950,000	950,000	0.054%
		08/06/2006	1.22	08/06/2009	07/06/2011	-	-	950,000	950,000	0.054%
		08/06/2006	1.22	08/06/2010	07/06/2011	-	-	950,000	950,000	0.054%
		08/06/2006	1.22	08/06/2010	07/06/2011	-	-	950,000	950,000	0.054%

	Date of grant	Exercise price per share HK\$	Exercise period from until		No. of Shares under the options			held as at 30/6/2006	Approximate percentage interest in the Company's issued share capital
					held as at 1/1/2006	exercised during the period	granted during the period (Note 2)		
CHEN	01/09/2005	1.96	31/10/2005	30/10/2007	4,500,000	-	-	4,500,000	0.254%
Aizheng	01/09/2005	1.96	31/10/2006	30/10/2007	4,500,000	-	-	4,500,000	0.254%
	08/06/2006	1.22	08/06/2007	07/06/2011	-	-	2,000,000	2,000,000	0.113%
	08/06/2006	1.22	08/06/2008	07/06/2011	-	-	2,000,000	2,000,000	0.113%
	08/06/2006	1.22	08/06/2009	07/06/2011	-	-	2,000,000	2,000,000	0.113%
	08/06/2006	1.22	08/06/2010	07/06/2011	-	-	2,000,000	2,000,000	0.113%
NG Man Fai,	08/06/2006	1.22	08/06/2007	07/06/2011	-	-	150,000	150,000	0.008%
Matthew	08/06/2006	1.22	08/06/2008	07/06/2011	-	-	150,000	150,000	0.008%
	08/06/2006	1.22	08/06/2009	07/06/2011	-	-	150,000	150,000	0.008%
	08/06/2006	1.22	08/06/2010	07/06/2011	-	-	150,000	150,000	0.008%
HUANG	01/09/2005	1.96	31/10/2005	30/10/2007	500,000	-	-	500,000	0.028%
Shenglan	01/09/2005	1.96	31/10/2006	30/10/2007	500,000	-	-	500,000	0.028%
	08/06/2006	1.22	08/06/2007	07/06/2011	-	-	150,000	150,000	0.008%
	08/06/2006	1.22	08/06/2008	07/06/2011	-	-	150,000	150,000	0.008%
	08/06/2006	1.22	08/06/2009	07/06/2011	-	-	150,000	150,000	0.008%
	08/06/2006	1.22	08/06/2010	07/06/2011	-	-	150,000	150,000	0.008%
CHAN Ming	08/06/2006	1.22	08/06/2007	07/06/2011	-	-	150,000	150,000	0.008%
Fai	08/06/2006	1.22	08/06/2008	07/06/2011	-	-	150,000	150,000	0.008%
	08/06/2006	1.22	08/06/2009	07/06/2011	-	-	150,000	150,000	0.008%
	08/06/2006	1.22	08/06/2010	07/06/2011	-	-	150,000	150,000	0.008%
LI Xiaojun	01/09/2005	1.96	31/10/2005	30/10/2007	250,000	-	-	250,000	0.014%
	01/09/2005	1.96	31/10/2006	30/10/2007	250,000	-	-	250,000	0.014%
	08/06/2006	1.22	08/06/2007	07/06/2011	-	-	150,000	150,000	0.008%
	08/06/2006	1.22	08/06/2008	07/06/2011	-	-	150,000	150,000	0.008%
	08/06/2006	1.22	08/06/2009	07/06/2011	-	-	150,000	150,000	0.008%
	08/06/2006	1.22	08/06/2010	07/06/2011	-	-	150,000	150,000	0.008%
KING Roger	01/09/2005	1.96	31/10/2005	30/10/2007	250,000	-	-	250,000	0.014%
(Note 3)	01/09/2005	1.96	31/10/2006	30/10/2007	250,000	-	-	250,000	0.014%

