



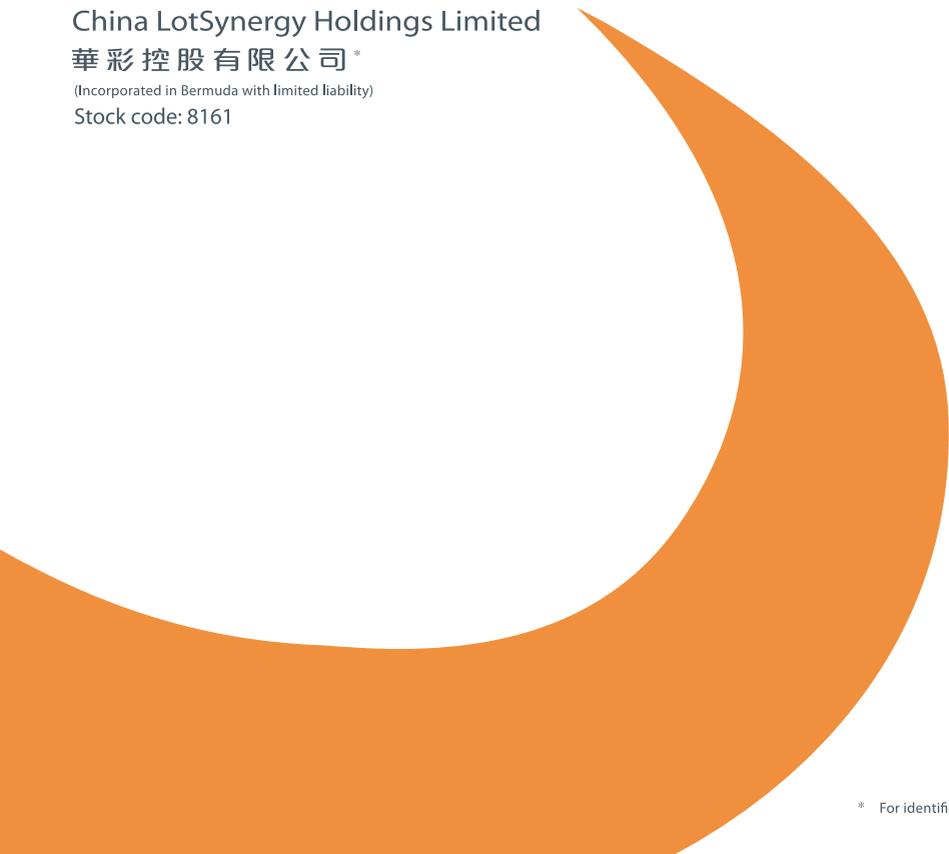
China
LotSynergy 2011 Interim Report

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 GEM of the Stock Exchange 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 the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

INTERIM FINANCIAL STATEMENTS

The board of directors (the “Board” or the “Directors”) of China LotSynergy Holdings Limited (the “Company”) hereby presents the unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively, the “Group”) for the three months and six months ended 30 June 2011, together with the comparative unaudited figures for the corresponding periods in 2010, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Unaudited			
		Three months ended		Six months ended	
		2011	2010	2011	2010
		30 June	30 June	30 June	30 June
		2011	2010	2011	2010
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	2	131,636	66,880	243,255	110,541
Costs of sales and services	3	(23,126)	(16,396)	(43,093)	(27,285)
Gross profit		108,510	50,484	200,162	83,256
Other income and (losses)/gains	4	(1,090)	1,674	11,126	3,373
General and administrative expenses		(29,706)	(21,134)	(62,671)	(49,188)
Share option expenses [Non-cash expenses]		(17,689)	(2,917)	(18,591)	(6,694)
Operating profit	5	60,025	28,107	130,026	30,747
Imputed interest expense on redeemed convertible note [Non-cash expenses]		—	(6,916)	—	(13,832)
Finance Costs — imputed interest expenses on outstanding convertible note [Non-cash expenses]		(5,116)	—	(10,232)	—
Finance Costs — interest expenses on bank borrowings		(304)	(158)	(605)	(292)
Share of losses of jointly-controlled entities		(204)	(3,088)	(3,503)	(6,038)
Profit before income tax		54,401	17,945	115,686	10,585
Income tax	6	(11,862)	(39)	(24,688)	(1,123)
Profit for the period		42,539	17,906	90,998	9,462
Attributable to:					
Equity holders of the Company		5,100	986	24,632	(17,708)
Non-controlling interests		37,439	16,920	66,366	27,170
		42,539	17,906	90,998	9,462
Earnings/(Loss) per share attributable to equity holders of the Company during the period					
— basic — HK Cent	7	0.07	0.01	0.33	(0.24)
— diluted — HK Cent	7	0.07	0.01	0.33	(0.24)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited			
	Three months ended 30 June		Six months ended 30 June	
	2011	2010	2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit for the period	42,539	17,906	90,998	9,462
Other comprehensive income:				
Reversal of a temporary difference giving rise to a deferred tax liability	—	4	—	4
Fair value loss on available-for-sale financial assets	(1,852)	(2,302)	(10,516)	(3,012)
Currency translation differences	8,059	199	8,552	217
Other comprehensive income for the period, net of tax	6,207	(2,099)	(1,964)	(2,791)
Total comprehensive income for the period	48,746	15,807	89,034	6,671
Attributable to:				
Equity holders of the Company	8,996	(1,113)	20,357	(20,499)
Non-controlling interests	39,750	16,920	68,677	27,170
Total comprehensive income for the period	48,746	15,807	89,034	6,671

