



China
LotSynergy

2010 Third Quarterly 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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RESULTS (UNAUDITED)

The board of directors (the “Board” or the “Directors”) of China LotSynergy Holdings Limited (the “Company”) hereby presents the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the three months and nine months ended 30 September 2010, together with the comparative unaudited figures for the corresponding periods in 2009, as follows:

CONSOLIDATED INCOME STATEMENT

	Notes	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
		2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Turnover	2	72,093	29,185	182,634	53,968
Cost of sales and services	3	(15,940)	(12,882)	(43,225)	(36,771)
Gross profit		56,153	16,303	139,409	17,197
Other income and gains	4	10,057	4,312	13,430	25,285
General and administrative expenses		(23,998)	(42,809)	(73,186)	(90,226)
Finance costs – interest expense					
on bank borrowing		(185)	–	(477)	–
Share options expenses		(2,040)	(4,377)	(8,734)	(10,820)
Operating profit/(loss) before gain on redemption of convertible note	5	39,987	(26,571)	70,442	(58,564)
Gain on redemption of convertible note before imputed interest expense	6	171,947	–	171,947	–
Imputed interest expense on convertible note	7	(6,916)	(6,606)	(20,748)	(19,817)
Gain on redemption of convertible note net of imputed interest expense		165,031	(6,606)	151,199	(19,817)
Share of losses of jointly-controlled entities		(3,051)	(3,675)	(9,089)	(8,272)
Profit/(loss) before income tax		201,967	(36,852)	212,552	(86,653)
Income tax	8	(9,915)	(1,896)	(11,038)	(4,713)
Profit/(loss) for the period		192,052	(38,748)	201,514	(91,366)
Attributable to:					
Equity holders of the Company		176,759	(38,370)	159,051	(81,420)
Non-controlling interests		15,293	(378)	42,463	(9,946)
		192,052	(38,748)	201,514	(91,366)
Earning/(loss) per share for profit/(loss) attributable to the equity holders of the Company during the period					
– basic–HK Cent	9	2.39	(0.52)	2.15	(1.10)
– diluted	9	N/A	N/A	N/A	N/A

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited			
	Three months ended		Nine months ended	
	30 September		30 September	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit/(loss) for the period	192,052	(38,748)	201,514	(91,366)
Other comprehensive income:				
Reversal of a temporary difference giving rise to a deferred tax liability	11	–	15	–
Fair value gain on available-for-sale financial assets	17,618	–	14,606	9,728
Currency translation differences	5,390	248	5,607	264
	<u>23,019</u>	<u>248</u>	<u>20,228</u>	<u>9,992</u>
Other comprehensive income for the period, net of tax	<u>23,019</u>	<u>248</u>	<u>20,228</u>	<u>9,992</u>
Total comprehensive income for the period	<u>215,071</u>	<u>(38,500)</u>	<u>221,742</u>	<u>(81,374)</u>
Attributable to:				
Equity holders of the Company	198,052	(38,122)	177,553	(71,428)
Non-controlling interests	17,019	(378)	44,189	(9,946)
	<u>198,052</u>	<u>(38,122)</u>	<u>177,553</u>	<u>(71,428)</u>
	<u>17,019</u>	<u>(378)</u>	<u>44,189</u>	<u>(9,946)</u>
Total comprehensive income for the period	<u>215,071</u>	<u>(38,500)</u>	<u>221,742</u>	<u>(81,374)</u>

Notes:

1. Basis of preparation and accounting policies

The unaudited consolidated results have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Hong Kong Accounting Standards and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the applicable disclosure requirements of Chapter 18 of the GEM Listings Rules of the Stock Exchange.

The principal accounting policies and methods of computation used in the preparation of these unaudited consolidated results are consistent with those used in the preparation of the Group's audited financial statements for the year ended 31 December 2009, except as described below.

In the current period, the Group has applied the following new and revised standards, amendments and interpretations of Hong Kong Financial Reporting Standards and Interpretations (collectively, "new HKFRSs") issued by the HKICPA, which are effective for the Group's financial year beginning 1 January 2010.

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. HKAS 27 (Revised) requires that a change in ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. The Group applies these revised standards prospectively with effect from 1 January 2010. The adoption of HKAS27 (Revised) has affected the accounting for the Group's disposal of part of its ownership interests in Globe Team Limited and its subsidiaries ("Globe Team disposal group") and Century Worldwide Limited and its subsidiaries ("Century Worldwide disposal group") during the current period. The disposal does not result in the loss of control over both Globe Team disposal group and the Century Worldwide disposal group. Specifically, the change in policy has resulted in the difference of HK\$14,120,000 between the consideration and the non-controlling interests recognised being recognised directly in equity, instead of in profit and loss. Therefore, the change in accounting policy has resulted a non-cash decrease in the profit for the period of HK\$14,120,000.