	Date of grant	Exercise price per share HK\$	Exercise period from until		No. of Shares under the options			Approximate percentage interest in the Company's issued share capital		
					held as at 1/1/2006	exercised during the period	granted during the period (Note 2)		held as at 30/6/2006	
(iii) Continuous contract employees	01/09/2005	1.96	31/10/2005	30/10/2007	600,000	-	-	600,000	0.034%	
	01/09/2005	1.96	31/10/2006	30/10/2007	600,000	-	-	600,000	0.034%	
	15/12/2005	2.70	15/12/2006	14/12/2008	1,500,000	-	-	1,500,000	0.085%	
	08/06/2006	1.22	08/06/2007	07/06/2011	-	-	1,850,000	1,850,000	0.104%	
	08/06/2006	1.22	08/06/2008	07/06/2011	-	-	1,850,000	1,850,000	0.104%	
	08/06/2006	1.22	08/06/2009	07/06/2011	-	-	1,850,000	1,850,000	0.104%	
	08/06/2006	1.22	08/06/2010	07/06/2011	-	-	1,850,000	1,850,000	0.104%	
(iv) Other participants	01/09/2005	1.96	31/10/2005	30/10/2007	1,550,000	(120,000)	-	1,430,000	0.081%	
	01/09/2005	1.96	31/10/2006	30/10/2007	1,550,000	-	-	1,550,000	0.087%	
	08/06/2006	1.22	08/06/2007	07/06/2011	-	-	1,000,000	1,000,000	0.056%	
	08/06/2006	1.22	08/06/2008	07/06/2011	-	-	1,000,000	1,000,000	0.056%	
	08/06/2006	1.22	08/06/2009	07/06/2011	-	-	1,000,000	1,000,000	0.056%	
	08/06/2006	1.22	08/06/2010	07/06/2011	-	-	1,000,000	1,000,000	0.056%	
	30/06/2006	1.14	16/08/2007	29/06/2016	-	-	4,400,000	4,400,000	0.248%	
	30/06/2006	1.14	16/08/2008	29/06/2016	-	-	4,400,000	4,400,000	0.248%	
	30/06/2006	1.14	16/08/2009	29/06/2016	-	-	4,400,000	4,400,000	0.248%	
	30/06/2006	1.14	16/08/2010	29/06/2016	-	-	4,400,000	4,400,000	0.248%	
					Total:	<u>32,600,000</u>	<u>(120,000)</u>	<u>44,400,000</u>	<u>76,880,000</u>	

Notes:

- The options are recognised as expenses in the accounts in accordance with Hong Kong Financial Reporting Standard 2. Other details of share options granted by the Company are set out in note 12 to the financial statements.
- For the share options granted during the period, (i) the closing price per Share immediately before the date of grant of 8 June 2006 was HK\$1.22; and (ii) the closing price per Share immediately before the date of grant of 30 June 2006 was HK\$1.14.
- Mr. KING Roger retired as an independent Non-Executive Director of the Company on 24 April 2006. The option was lapsed on 24 July 2006.
- (i) The weighted average closing price per Share immediately before the date on which the option for 100,000 Shares was exercised was HK\$3.875; and (ii) the weighted average closing price per Share immediately before the date on which the option for 20,000 Shares was exercised was HK\$3.75.

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

As at 30 June 2006, the interests and short positions of the Directors and chief executive of the Company (including those interests and short positions which were taken or deemed to have interests and short positions under the provisions of the Securities and Futures Ordinance (the "SFO")) in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standards of dealing by directors of the listed issuer as referred to in Rule 5.46 of the GEM Listing Rules, were as follows:

(1) Interests in Shares

(A) The Company

Name of Director	Number of Shares			Total	Approximate percentage interest in the Company's issued share capital
	Personal interests	Family interests	Corporate interests		
LAU Ting	51,288,803	72,951,773 (Note 1)	407,404,308 (Note 2)	531,644,884 (Note 3)	29.99%
SUN Ho	3,070,000	30,000	–	3,100,000	0.17%
CHEN Aizheng	2,490,000	156,000	–	2,646,000	0.15%
NG Man Fai, Matthew	660,000	–	–	660,000	0.04%

Notes:

- These Shares were owned by Mr. CHAN Shing, the spouse of Ms. LAU Ting.
- 11,320,192 Shares were held by Hang Sing Overseas Limited ("Hang Sing") which is owned as to 51% by Orient Strength Limited ("Orient Strength"), a company which is wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 10,595,042 Shares were held by Strong Purpose Corporation ("Strong Purpose"), a company which is wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 385,489,074 Shares were held by Burwill Holdings Limited ("Burwill"), which is owned as to 21.94% by Hang Sing, as to 20.53% by Strong Purpose, as to 2.11% by Ms. LAU Ting and as to 1.26% by Mr. CHAN Shing.
- As the interests of each of Mr. CHAN Shing and Ms. LAU Ting are deemed to be the interests of each other, the figures referred to the same Shares.