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	Unaudited As at 30 June 2011 HK\$'000	Audited As at 31 December 2010 HK\$'000
Non-current assets			
Property, plant and equipment		278,786	270,338
Intangible assets		373,739	351,544
Investments in jointly-controlled entities		106,694	108,154
Available-for-sale financial assets		27,845	68,910
Deferred income tax assets		183	180
Prepaid rentals		3,671	4,087
		<hr/>	<hr/>
Total non-current assets		790,918	803,213
Current assets			
Inventories		15,530	19,250
Accounts receivable	8	106,232	103,042
Prepayments, deposits and other receivables		42,986	30,101
Amount due from a jointly-controlled entity		457	411
Amounts due from related companies		21,564	21,564
Financial assets at fair value through profit or loss	9	94,240	92,258
Cash and bank balances		425,595	347,612
		<hr/>	<hr/>
Total current assets		706,604	614,238
		<hr/>	<hr/>
Total assets		1,497,522	1,417,451
Current liabilities			
Accounts payable	10	989	2,656
Accruals and other payables		16,750	11,824
Amount due to a jointly-controlled entity		11,054	24,594
Income tax payable		11,055	27,859
Bank borrowings		99,267	105,119
Convertible note		155,985	86,272
		<hr/>	<hr/>
Total current liabilities		295,100	258,324
		<hr/>	<hr/>
Net current assets		411,504	355,914
		<hr/>	<hr/>
Total assets less current liabilities		1,202,422	1,159,127

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONT'D)

		Unaudited As at 30 June 2011 HK\$'000	Audited As at 31 December 2010 HK\$'000
	<i>Notes</i>		
Non-current liabilities			
Convertible note		—	59,480
Deferred income tax liabilities		10,944	13,268
		<hr/>	<hr/>
Total non-current liabilities		10,944	72,748
		<hr/>	<hr/>
Net assets		1,191,478	1,086,379
		<hr/> <hr/>	<hr/> <hr/>
Equity attributable to equity holders of the Company			
Share capital	<i>11</i>	18,530	18,505
Reserves	<i>12</i>	881,312	1,714,406
Retained profit/(accumulated losses)		58,248	(808,897)
		<hr/>	<hr/>
		958,090	924,014
Non-controlling interests		233,388	162,365
		<hr/>	<hr/>
Total equity		1,191,478	1,086,379
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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited Six months ended 30 June 2011 Attributable to equity holders of the Company				
	Share capital HK\$'000	Reserves HK\$'000	Retained profit/ (accumulated losses) HK\$'000	Non- controlling interests HK\$'000	Total HK\$'000
Balance as at 1 January 2011	18,505	1,714,406	(808,897)	162,365	1,086,379
Comprehensive income					
Profit for the period	—	—	24,632	66,366	90,998
Other comprehensive income:					
Fair value loss on available-for-sale financial assets	—	(10,516)	—	—	(10,516)
Currency translation differences	—	6,241	—	2,311	8,552
Total other comprehensive income	—	(4,275)	—	2,311	(1,964)
Total comprehensive income	—	(4,275)	24,632	68,677	89,034
Reduction of share premium	—	(813,537)	813,537	—	—
Release of revaluation reserve upon depreciation of leasehold land and building	—	(120)	120	—	—
Share option scheme:					
— value of employee services	—	5,225	—	—	5,225
— value of other participants' services	—	13,366	—	—	13,366
— share options exercised	25	2,252	—	—	2,277
— vested share options cancelled and lapsed	—	(28,856)	28,856	—	—
Disposal of available-for-sale financial assets	—	(7,149)	—	—	(7,149)
Acquisition of a subsidiary	—	—	—	2,346	2,346
	25	(828,819)	842,513	2,346	16,065
Balance as at 30 June 2011	18,530	881,312	58,248	233,388	1,191,478

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONT'D)

	Unaudited Six months ended 30 June 2010				
	Attributable to equity holders of the Company				
	Share capital HK\$'000	Reserves HK\$'000	Accumulated losses HK\$'000	Non- controlling interests HK\$'000	Total HK\$'000
Balance as at 1 January 2010	18,505	1,674,420	(876,657)	109,419	925,687
Comprehensive income					
Profit/(loss) for the period	—	—	(17,708)	27,170	9,462
Other comprehensive income:					
Reversal of a temporary difference giving rise to a deferred tax liability	—	4	—	—	4
Fair value loss on available-for-sale financial assets	—	(3,012)	—	—	(3,012)
Currency translation differences	—	217	—	—	217
Total other comprehensive income	—	(2,791)	—	—	(2,791)
Total comprehensive income	—	(2,791)	(17,708)	27,170	6,671
Reversal of revaluation surplus relating to a transfer from investment property to leasehold land and building	—	(24)	24	—	—
Share option scheme:					
— value of employee services	—	6,624	—	—	6,624
— value of other participants' services	—	70	—	—	70
Partial disposal of subsidiaries	—	—	14,120	(14,120)	—
	—	6,670	14,144	(14,120)	6,694
Balance as at 30 June 2010	18,505	1,678,299	(880,221)	122,469	939,052