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1 April 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

The adoption of the amendment to HKAS 17 has resulted in a change in accounting policy for the classification of leasehold land of the Group. Previously, leasehold land was classified as an operating lease and stated at cost less accumulated amortisation. In accordance with the amendment, leasehold land is classified as a finance lease and stated at cost less accumulated depreciation if substantially all risks and rewards of the leasehold land have been transferred to the Group. As the present value of the minimum lease payments (i.e. the transaction price) of the land held by the Group amounted to substantially all of the fair value of the land as if it were freehold, the leasehold land of the Group has been classified as a finance lease.

Except for the aforementioned financial impacts, the adoption of other new HKFRSs has no significant impact on the Group's results.

2. Turnover

The Group is principally engaged in the business of the provision of lottery systems, game products, terminal equipment and related technologies and marketing services to the public welfare lottery market in China. An analysis of the Group's turnover for the periods is as follows:

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Turnover				
Income from provision of lottery terminals	68,691	21,573	173,758	39,033
Income from sales of equipment	2,827	7,430	7,909	13,918
Income from provision of consultancy services	575	182	967	1,017
	<u>72,093</u>	<u>29,185</u>	<u>182,634</u>	<u>53,968</u>

3. Cost of sales and services

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Depreciation of lottery terminals	9,806	6,818	26,505	20,427
Business tax	3,451	1,097	8,840	2,011
Cost of inventories recognised as expense	1,549	4,340	3,844	6,705
Loss on disposal of plant and equipment	–	–	–	3,205
Other cost of sales and services	1,134	627	4,036	4,423
	<u>15,940</u>	<u>12,882</u>	<u>43,225</u>	<u>36,771</u>

4. Other income and gains

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Financial assets at fair value through profit or loss	9,134	2,536	11,318	17,803
Dividend income on financial assets at fair value through profit or loss	–	344	–	1,070
Interest income from bank deposits	923	1,288	1,856	5,140
Rental income	–	144	256	528
Reversal of impairment on other receivables	–	–	–	744
	<u>10,057</u>	<u>4,312</u>	<u>13,430</u>	<u>25,285</u>

5. Operating profit/(loss) before gain on redemption of Convertible Note

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Operating profit/(loss) is stated after charging:				
Staff costs (excluding share options expenses)	13,860	13,990	38,765	36,865
Amortisation of intangible assets	1,632	1,632	4,896	4,896
Depreciation of other items of property, plant and equipment	2,056	1,054	4,866	2,965
	<u>2,056</u>	<u>1,054</u>	<u>4,866</u>	<u>2,965</u>

6. Gain on Redemption of convertible note before imputed interest expense

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net impairment loss of early redemption option and redemption option held by a noteholder embedded in convertible note	(84,428)	-	(84,428)	-
Convertible note extinguishment gain (Note)	256,375	-	256,375	-
	<u>171,947</u>	<u>-</u>	<u>171,947</u>	<u>-</u>

Note: On 27 September 2010, the convertible note at a principal amount of HK\$550,000,000 issued to International Game Technology ("IGT") has been redeemed by way of a cash payment of HK\$308,750,000 and issuance of a convertible note at a principal amount of HK\$166,250,000 to IGT. The convertible note extinguishment gain was arrived by comparing the fair value of consideration paid allocated to liability component and the carrying value of convertible note liability component as at the date of redemption.

7. Imputed interest expense on convertible note

Imputed interest expense on the convertible note is calculated using effective interest method by applying the effective interest rate of 4.7% per annum on zero coupon convertible note issued to IGT on 31 May 2007.

8. Income tax

	Unaudited		Unaudited	
	Three months ended 30 September		Nine months ended 30 September	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current tax				
– People's Republic of China ("PRC") Enterprise Income Tax	10,252	2,146	15,401	5,524
– Adjustments in respect of prior periods	–	–	(51)	75
Deferred tax				
– Origination and reversal of temporary differences	(337)	(250)	(4,312)	(886)
	<u>9,915</u>	<u>1,896</u>	<u>11,038</u>	<u>4,713</u>

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profit during the three months and nine months ended 30 September 2010 (2009: Nil and Nil).

Taxation on the PRC has been calculated at the applicable rates of tax prevailing in the jurisdictions in which the Group operates.