(B) Associated Corporation – Burwill Holdings Limited

Name of Director	Number of ordinary shares			Total	Approximate percentage interest in the issued share capital of Burwill
	Personal interests	Family interests	Corporate interests		
LAU Ting	21,776,072	13,035,472 (Note 1)	438,304,701 (Note 2)	473,116,245 (Note 3)	45.84%
SUN Ho	200,000	-	-	200,000	0.02%

Notes:

1. These shares were owned by Mr. CHAN Shing, the spouse of Ms. LAU Ting.
2. 226,403,853 shares were held by Hang Sing which is owned as to 51% by Orient Strength, a company which is wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 211,900,848 shares were held by Strong Purpose, a company which is wholly-owned by Ms. LAU Ting and Mr. CHAN Shing.
3. As the interests of each of Mr. CHAN Shing and Ms. LAU Ting are deemed to be the interests of each other, the figures referred to the same shares.

(2) Interests in Underlying Shares

As at 30 June 2006, the interests of the Directors and chief executive of the Company in options for Shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standards of dealing by directors of the listed issuer as referred to in Rule 5.46 of the GEM Listing Rules were as disclosed in the previous section headed "Share Option Scheme" of this report.

Save as otherwise disclosed above, as at 30 June 2006, none of the Directors or chief executive of the Company had, or were deemed under the SFO to have, any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) which were required to be recorded in the register kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standards of dealing by directors of listed issuer as referred to in Rule 5.46 of the GEM Listing Rules.

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

As at 30 June 2006, according to the register required to be kept by the Company under Section 336 of the SFO (the "Register"), the following persons (other than the Directors and chief executive of the Company) had interests and short positions in the Shares and underlying Shares of the Company:

(1) Interests in Shares

Name of shareholder	Number of Shares			Total	Approximate percentage interest in the Company's issued share capital
	Personal interests	Family interests	Corporate interests		
CHAN Shing	72,951,773	51,288,803 (Note 1)	407,404,308 (Note 2)	531,644,884 (Note 3)	29.99%
Burwill	–	–	385,489,074	385,489,074 (Notes 2, 4 & 10)	21.75%
LIM Loong Keng (Note 5)	–	–	186,000,000	186,000,000	10.49%
Toward Plan Investments Limited (Note 5)	–	–	186,000,000	186,000,000	10.49%
Legg Mason Inc (Note 6)	–	–	137,010,000	137,010,000	7.73%
YU Man Yiu, Park	50,188,500	–	70,000,860 (Note 7)	120,189,360	6.78%
Lloyds TSB Group Plc (Note 8)	–	–	117,204,000	117,204,000	6.61%
Prudential Plc (Note 9)	–	–	95,594,000	95,594,000	5.39%

Notes:

1. These Shares were owned by Ms. LAU Ting, the spouse of Mr. CHAN Shing and a Director of the Company.
2. 11,320,192 Shares were held by Hang Sing which is owned as to 51% by Orient Strength, a company which is wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 10,595,042 Shares were held by Strong Purpose, a company which is wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 385,489,074 Shares were held by Burwill, which is owned as to 21.94% by Hang Sing, as to 20.53% by Strong Purpose, as to 2.11% by Ms. LAU Ting and as to 1.26% by Mr. CHAN Shing.
3. As the interests of each of Mr. CHAN Shing and Ms. LAU Ting are deemed to be the interests of each other, the figures referred to the same Shares.
4. These Shares formed part of the interests of Mr. CHAN Shing and Ms. LAU Ting.
5. 186,000,000 Shares were held by Toward Plan Investments Limited which is wholly-owned by Mr. LIM Loong Keng.
6. These Shares were held by Legg Mason Asset Management (Asia) Pte Ltd, a company which is wholly-owned by LM International Holding LP ("LM International"). LM International is wholly-owned by Legg Mason International Holdings II, LLC, a company which is wholly-owned by Legg Mason Inc.
7. 860 Shares were held by Good Talent Trading Limited which is owned as to 35% by Mr. YU Man Yiu, Park and 70,000,000 Shares were held by Centrix Investments Limited, a company which is wholly-owned by Mr. YU Man Yiu, Park.
8. These Shares were held by Scottish Widows Plc, a company which is wholly-owned by Lloyds TSB Group Plc.
9. These Shares were held by Prudential Asset Management (Hong Kong) Limited, a company which is wholly-owned by Prudential Corporation Holdings Limited. Prudential Corporation Holdings Limited is wholly-owned by Prudential Holdings Limited, a company which is wholly-owned by Prudential Plc.
10. The Shares held by Burwill as disclosed herein represents the aggregate of (i) 383,831,074 Shares as recorded in the Register and (ii) the acquisitions of additional 1,658,000 Shares as notified and confirmed by Burwill.