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited	
	Six months ended 30 June	
	2011	2010
	HK\$'000	HK\$'000
Operating cash flows before changes in working capital	148,964	41,370
Changes in working capital	(22,264)	(37,262)
Income tax paid	(41,492)	(7,414)
	<hr/>	<hr/>
Net cash generated from/(used in) operating activities	85,208	(3,306)
Net cash generated used in investing activities	(4,803)	(27,748)
Net cash used in financing activities	(6,458)	(292)
	<hr/>	<hr/>
Net increase/(decrease) in cash and cash equivalents	73,947	(31,346)
Effect of foreign exchange rate changes	4,036	—
Cash and cash equivalents at beginning of the period	347,612	632,693
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Cash and cash equivalents at end of the period	425,595	601,347
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Analysis of the balances of cash and cash equivalents		
Cash and bank balances	425,595	601,347
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NOTES TO CONDENSED FINANCIAL STATEMENTS

1. Basis of preparation and accounting policies

The unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standards 34, "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure requirements of Chapter 18 of the GEM Listing Rules of 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 year ended 31 December 2010.

The Group has adopted the standards, amendment and interpretations that have been issued and effective for the accounting periods beginning on or after 1 January 2011. The adoption of such standards, amendment and interpretations did not have material effect on these financial statements.

2. Segment information and turnover

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

An analysis of the Group's turnover for the periods is as follows:

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Turnover				
Income from provision of lottery terminals	118,783	61,648	220,013	105,067
Income from sales of equipment	11,632	5,022	21,197	5,082
Income from provision of consultancy services	1,221	210	2,045	392
	<u>131,636</u>	<u>66,880</u>	<u>243,255</u>	<u>110,541</u>

3. Costs of sales and services

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2011	2010	2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Depreciation of lottery terminals	7,968	9,312	16,200	16,699
Business tax	6,850	3,169	12,481	5,389
Cost of inventories recognised as expense	4,458	2,267	8,918	2,295
Other cost of sales and services	3,850	1,648	5,494	2,902
	<u>23,126</u>	<u>16,396</u>	<u>43,093</u>	<u>27,285</u>

4. Other income and (losses)/gains

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2011	2010	2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial assets at fair value through profit or loss	(2,379)	1,030	9,131	2,184
Interest income from bank deposits	1,289	532	1,995	933
Rental income	—	112	—	256
	<u>(1,090)</u>	<u>1,674</u>	<u>11,126</u>	<u>3,373</u>

5. Operating profit

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2011	2010	2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Operating profit is stated after charging:				
Staff costs (excluding share options expenses)	16,364	11,742	32,613	24,905
Amortisation of intangible assets	1,632	1,632	3,264	3,264
Depreciation of other items of property, plant and equipment	2,231	1,535	4,385	2,810
	<u>20,227</u>	<u>14,909</u>	<u>40,262</u>	<u>31,000</u>

6. Income tax

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Current tax				
— People's Republic of China ("PRC") Enterprise Income Tax	12,922	3,728	27,012	5,149
— Adjustments in respect of prior periods	—	(51)	—	(51)
Deferred tax				
— Origination and reversal of temporary difference	(1,060)	(3,638)	(2,324)	(3,975)
	<u>11,862</u>	<u>39</u>	<u>24,688</u>	<u>1,123</u>

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profit during the three months and six months ended 30 June 2011 (2010: Nil and Nil).

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

7. Earnings/(Loss) per share

(a) Basic

Basic earnings/(loss) per share is calculated by dividing the profit/(loss) attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2011	2010	2011	2010
Profit/(loss) attributable to equity holders of the Company (HK\$'000)	<u>5,100</u>	<u>986</u>	<u>24,632</u>	<u>(17,708)</u>
Weighted average number of ordinary shares in issue	<u>7,406,714,747</u>	<u>7,402,164,000</u>	<u>7,403,547,978</u>	<u>7,402,164,000</u>
Basic earnings/(loss) per share — HK Cent	<u>0.07</u>	<u>0.01</u>	<u>0.33</u>	<u>(0.24)</u>