9. Earning/(loss) per share

The calculation of the basic and diluted earning/(loss) per share is based on the following data:

	Unaudited Three months ended 30 September 2010		Unaudited Nine months ended 30 September 2010	
	2009		2009	
Profit/(loss) for the period attributable to the equity holders of the Company (HK\$'000)	<u>176,759</u>	<u>(38,370)</u>	<u>159,051</u>	<u>(81,420)</u>

Number of shares:

Weighted average number of ordinary shares in issue for the purpose of calculating basic earning/(loss) per share	<u>7,402,164,000</u>	<u>7,402,164,000</u>	<u>7,402,164,000</u>	<u>7,402,164,000</u>
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The computation of diluted earning/(loss) per share for the three months and nine months ended 30 September 2010 has not assumed the conversion of convertible note and exercise of share options during the periods because their conversion and exercise would increase/reduce the earning/(loss) per share.

10. Share capital

	Unaudited Authorised ordinary shares	
	Number of shares	HK\$'000
As at 1 January 2010 and 30 September 2010	<u>16,000,000,000</u>	<u>40,000</u>
	Unaudited Issued and fully paid ordinary shares	
	Number of shares	HK\$'000
As at 1 January 2010 and 30 September 2010	<u>7,402,164,000</u>	<u>18,505</u>

11. Reserves and accumulated losses

	Unaudited Nine months ended 30 September 2010								
	Share premium HK\$'000	Convertible note HK\$'000	Capital reserve HK\$'000	Currency translation reserve HK\$'000	Share-based compensation reserve HK\$'000	Revaluation reserve HK\$'000	Available- for-sale investments HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Balance as at 1 January 2010	1,546,166	20,080	15,158	31,317	46,696	11,974	3,029	(876,657)	797,763
Profit for the period	-	-	-	-	-	-	-	159,051	159,051
Share option scheme:									
- value of employee services	-	-	-	-	8,660	-	-	-	8,660
- value of other participants' services	-	-	-	-	74	-	-	-	74
Fair value gain on available-for-sale financial assets	-	-	-	-	-	-	14,606	-	14,606
Currency translation differences									
- overseas subsidiaries	-	-	-	3,121	-	-	-	-	3,121
- overseas jointly controlled entities	-	-	-	760	-	-	-	-	760
Reversal of revaluation surplus relating to a transfer from investment property to owner-occupied property	-	-	-	-	-	(96)	-	96	-
Reversal of a temporary difference giving rise to a deferred tax liability	-	-	-	-	-	15	-	-	15
Redemption of convertible note	-	(20,080)	-	-	-	-	-	(98,786)	(118,866)
Convertible note - equity component	-	25,614	-	-	-	-	-	-	25,614
Partial disposal of subsidiaries	-	-	-	-	-	-	-	14,120	14,120
Balance as at 30 September 2010	1,546,166	25,614	15,158	35,198	55,430	11,893	17,635	(802,176)	904,918

	Unaudited Nine months ended 30 September 2009								
	Share premium HK\$'000	Convertible note HK\$'000	Capital reserve HK\$'000	Currency translation reserve HK\$'000	Share-based compensation reserve HK\$'000	Revaluation reserve HK\$'000	Available- for-sale investments HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Balance as at 1 January 2009	1,546,166	20,080	15,158	31,257	36,145	11,974	(12,860)	(795,177)	852,743
Loss for the period	-	-	-	-	-	-	-	(81,420)	(81,420)
Share option scheme:									
- value of employee services	-	-	-	-	10,584	-	-	-	10,584
- value of other participants' services	-	-	-	-	236	-	-	-	236
Deregistration of a subsidiary	-	-	-	(209)	-	-	-	-	(209)
Fair value gain on available-for-sale financial assets	-	-	-	-	-	-	9,728	-	9,728
Currency translation differences									
- overseas jointly controlled entities	-	-	-	264	-	-	-	-	264
Balance as at 30 September 2009	1,546,166	20,080	15,158	31,312	46,965	11,974	(3,132)	(876,597)	791,926

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the nine months ended 30 September 2010 (2009: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is principally engaged in the business of provision of lottery systems, game products, terminal equipment and related technologies and marketing services to the public welfare lottery market in China. Through professional and effective operation management coupled with well established and practical technical competencies, the Group has achieved good results in the public welfare lottery market in China with strong capability for sustainable development. For the first three quarters of the year, the Group recorded overall earnings over HK\$159 million as compared with a loss in the same period of last year.