(2) Interests in Underlying Shares

As at 30 June 2006, the interests of the substantial shareholders (other than the Directors and chief executive of the Company) in options for Shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as disclosed in the previous section headed "Share Option Scheme" of this report.

Save as disclosed above, as at 30 June 2006, there was no person (other than the Directors and chief executive of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and/or who were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

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

During the six months ended 30 June 2006, the Company repurchased a total of 37,538,000 Shares in the Company on the Stock Exchange pursuant to the general mandates granted by the shareholders at the annual general meetings held on 29 September 2005 and 24 April 2006, details of which were as follows:

Month/Year	Number of Shares repurchased	Price per Share		Total consideration (before expense) HK\$
		Lowest HK\$	Highest HK\$	
02/2006	8,168,000	2.475	2.950	23,510,600
05/2006	29,370,000	0.870	1.630	29,884,300

All Shares repurchased were cancelled and accordingly the Company's issued share capital was reduced by the nominal value of these Shares. The repurchases were effected for the benefit of the shareholders as a whole by enhancing the net assets and earnings per Share of the Company.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2006.

COMPETING INTERESTS

The Directors believe that none of the Directors, the management shareholders of the Company (as defined in the GEM Listing Rules) and their respective associates had an interest, directly or indirectly, in a business which competes or may compete with the business of the Group.

AUDIT COMMITTEE

The Company has established an Audit Committee which currently comprises the three Independent Non-Executive Directors of the Company, Mr. HUANG Shenglan, Mr. CHAN Ming Fai and Mr. LI Xiaojun. The Audit Committee has reviewed and discussed with the management the accounting principles and practices adopted by the Group and auditing, internal controls and financial reporting matters. The unaudited interim financial statements of the Group for the six months ended 30 June 2006 have been reviewed by the Audit Committee.

CORPORATE GOVERNANCE

The Company has complied with the applicable code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 of the GEM Listing Rules throughout the six months ended 30 June 2006, except for the following deviations:

- Code provision A4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election, and code provision A4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

The Non-Executive Directors of the Company are not appointed for a specific term but are subject to retirement by rotation in accordance with the Bye-laws of the Company (the "Bye-laws"). The Directors have not been required by the Bye-laws to retire by rotation at least once every three years. However, in accordance with Bye-law 99 of the Bye-laws, at each annual general meeting of the Company one-third of the Directors for the time being or, if their number is not a multiple of three, then the number nearest one-third, shall retire from office by rotation save any Director holding office as Chairman or Managing Director. The Board will ensure the retirement of each Director, other than the one who holds the office as Chairman or Managing Director, by rotation at least once every three years in order to comply with Code provisions. The Chairman will not be subject to retirement by rotation as the Board considered that the continuity of office of the Chairman provides the Group a strong and consistent leadership and is of great importance to the smooth operations of the Group.

- Code provision B1.1 stipulates the establishment of a remuneration committee with specific written terms of reference which deal clearly with its authority and duties and a majority of the remuneration committee should be independent non-executive directors. The Company has not set up a remuneration committee pursuant to the said code provision during the period under review. Nevertheless, a committee comprising the Chairman, the Chief Executive Officer and the Head of Personnel Department has been responsible for determining and reviewing the Group's overall remuneration policy and structure for the remuneration of the Directors, but no Director has been involved in deciding his own remuneration.

On 10 August 2006, the Company established a remuneration committee, which comprises an Executive Director and the Chief Executive Officer, Mr. SUN Ho, and two Independent Non-Executive Directors, Messrs. HUANG Shanglan and CHAN Ming Fai, with written terms of reference in compliance with the code provision B1.1.

The Board will review the corporate governance structure and practices from time to time and shall make necessary arrangements when the Board consider appropriate.

REQUIRED STANDARD OF DEALING REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the required standard of dealings regarding securities transactions by directors set out in Rules 5.48 to 5.67 of the GEM Listing Rules as its code of conduct for dealings in securities of the Company by the Directors (the "Code of Conduct"). Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the required standard of dealings set out in the Code of Conduct.

On behalf of the Board

LAU Ting
Chairman

Hong Kong, 10 August 2006

As at the date of this report, the Board comprises Ms. Lau Ting, Mr. Sun Ho, Mr. Wang Taoguang, Mr. Chen Aizheng and Mr. Ng Man Fai, Matthew as executive Directors and Mr. Huang Shenglan, Mr. Chan Ming Fai and Mr. Li Xiaojun as independent non-executive Directors.