7. Earnings/(Loss) per share (Cont'd)

(b) Diluted

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

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2011	2010	2011	2010
Profit/(loss) attributable to equity holders of the Company (HK\$'000)	<u>5,100</u>	<u>986</u>	<u>24,632</u>	<u>(17,708)</u>
Weighted average number of ordinary shares in issue	<u>7,406,714,747</u>	<u>7,402,164,000</u>	<u>7,403,547,978</u>	<u>7,402,164,000</u>
Effect of dilutive potential ordinary shares: — Share options	<u>9,436,822</u>	<u>—</u>	<u>16,963,512</u>	<u>—</u>
Weighted average number of ordinary shares for calculating diluted earnings/(loss) per share	<u>7,416,151,569</u>	<u>7,402,164,000</u>	<u>7,420,511,490</u>	<u>7,402,164,000</u>
Diluted earnings/(loss) per share — HK Cent	<u>0.07</u>	<u>0.01</u>	<u>0.33</u>	<u>(0.24)</u>

The computation of diluted earnings/(loss) per share has not assumed the conversion of convertible note since its conversion would result in an increase/a decrease in earnings/(loss) per share. The computation of diluted earnings/(loss) per share for the three months and six months ended 30 June 2010 has not assumed the exercise of share options because their exercise would increase/reduce the earnings/(loss) per share.

8. Accounts receivable

Ageing analysis of accounts receivable is as follows:

	Unaudited As at 30 June 2011 HK\$'000	Audited As at 31 December 2010 HK\$'000
Less than three months	<u>53,657</u>	<u>84,839</u>
Over three months but less than one year	<u>46,040</u>	<u>16,312</u>
Over one year	<u>6,535</u>	<u>1,891</u>
	<u>106,232</u>	<u>103,042</u>

9. Financial assets at fair value through profit and loss

	Unaudited As at 30 June 2011 HK\$'000	Audited As at 31 December 2010 HK\$'000
Unlisted equity investment	94,240	92,258

10. Accounts payable

Ageing analysis of accounts payable is as follows:

	Unaudited As at 30 June 2011 HK\$'000	Audited As at 31 December 2010 HK\$'000
Less than three months	639	2,267
Over three months but less than one year	321	360
Over one year	29	29
	989	2,656

11. Share capital

	Unaudited Authorised ordinary shares	
	<i>Number of shares</i>	<i>HK\$'000</i>
At 1 January 2011 and 30 June 2011	16,000,000,000	40,000

	Unaudited Issued and fully paid ordinary shares	
	<i>Number of shares</i>	<i>HK\$'000</i>
At 1 January 2011	7,402,164,000	18,505
Share options exercised	9,800,000	25
At 30 June 2011	7,411,964,000	18,530

12. Reserves

	Unaudited							
	Six months ended 30 June 2011							
	Share premium	Convertible note	Capital reserve	Currency translation reserve	Share-based compensation reserve	Revaluation reserve	Available-for-sale investments	Total
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Balance as at 1 January 2011	1,546,166	21,388	15,158	41,566	56,184	11,834	22,110	1,714,406
Reduction of share premium	(813,537)	—	—	—	—	—	—	(813,537)
Share option scheme:								
— value of employee services	—	—	—	—	5,225	—	—	5,225
— value of other participants' services	—	—	—	—	13,366	—	—	13,366
— share options exercised	2,855	—	—	—	(603)	—	—	2,252
— vested share options cancelled and lapsed	—	—	—	—	(28,856)	—	—	(28,856)
Fair value loss on available-for-sale financial assets	—	—	—	—	—	—	(10,516)	(10,516)
Currency translation differences								
— overseas jointly-controlled entities	—	—	—	6,241	—	—	—	6,241
Release of revaluation reserve upon depreciation of leasehold land and building	—	—	—	—	—	(120)	—	(120)
Disposal of available-for-sale financial assets	—	—	—	—	—	—	(7,149)	(7,149)
Balance as at 30 June 2011	735,484	21,388	15,158	47,807	45,316	11,714	4,445	881,312

	Unaudited							
	Six months ended 30 June 2010							
	Share premium	Convertible note	Capital reserve	Currency translation reserve	Share-based compensation reserve	Revaluation reserve	Available-for-sale investments	Total
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Balance as at 1 January 2010	1,546,166	20,080	15,158	31,317	46,696	11,974	3,029	1,674,420
Share option scheme:								
— value of employee services	—	—	—	—	6,624	—	—	6,624
— value of other participants' services	—	—	—	—	70	—	—	70
Fair value loss on available-for-sale financial assets	—	—	—	—	—	—	(3,012)	(3,012)
Currency translation differences								
— overseas jointly-controlled entities	—	—	—	217	—	—	—	217
Release of revaluation reserve upon depreciation of leasehold land and building	—	—	—	—	—	(20)	—	(20)
Balance as at 30 June 2010	1,546,166	20,080	15,158	31,534	53,390	11,954	17	1,678,299

13. Operating lease commitments

As at 30 June 2011, the Group had future aggregate minimum lease payments under non-cancellable operating lease in respect of rented premises as follows:

	Unaudited As at 30 June 2011 HK\$'000	Audited As at 31 December 2010 HK\$'000
No later than one year	3,850	4,620
Later than one year and no later than five years	1,798	407
	<u>5,648</u>	<u>5,027</u>

14. Related party transactions

Nature of transactions	Unaudited Six months ended 2011 HK\$'000	2010 HK\$'000
Rental income from a related company (Note)	—	256
Purchase of a motor vehicle from a related company (Note)	663	—
	<u>663</u>	<u>—</u>

Note: The related companies are subsidiaries of Burwill Holdings Limited, companies in which Ms. Lau Ting and Mr. Chan Shing, the directors of the Company have beneficial interests.