BUSINESS REVIEW

The Group has made substantial achievements in all its business segments including the Computer Ticket Game (“CTG”) and high frequency lottery, video lottery, and Internet & mobile lottery. On video lottery and CTG, the Group has continuously strengthened the standard of operation management and enhanced the technological innovation capabilities. On Internet lottery sales, the Group has made breakthrough in its development. Following its issuance of the “Consultation Paper” on Internet and telephone lottery sales in August this year, the Ministry of Finance of China (“MOF”) officially promulgated the “Interim Measures for the Administration of Internet Lottery Sales (「互聯網銷售彩票管理暫行辦法」)” and the “Interim Measures for the Administration of Telephone Lottery Sales (「電話銷售彩票管理暫行辦法」)” in early October. This is set to drive the third wave of development of public welfare lottery in China, after the first wave of development on instant scratch card with non-cash prize payout and the second wave of development on CTG. Through building expertise in the past three years on Internet and telephone lottery sales, the Group is fully prepared to capture the significant development opportunities ahead.

Video Lottery Business

China Welfare Lottery Video Lottery (VLT) Business

The Group is the exclusive equipment provider for Welfare Lottery's video lottery product (VLT), a nationwide game approved by MOF and issued by the China Welfare Lottery Centre ("CWLC"). For the first three quarters of the year, new VLT halls have been added constantly with sales reaching RMB6 billion and still on the rise. VLT is being offered in 28 provinces across China, maintaining a daily sales turnover of over RMB30 million. With the continuous enhancement of operation standard and management for VLT, the Group's technical strength as well as operation and management around video lottery generally has been taken to a new height as manifested in the competencies of its committed team and the robustness of its newly-developed product.

CTG and High Frequency Lottery Business

CTG Business

The Group is the exclusive supplier of CTG betting terminal equipment to Welfare Lottery in Guangdong province, in addition to supplying lottery-related equipment including lottery ticket scanners and readers to overseas and domestic including Sport Lottery and Welfare Lottery customers. Guangdong province continues to maintain its position as the leading welfare lotteries selling province in China. Sales of Welfare Lottery's CTG in Guangdong province from January to September of 2010 have increased by approximately 30% over the same period of last year. This business has consistently contributed cash flow to the Group. Furthermore, the Group is actively exploring overseas markets for its new multifunction lottery betting terminals, with an aim to securing more orders from European and South East Asian countries.

High Frequency Lottery Business (KENO)

CLS-GTECH Company Limited, a joint venture company between the Group and GTECH Corporation, is the provider of the system, terminals and operation maintenance for KENO, the Welfare Lottery's high frequency product, now in stable operation in eight selected provinces including Liaoning, Hebei, Sichuan, Hunan, Shanxi, Gansu, Shandong and Jilin. In the quarter under review, a new game on the product was approved after test to roll out in all these provinces. Experience in the China lottery market has proved KENO to be an incremental product to existing product offerings. The application for increase of the payout ratio of KENO has been submitted to MOF for approval. The forthcoming task of the Group is to assist the issuance and administration authority proactively in stepping up its marketing initiatives on KENO. Management believes growth will be maintained in this business.

Internet and telephone lottery business

The Group is among the early technology providers approved on provision of Internet lottery service in China. During the quarter under review, the Group maintained its leading status in the Internet and telephone lottery business. The promulgation by MOF on 9 October this year of the “Interim Measures for the Administration of Internet Lottery Sales (「互聯網銷售彩票管理暫行辦法」)” and the “Interim Measures for the Administration of Telephone Lottery Sales (「電話銷售彩票管理暫行辦法」)” will drive the development of the Group’s business on these two areas. On its mobile lottery sales business, the Group has progressed steadily on its cooperation on technology and operation with several provincial lottery issuance authorities. On its Internet lottery sales business, the Group has not only built overall technical strength with a robust Internet (mobile) and telephone system platform, ability to develop proprietary electronic instant lottery system, and client-side software products, but has also built up substantial strength and experience on operation and management. These have enabled various cooperation projects of the Group to progress smoothly including those with China Unicom, Bank of Communications, Lenovo Mobile, Vogins Technology. Such premium cooperation partners in the new channel business combine to secure the Group’s participation in the entire business chain. Going forward, whether as a cooperation partner for the authority or an authorized sales agent, the Group will lead new channel development via Internet and telephone for sales of lottery.

Other lottery business

The Group continues its collaboration with its strategic partners including IGT and GTECH to develop a wide variety of lottery-related products tailored to the China market, which will help enhance the capabilities of the China lottery industry in areas such as R & D of systems and games, design and manufacture of terminal equipment, and operation & maintenance, improve and enrich the variety and content of games, as well as introduce the technology and management techniques of responsible lottery. This will strengthen the Group’s overall competitive advantage to capture business opportunities in the development of the lottery market in China. During the quarter under review, the Group and IGT concluded their negotiations for the early redemption of the HK\$550 million nominal value convertible note issued previously to IGT, and to reinforce their cooperation in the China lottery business. This marks a milestone and ensures the success for the parties’ joint efforts over the past three years in the China lottery market.