15. Acquisition of a subsidiary

As announced by the Company on 14 February 2011, the Group entered into an equity interests transfer agreement (the "Transfer Agreement") with Mr. Zheng Min and Ms. Liu Juan and conditionally agreed to acquire 70% of the equity interests in 重慶拓扣網絡科技有限公司 ("Chongqing Tuokou") for aggregate consideration of RMB21,000,000 (approximately HK\$24,851,400), which shall be satisfied by payment of cash and issue of consideration shares. Chongqing Tuokou is a lottery sales service provider engaged in the research and development and operation of a sales platform for high frequency lottery games in China. All conditions precedent under the Transfer Agreement have been fulfilled and the acquisition was completed on 13 April 2011.

Details of net assets acquired and goodwill were as follows:

	Unaudited RMB'000
Purchase consideration:	
Cash paid	10,500
Shares to be issued at fair value	<u>6,066</u>
	16,566
Carrying value and fair value of net assets acquired — shown as below	<u>(4,543)</u>
Goodwill	<u>12,023</u>

15. Acquisition of a subsidiary (Cont'd)

The assets and liabilities as of 13 April 2011 arising from the acquisition were as follows:

	Unaudited Fair value RMB'000	Unaudited Carrying value RMB'000
Property, plant and equipment	130	130
Intangible assets	1,030	1,030
Accounts Receivable	967	967
Prepayments, deposits and other receivables	1,802	1,802
Cash and bank balances	3,598	3,598
Accruals and other payables	(628)	(628)
Income tax payable	(409)	(409)
	<u>6,490</u>	<u>6,490</u>
Net assets		
	<u>1,947</u>	
Non-controlling interests		
Net assets acquired	<u>4,543</u>	
Purchase consideration settled in cash		10,500
Cash and cash equivalents in the subsidiary acquired		<u>(3,598)</u>
Cash outflow on acquisition		<u>6,902</u>

Goodwill arising from acquisition of Chongqing Tuokou is attributable to the anticipated profitability and future development of Chongqing Tuokou in new media lottery business in the PRC and the anticipated future operating synergy from the combination.

Chongqing Tuokou contributed turnover of approximately HK\$2,272,000 and profit of approximately HK\$1,099,000 to the Group for the period from the date of acquisition to 30 June 2011. If the acquisition had occurred on 1 January 2011, the Group's turnover would have been approximately HK\$245,466,000 and profit for the six months ended 30 June 2011 would have been approximately HK\$92,182,000.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2011 (2010: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is a technology and service provider of lottery systems, terminal equipment, game products and marketing operation to the lottery industry in China. The principal businesses of the Group cover video lottery, traditional computer ticket game (CTG) including high frequency lottery, and new media lottery. Through professional and effective operational management coupled with technical competencies, the Group has developed comprehensive capability for sustainable development.

Driven by the promulgation of the Regulation on the Administration of Lotteries and favorable policies, the China lottery industry has entered a new era of new technology, new distribution channels and new offering of lottery products. Adhering to its core values of being a dedicated and innovative organization, supported by its technical and business development capabilities, the Group is well positioned to capture lottery opportunities in the new era.

BUSINESS REVIEW AND OUTLOOK

Maintaining a strong growth, total lottery sales (Welfare and Sport combined) in China in the first half of 2011 has exceeded RMB101.1 billion, representing a 31% increase over the same period in 2010.

The Group delivered outstanding results in different segments of its lottery business. The sales of video lottery game continue to deliver strong growth while its operational management level has improved at the same time. The CTG business continues to outperform industry average for an extensive period of time, with our products and services continuing to gain more industry recognition. The payout ratio of our high frequency game, KENO, is expected to increase, providing a strong momentum moving forward. On new media lottery, the Group has continued to maintain a strong relationship with different leading companies in the field and become a leading player in the new media lottery sector. Prospects for the new media lottery business are widely optimistic.

Video Lottery Business

China Welfare Lottery Video Lottery (VLT) Business

Issued with the mission of helping the aged, the disadvantaged, the needy and providing disaster relief (“扶老、助殘、救孤、濟困、賑災”), VLT is a high technology based lottery game, continuing to play a vital role in the China lottery industry. The Group is the exclusive equipment and service provider for VLT, which remains a major revenue contributor for the Group. In the first half of 2011, the number of video lottery terminal connected and in operation has exceeded 19,500 units, which have generated sales of RMB7.8 billion, representing an increase of 120% as compared with the same period in 2010. Daily sales nationwide and per terminal maintain healthy and consistent growth.

After three years of preparation, the Group has received notification from the relevant China Welfare Lottery authority for the first batch production of the next generation terminal for VLT. The first batch of 500 units of the terminal will be deployed in mid-October. The Group’s design, research and development, production, and manufacturing capability (in new hardware and software products), as well as project operation and management have reached a new height. Especially on the next generation VLT terminal, the Group’s overall performance has obtained high recognition approval from our customer. Striving for excellence in the areas of management, system, and technical service, VLT has established a solid foundation for continued growth.

CTG and High Frequency Lottery Business

CTG Business

The Group has maintained its strong foothold in the traditional CTG space, exclusively providing betting terminal equipment and operation maintenance to Welfare Lottery in Guangdong province, the leading lottery selling province in China. In the first half of 2011, sales of Welfare Lottery in Guangdong province have reached RMB3.9 billion, representing an increase of 20% over the same period in 2010. The Group is expected to provide additional betting terminals to Guangdong Welfare Lottery, which would help to expand the CTG market in the province. Apart from being a long-term provider of quality products and services to Guangdong province, the Group is performing the existing contract to provide terminals and maintenance services to Shenzhen Welfare Lottery.

Possessing intellectual property rights in certain core parts of the betting terminal including lottery scanner and reader, the Group will continue to maintain its leading advantage in its terminal products with constant innovation and improvement. After obtaining a lottery reader order from Russia last year, the Group secured another order from Russia this year, which was fulfilled in the first half of the year; furthermore, the Group is in discussion with the Russian customer on a potential terminal supply arrangement. In the period under review, the Group also worked with a domestic terminal manufacturer on the provision of a special lottery reader.

In the next two years, contracts for CTG system and terminal in several provinces will become due, which will open up expansion opportunities for the Group. The Group will endeavor to acquire contracts with such provinces based on its quality service experience with Guangdong province, its intellectual properties on terminal and component products, and the support from its technology partner. This will be the Group's CTG business expansion focus in the next two years.

High Frequency Lottery Business (KENO)

CLS-GTECH Company Limited, a joint venture company between the Group and GTECH Corporation in USA, is the exclusive provider of the system, terminal and operation maintenance for KENO, the only nationwide high frequency game of Welfare Lottery adopting a unified system. Currently, the average daily sales per terminal ("ADSPT") of KENO in the eight selected provinces has exceeded RMB1,800, which is on a par with other top-selling Welfare CTG games. ADSPT in Liaoning and Hebei have even hit RMB2,400. With the likely approval of the increase of the payout ratio to 59%, KENO is expected to show greater growth. With increasing demand for more KENO terminals from different provinces, the Group has secured a new order from the lottery issuance authority in preparation for expanding the market share of the game after the approval of the higher payout ratio. Working closely with lottery issuance and administration authority, the Group will strive to achieve higher terminal connection rate which will drive ADSPT. In addition, the Group has taken steps since the beginning of this year to assist Hunan province in the development of KENO in the province by directly participating in the management, training and sales for the outlets. The aim is to provide a new perspective for the marketing of the game.

It is worth noting that while ADSPT of KENO in provinces such as Liaoning and Hebei are on the rise, the game has had no adverse impact on the sales of traditional CTG games in these provinces. This proves KENO to be an incremental lottery product with the characteristics and potential peculiar to a popular high frequency lottery product worldwide. The management believes that after the increase of the payout ratio, and adoption of a flexible business model for a social game, KENO will grow rapidly in China.

New Media Lottery Business

In the first half of 2011, the Group has continued to strengthen the cooperation with its various cooperation partners in order to develop and enhance its new media lottery business portfolio.

In the first half of 2011, sales of the Group's new media lottery business have grown 180% compared with the same period last year, moving a big step forward. Following the launch of a new version of the Group's lottery portal (www.huacai.com) in the first quarter, the popular Single Match Game of Sport Lottery was also made available on the portal in June 2011. The Group's acquisition of a majority stake in Chongqing Tuokou Network Technology Company Ltd. in the first quarter has enhanced its Internet lottery business portfolio by strengthening the Group's capability in sales of high frequency games on new media channels. In effect, this has enabled the Group to get better prepared on technology, product and operation for obtaining the Internet lottery sales licence.

The development and internal testing of the Group's electronic instant ticket product (including both system and game offering), a main focus under its new media lottery segment, have been completed. The self-service terminal, mobile phone, and the Internet platform together form a combined solution for the implementation of the product, setting a solid technical foundation for the next-stage promotion and third party testing.

With advanced technology and a complete product solution, the marketing of this electronic instant ticket product has gained significant momentum. Many provincial lottery centers have demonstrated a clear intention to work with the Group, and details of cooperation, submission procedures and other contractual items are being finalized. With the extensive cooperation with these lottery authorities, the Group has fully demonstrated its strong hold in the new media lottery business laying a solid foundation for future growth. Electronic instant ticket has been identified as a strategic business development for the Group in light of the product's tremendous potential and prospect seen in lottery markets worldwide.

The Group adheres to its strategy of maintaining close and extensive cooperation with the industry as a whole, including telecom operators, financial institutions and mobile phone handset manufacturers.