OUTLOOK

The China lottery market will see leapfrog development on opportunities brought by technological advancement coupled with favorable policy concessions. The Group feels more optimistic about the prospects of lottery development in China.

Heading into the fourth quarter of 2010, the Group will strive to capture opportunities in the market with improved technical capabilities and operation standard with an aim to taking each business segment to the next level. As the terminal equipment supplier for VLT, the Welfare Lottery's video lottery product, and as the exclusive supplier of terminal equipment and system for KENO, the Welfare Lottery's high frequency product run on a nationwide unified system, the Group will assist CWLC in its various initiatives in 2010. Development prospects are good for both businesses. As the supplier of CTG betting terminal equipment to Welfare Lottery in Guangdong province and Shenzhen, the Group will endeavour to extend the business to other provinces in China in addition to maintaining its quality operational services to Guangdong. The China lottery market is set to see the third wave of explosive development following the promulgation by MOF of the "Interim Measures for the Administration of Internet Lottery Sales (「互聯網銷售彩票管理暫行辦法」)" and the "Interim Measures for the Administration of Telephone Lottery Sales (「電話銷售彩票管理暫行辦法」)". With the comprehensive technological and business development capabilities it has built, the Group has fully prepared itself to catch such market opportunities to come on new distribution channel and new lottery products.

The Group will continue to focus on the lottery business in China. Through constant business development, the Group seeks to participate in all major parts of the lottery value chain to create business opportunities and incremental growth drivers. Meanwhile, the Group will identify potential and profitable investment opportunities, including businesses that serve shareholder interests and contribute strategic values, enhance its business portfolio, strengthen its revenue base and profitability, in order to provide long-term and stable returns to its shareholders.

FINANCIAL REVIEW

In the first three quarters of 2010, the Group recorded a turnover of approximately HK\$182.6 million (2009: approximately HK\$54 million), representing an increase of approximately 238% over the same period of last year. Profit attributable to equity holders for the first three quarters of 2010 amounted to approximately HK\$159.1 million, as compared with the loss of approximately HK\$81.4 million in the first three quarters of 2009. Due to improving sales from VLT business and early redemption in the third quarter of the convertible note issued to IGT, the Group recorded approximately HK\$176.8 million profit attributable to equity holders for the third quarter of 2010 compared with the loss of approximately HK\$38.4 million in the third quarter of 2009.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 September 2010, the interests and short positions of the Directors and chief executives 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 or 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 standard of dealings 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 of the Company

Name of Directors	Number of shares			Total	Approximate percentage of the Company's issued share capital
	Beneficial interests	Family interests	Corporate interests		
LAU Ting	259,974,373(L)	389,286,426(L) (Note 1)	867,762,948(L) 23,093,192(S) (Notes 2 & 3)	1,517,023,747(L) 23,093,192(S) (Note 3)	20.49%(L) 0.31%(S)
CHAN Shing	389,286,426(L)	259,974,373(L) (Note 4)	867,762,948(L) 23,093,192(S) (Notes 2 & 3)	1,517,023,747(L) 23,093,192(S) (Note 3)	20.49%(L) 0.31%(S)
HUANG Shenglan	4,000,000(L)	-	-	4,000,000(L)	0.05%(L)

Notes:

- These shares were owned by Mr. CHAN Shing, the spouse of Ms. LAU Ting.
- 147,162,496 shares were held by Hang Sing Overseas Limited ("Hang Sing") which was owned as to 51% by Orient Strength Limited ("Orient Strength"), a company which was wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 137,735,546 shares were held by Strong Purpose Corporation ("Strong Purpose"), a company which was wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 580,932,594 shares were held by Glory Add Limited ("Glory Add") which was wholly owned by Favor King Limited, a company which was wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 1,932,312 shares were held by Burwill Holdings Limited ("Burwill") of which Ms. LAU Ting and Mr. CHAN Shing were the controlling shareholders. 23,093,192 shares held by Hang Sing were in short positions.
- As the interests of each of Ms. LAU Ting and Mr. CHAN Shing were deemed to be the interests of each other, the figures referred to the same shares.
- These shares were owned by Ms. LAU Ting.
- The letter "L" denotes long position(s) and the letter "S" denotes short position(s).