The cooperation with telecom operators has been further enhanced. The cooperation contract with China Unicom has been renewed after the electronic lottery business under their cooperation has been officially launched for one year in April 2011. At the end of June, an important milestone was laid when the Group officially became the exclusive service provider for China Unicom's lottery channel, which means the Group's cooperation with China Unicom on electronic lottery business has now covered all of the latter's WAP platform and "Wo" Portals ("沃門戶"). Through the comprehensive platform provided by China Unicom, the quality lottery content and service of the Group are made available to China Unicom customers in the most convenient way. Cooperation with China Mobile on mobile payment has commenced from May 2011, allowing the Group to become the first batch of lottery companies to access the latter's full mobile payment network. Meanwhile the Group was chosen to be the first lottery company to participate in China Mobile's initiative enabling the purchase of lottery with the telecom operator's own marketing resources called "HongBao" ("紅包").

The collaboration with financial institutions including banks and Union Pay has become closer. Following the purchase of lottery via Union Pay's payment client-end, purchase of lottery using Union Pay's mobile payment redemption points was also launched in the second quarter of 2011. Currently, the parties are actively working on launching lottery business on Union Pay's "QuanMinFu" ("全民付") POS terminal, ATM and self-service terminal. The Group's cooperation with the Bank of Communications has also reinforced with the introduction of more lottery games; whereas the cooperation with China Merchants Bank and Bank of China are underway and will soon be officially launched.

The Group's cooperation with mobile phone handset manufacturers and middleware providers has been further strengthened to broaden its network of distribution channels; good relationship has been maintained with reputable brand names including Tianyu, Lenovo and Coolpad.

With various market opportunities and challenges ahead, the Group will continue its efforts in developing its new media lottery business, and is confident of achieving greater breakthroughs. The Group has obtained sufficient qualifications operationally and technically for obtaining formal approval for telephone and Internet lottery sales. To maintain its leadership in new media lottery, the Group has consistently invested resources to enhance the new media lottery business portfolio and further the relationship with different levels of lottery issuance and sales authorities.

Technical Competency

New lottery products as well as new lottery distribution channels will not succeed without the best technological support. To this end, the Group has built its own technical team, and possessed a number of self-developed product technology and intellectual property rights. Improved and optimized new media lottery transaction system and a universal mobile lottery platform have strengthened the Group's overall technological capabilities on new media lottery. This enables the Group to provide the lottery issuance and sales authorities as well as related customers with the most powerful, stable and secure system infrastructure and support.

Following the achievement of the CMMI (Capability Maturity Model Integration) II accreditation in 2010, the Group is prepared to complete system integration including hardware, software and higher level of technical certification application.

CONCLUSION

With advancement in technology and greater Internet penetration, the China lottery industry is embracing leapfrog opportunities for development. On the one hand, the government is further opening up new media lottery sales channels; on the other hand, the employment of high technology has caused new types of lottery products to continue to emerge, creating a new era for the China lottery. As a major participant in the China lottery business, the Group will continue to adopt a prudent business development strategy, carefully allocating resources to different segments of its business to maintain its competitive advantage.

In the meantime, the Group will continue to identify opportunities for business investment and strategic alliance to create growth drivers for the benefit of our shareholders, in order to bring long-term and stable returns.

FINANCIAL REVIEW

In the first half of 2011, the Group recorded a turnover of approximately HK\$243.3 million (the first half of 2010: HK\$110.5 million), representing an increase of approximately 120% over the same period of last year. Profit attributable to equity holders for the first half of 2011 amounted to approximately HK\$24.6 million, as compared with the loss of approximately HK\$17.7 million in the first half of 2010. Due to improving sales from VLT and CTG businesses, the Group recorded approximately HK\$22.8 million profit attributable to equity holders for the second quarter of 2011 before the one-time non-cash share option expenses (second quarter of 2010: HK\$3.9 million).

Liquidity, Financial Resources, Gearing Ratio and Capital Structure

The Group believes that it has adequate financial resources to fund its capital and operating requirements. As at 30 June 2011, the Group had an outstanding corporate guarantee for unlimited amount for banking facilities of a property installment loan of HK\$106.9 million (as at 31 December 2010: HK\$106.9 million) granted to the Group. The Group had outstanding bank borrowing at 30 June 2011 of HK\$99.3 million (as at 31 December 2010: HK\$105.1 million). The Group's leasehold land and building was pledged to secure this bank borrowing.

The Group's total equity amounted to approximately HK\$1,191.5 million as at 30 June 2011 (as at 31 December 2010: HK\$1,086.4 million). As at 30 June 2011, net current asset of the Group amounted to approximately HK\$411.5 million (as at 31 December 2010: HK\$355.9 million), including approximately HK\$425.6 million in cash and deposits with banks and financial institution (as at 31 December 2010: HK\$347.6 million).

The gearing ratio (defined as total liabilities over total assets) of the Group as at 30 June 2011 was approximately 20.4% (as at 31 December 2010: 23.4%). The current ratio (defined as current assets over current liabilities) of the Group as at 30 June 2011 was approximately 239.4% (as at 31 December 2010: 237.8%).