(2) Interests in Underlying Shares of the Company

Name of Directors	Date of grant	Exercise price per share HK\$	Exercise period		No. of shares under the options			Approximate percentage of the Company's issued share capital	
			from	until	held as at 1/1/2010	movement during the period	held as at 30/9/2010		
LAU Ting	08/06/2006	0.305	08/06/2007	07/06/2011	600,000	-	600,000	0.008%	
	08/06/2006	0.305	08/06/2008	07/06/2011	600,000	-	600,000	0.008%	
	08/06/2006	0.305	08/06/2009	07/06/2011	600,000	-	600,000	0.008%	
	08/06/2006	0.305	08/06/2010	07/06/2011	600,000	-	600,000	0.008%	
							2,400,000	0.032%	
CHAN Shing	08/06/2006	0.305	08/06/2007	07/06/2011	600,000	-	600,000	0.008%	
	08/06/2006	0.305	08/06/2008	07/06/2011	600,000	-	600,000	0.008%	
	08/06/2006	0.305	08/06/2009	07/06/2011	600,000	-	600,000	0.008%	
	08/06/2006	0.305	08/06/2010	07/06/2011	600,000	-	600,000	0.008%	
							2,400,000	0.032%	
WU Jingwei	11/01/2007	0.445	01/01/2008	31/12/2011	2,000,000	-	2,000,000	0.027%	
	11/01/2007	0.445	01/01/2009	31/12/2011	2,000,000	-	2,000,000	0.027%	
	11/01/2007	0.445	01/01/2010	31/12/2011	2,000,000	-	2,000,000	0.027%	
	11/01/2007	0.445	01/01/2011	31/12/2011	2,000,000	-	2,000,000	0.027%	
	04/07/2007	0.975	01/01/2008	31/12/2013	1,200,000	-	1,200,000	0.016%	
	04/07/2007	0.975	01/01/2009	31/12/2013	1,200,000	-	1,200,000	0.016%	
	04/07/2007	0.975	01/01/2010	31/12/2013	1,200,000	-	1,200,000	0.016%	
	04/07/2007	0.975	01/01/2011	31/12/2013	1,200,000	-	1,200,000	0.016%	
	04/07/2007	0.975	01/01/2012	31/12/2013	800,000	-	800,000	0.011%	
	13/11/2007	0.960	01/01/2008	31/12/2011	8,000,000	-	8,000,000	0.108%	
	13/11/2007	0.960	01/01/2009	31/12/2011	8,000,000	-	8,000,000	0.108%	
	13/11/2007	0.960	01/01/2010	31/12/2011	8,000,000	-	8,000,000	0.108%	
	25/08/2008	0.500	25/08/2009	24/08/2013	2,000,000	-	2,000,000	0.027%	
	25/08/2008	0.500	25/08/2010	24/08/2013	2,000,000	-	2,000,000	0.027%	
	25/08/2008	0.500	25/08/2011	24/08/2013	2,000,000	-	2,000,000	0.027%	
	25/08/2008	0.500	25/08/2012	24/08/2013	2,000,000	-	2,000,000	0.027%	
	02/10/2009	0.500	01/09/2010	31/08/2014	3,400,000	-	3,400,000	0.046%	
	02/10/2009	0.500	01/09/2011	31/08/2014	3,400,000	-	3,400,000	0.046%	
	02/10/2009	0.500	01/09/2012	31/08/2014	3,400,000	-	3,400,000	0.046%	
	02/10/2009	0.500	01/09/2013	31/08/2014	3,400,000	-	3,400,000	0.046%	
							59,200,000	0.800%	
LIAO Yuang-whang	18/09/2007	0.904	18/09/2008	17/09/2011	3,200,000	-	3,200,000	0.043%	
	18/09/2007	0.904	18/09/2009	17/09/2011	2,800,000	-	2,800,000	0.038%	
	13/11/2007	0.960	18/09/2008	17/09/2012	8,000,000	-	8,000,000	0.108%	
	13/11/2007	0.960	18/09/2009	17/09/2012	8,000,000	-	8,000,000	0.108%	
	13/11/2007	0.960	18/09/2010	17/09/2012	8,000,000	-	8,000,000	0.108%	
	13/11/2007	0.960	18/09/2011	17/09/2012	8,000,000	-	8,000,000	0.108%	
	25/08/2008	0.500	25/08/2009	24/08/2013	2,000,000	-	2,000,000	0.027%	
	25/08/2008	0.500	25/08/2010	24/08/2013	2,000,000	-	2,000,000	0.027%	
	25/08/2008	0.500	25/08/2011	24/08/2013	2,000,000	-	2,000,000	0.027%	
	25/08/2008	0.500	25/08/2012	24/08/2013	2,000,000	-	2,000,000	0.027%	
	02/10/2009	0.500	01/09/2010	31/08/2014	3,500,000	-	3,500,000	0.047%	
	02/10/2009	0.500	01/09/2011	31/08/2014	3,500,000	-	3,500,000	0.047%	
	02/10/2009	0.500	01/09/2012	31/08/2014	3,500,000	-	3,500,000	0.047%	
	02/10/2009	0.500	01/09/2013	31/08/2014	3,500,000	-	3,500,000	0.047%	
								52,000,000	0.702%

Name of Directors	Date of grant	Exercise price per share HK\$	Exercise period from until		No. of shares under the options			Approximate percentage of the Company's issued share capital
					held as at	movement	held as at	
					1/1/2010	during the period	30/9/2010	
HOONG Cheong Thard	30/06/2006	0.285	16/08/2007	29/06/2016	17,600,000	-	17,600,000	0.238%
	30/06/2006	0.285	16/08/2008	29/06/2016	17,600,000	-	17,600,000	0.238%
	06/04/2009	0.500	12/09/2009	11/09/2012	6,000,000	-	6,000,000	0.081%
	06/04/2009	0.500	12/09/2010	11/09/2012	6,000,000	-	6,000,000	0.081%
	06/04/2009	0.500	12/09/2011	11/09/2012	6,000,000	-	6,000,000	0.081%
							53,200,000	0.719%
HUANG Shenglan	08/06/2006	0.305	08/06/2007	07/06/2011	600,000	-	600,000	0.008%
	08/06/2006	0.305	08/06/2008	07/06/2011	600,000	-	600,000	0.008%
	08/06/2006	0.305	08/06/2009	07/06/2011	600,000	-	600,000	0.008%
	08/06/2006	0.305	08/06/2010	07/06/2011	600,000	-	600,000	0.008%
							2,400,000	0.032%
CHAN Ming Fai	08/06/2006	0.305	08/06/2008	07/06/2011	600,000	-	600,000	0.008%
	08/06/2006	0.305	08/06/2009	07/06/2011	600,000	-	600,000	0.008%
	08/06/2006	0.305	08/06/2010	07/06/2011	600,000	-	600,000	0.008%
							1,800,000	0.024%

Note:

All interests in underlying shares were in long positions.

Save as disclosed above, as at 30 September 2010, none of the Directors or chief executives 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 standard of dealings by directors of listed issuer as referred to in Rule 5.46 of the GEM Listing Rules.

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

As at 30 September 2010, according to the register required to be kept by the Company under Section 336 of the SFO, the following persons (other than the Directors and chief executives 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				Approximate percentage interest in the Company's issued share capital
	Beneficial interests	Investment Manager	Corporate interests	Total	
Burbank John H.	-	-	957,720,800(L)	957,720,800 (L) (note 1)	12.94%(L)
Passport Capital, LLC	-	957,720,800 (L)	-	957,720,800 (L) (note 1)	12.94%(L)
Passport Management, LLC	-	957,720,800 (L)	-	957,720,800 (L) (note 1)	12.94%(L)
JP Morgan Chase & Co.	-	672,269,852(L) 8,000(S) 634,014,506(P)	-	672,269,852(L) 8,000(S) 634,014,506(P) (note 2)	9.08%(L) 0.00%(S) 8.57%(P)
Atlantis Investment Management Limited	-	665,000,000(L)	-	665,000,000(L) (note 3)	8.98%(L)
Liu Yang	-	665,000,000(L)	-	665,000,000(L) (note 3)	8.98%(L)
Favor King Limited	-	-	582,864,906(L)	582,864,906(L) (note 4)	7.87%(L)
Ward Ferry Management (BVI) Limited	-	577,110,000(L)	-	577,110,000(L) (note 5)	7.80%(L)
Passport Global Master Fund SPC Ltd for and on behalf of portfolio A-global strategy	516,182,800(L)	-	-	516,182,800(L) (note 1)	6.97%(L)
Legg Mason Inc	-	474,976,000(L)	-	474,976,000(L) (note 6)	6.42%(L)
Passport Special Opportunities Master Fund, LP	448,910,000(L)	-	-	448,910,000(L) (note 1)	6.06%(L)
IGT	379,276,400(L)	-	-	379,276,400(L)	5.12%(L)

Notes:

1. Passport Management, LLC was the investment manager of various funds. One of these funds was Passport Global Master Fund SPC Ltd for and on behalf of portfolio A—global strategy and Passport Special Opportunities Master Fund, LP. Passport Capital, LLC was the sole managing member to Passport Management, LLC and Burbank John H. was the sole managing member to Passport Capital, LLC. The above information was notified by Passport Capital, LLC.
2. 634,014,506 shares, represented the lending pool shares, were held by JPMorgan Chase Bank, N.A. which in turn was wholly-owned by JPMorgan Chase & Co.. 38,024,346 shares, represented the long position shares, were held by JPMorgan Asset Management (UK) Limited which in turn was wholly-owned by JPMorgan Asset Management Holdings (UK) Limited, a company which was wholly-owned by JPMorgan Asset Management International Limited. And JPMorgan Asset Management International Limited was wholly-owned by JPMorgan Asset Management Holdings Inc., which in turn was wholly-owned by JPMorgan Chase & Co.. 8,000 shares, represented the short position shares, were held by J.P. Morgan Securities Ltd which in turn was owned by J.P. Morgan Chase International Holdings, a company which was wholly-owned by J.P. Morgan Chase (UK) Holdings Limited. J.P. Morgan Chase (UK) Holdings Limited was wholly-owned by J.P. Morgan Capital Holdings Limited, which in turn was wholly-owned by J.P. Morgan International Finance Limited. J.P. Morgan International Finance Limited was wholly-owned by Bank One International Holdings Corporation, which in turn was wholly-owned by J.P. Morgan International Inc.. And J.P. Morgan International Inc. was wholly-owned by JPMorgan Chase Bank, N.A., which in turn was wholly-owned by JPMorgan Chase & Co..
3. Ms. Liu Yang held the interest through Atlantis Investment Management Limited and Atlantis Investment Management (Hong Kong) Limited. These shares represent the same block of interest held by Atlantis Investment Management Limited and Ms. Liu Yang.
4. 1,932,312 shares were held by Burwill and 580,932,594 shares were held by Glory Add. These shares formed part of the interests of Ms. LAU Ting and Mr. CHAN Shing.
5. 249,652,000 shares were held by WF Asia Fund Limited, 96,728,000 shares were held by WF Asian Reconnaissance Fund Limited and 230,730,000 shares were held by WF Asian Smaller Companies Fund Limited. Ward Ferry Management (BVI) Limited was the investment manager of these funds or companies.
6. These shares were held by Legg Mason International Equities (Singapore) Pte Limited which was wholly-owned by LM International Holding LP (“LM International”). LM International was wholly-owned by Legg Mason International Holdings II, LLC, a company which was wholly-owned by Legg Mason Inc.
7. The letter “L” denotes long position(s), the letter “S” denotes short position(s) and the letter “P” denotes lending pool(s).

(2) Interests in Underlying Shares

As at 30 September 2010, IGT had a derivative interest in 174,083,770 shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

Save as disclosed above, as at 30 September 2010, there was no person (other than the Directors and chief executives of the Company) who had an interest or short position in the shares or 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 members of the Group.

EARLY REDEMPTION OF CONVERTIBLE NOTE

The Company entered into a supplemental deed (the “Supplemental Deed”) with IGT on 20 September 2010 in relation to, among others, agreeing to amend certain terms and conditions of the convertible note (the “Convertible Note”) due in 2015 in an aggregate principal amount of HK\$550 million to provide for early redemption of the Convertible Note. The completion of the Supplemental Deed took place on 27 September 2010 and that the Convertible Note has been redeemed by the Company by way of (i) a cash payment of HK\$308,750,000 having been paid by the Company to IGT and (ii) a zero coupon convertible note with a principal amount of HK\$166,250,000 due on 12 May 2012 having been issued by the Company to IGT.

RESIGNATION OF DIRECTOR

Mr. Paulus Johannes Cornelis Aloysius Karskens (“Mr. Paulus Karskens”) has resigned as a Non-executive Director of the Company with effect from 27 September 2010 pursuant to the terms of the Supplemental Deed. Mr. Paulus Karskens confirms that he has no disagreement with the Board and there is no other matter relating to his resignation that needs to be brought to the attention of the shareholders of the Company.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed shares during the nine months ended 30 September 2010.

COMPETING INTERESTS

The Board believes 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 Audit Committee of the Company currently comprises the three Independent Non-executive Directors of the Company, namely Mr. HUANG Shenglan, Mr. CHAN Ming Fai and Mr. CUI Shuming. The unaudited third quarterly results of the Group for the nine months ended 30 September 2010 have been reviewed by the Audit Committee.

On behalf of the Board
LAU Ting
Chairperson

Hong Kong, 9 November 2010

As at the date of this report, the Board comprises Ms. Lau Ting, Mr. Chan Shing, Mr. Wu Jingwei and Mr. Liao Yuang-whang as Executive Directors; Mr. Hoong Cheong Thard as Non-executive Director; and Mr. Huang Shenglan, Mr. Chan Ming Fai and Mr. Cui Shuming as Independent Non-executive Directors.