Exposure to Exchange Rates Fluctuation

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

Pledge of Asset

As at 30 June 2011, the Group's leasehold land and building at net book value of HK\$136.9 million (as at 31 December 2010: HK\$138.3 million) was pledged to bank to secure the bank borrowing granted to the Group.

Contingent Liabilities

As at 30 June 2011, the Group did not have any material contingent liabilities (as at 31 December 2010: Nil).

Staff

As at 30 June 2011, the Group employed 319 staff (2010: 310). The management believes that the competence of employees is a major contributing factor to the Group's sustained growth and advancement in profitability. Staff remuneration is based on performance and experience. In addition to basic salary, benefits for employees include a performance-related bonus, contributory provident fund, medical insurance and regulated employees' social security program in China. The Group also adopted a share option scheme under which options may be granted to eligible staff based on individual performance. Training programmes for staff are provided as and when required. The Group will further strengthen its team, and in particular on the build up of its technical team, in order to offer enhanced services for China's welfare lottery market.

SHARE OPTION SCHEME

As at 30 June 2011, there were options for 706,700,000 shares of HK\$0.0025 each in the share capital of the Company granted by the Company pursuant to the share option scheme, as adopted by the shareholders of the Company on 30 July 2002 (the "Option Scheme"), which were valid and outstanding.

Movements of share options granted under the Option Scheme during the six months ended 30 June 2011:

Participants	Date of grant	Exercise price per share HK\$	Exercise period from	Exercise period until	held as at 1/1/2011	No. of shares under the options				held as at 30/6/2011	Approximate Percentage of the Company's issued share capital
						granted during the period (note 1)	exercised during the period (note 2)	cancelled during the period	lapsed during the period		
(i) Directors											
LAU Ting	08/06/2006	0.305	08/06/2007	07/06/2011	600,000	—	—	—	(600,000)	—	—
	08/06/2006	0.305	08/06/2008	07/06/2011	600,000	—	—	—	(600,000)	—	—
	08/06/2006	0.305	08/06/2009	07/06/2011	600,000	—	—	—	(600,000)	—	—
	08/06/2006	0.305	08/06/2010	07/06/2011	600,000	—	—	—	(600,000)	—	—
									—	—	
CHAN Shing	08/06/2006	0.305	08/06/2007	07/06/2011	600,000	—	—	—	(600,000)	—	—
	08/06/2006	0.305	08/06/2008	07/06/2011	600,000	—	—	—	(600,000)	—	—
	08/06/2006	0.305	08/06/2009	07/06/2011	600,000	—	—	—	(600,000)	—	—
	08/06/2006	0.305	08/06/2010	07/06/2011	600,000	—	—	—	(600,000)	—	—
									—	—	

Participants	Date of grant	Exercise price per share HK\$	Exercise period from	Exercise period until	held as at 1/1/2011	No. of shares under the options				held as at 30/6/2011	Approximate
						granted during the period (note 1)	exercised during the period (note 2)	cancelled during the period	lapsed during the period		Percentage of the Company's issued share capital
(i) Directors (Cont'd)											
WU Jingwei	11/01/2007	0.445	01/01/2008	31/12/2011	2,000,000	—	—	(2,000,000)	—	—	—
	11/01/2007	0.445	01/01/2009	31/12/2011	2,000,000	—	—	(2,000,000)	—	—	—
	11/01/2007	0.445	01/01/2010	31/12/2011	2,000,000	—	—	(2,000,000)	—	—	—
	11/01/2007	0.445	01/01/2011	31/12/2011	2,000,000	—	—	(2,000,000)	—	—	—
	04/07/2007	0.975	01/01/2008	31/12/2013	1,200,000	—	—	(1,200,000)	—	—	—
	04/07/2007	0.975	01/01/2009	31/12/2013	1,200,000	—	—	(1,200,000)	—	—	—
	04/07/2007	0.975	01/01/2010	31/12/2013	1,200,000	—	—	(1,200,000)	—	—	—
	04/07/2007	0.975	01/01/2011	31/12/2013	1,200,000	—	—	(1,200,000)	—	—	—
	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)	—	—	—
	13/11/2007	0.960	01/01/2009	31/12/2011	8,000,000	—	—	(8,000,000)	—	—	—
	13/11/2007	0.960	01/01/2010	31/12/2011	8,000,000	—	—	(8,000,000)	—	—	—
	25/08/2008	0.500	25/08/2009	24/08/2013	2,000,000	—	—	(2,000,000)	—	—	—
	25/08/2008	0.500	25/08/2010	24/08/2013	2,000,000	—	—	(2,000,000)	—	—	—
	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)	—	—	—
	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%	—
13/05/2011	0.216	13/05/2011	12/05/2013	—	11,500,000	—	—	—	11,500,000	0.155%	—
									26,500,000	0.358%	—
LIAO Yuang-whang	18/09/2007	0.904	18/09/2008	17/09/2011	3,200,000	—	—	(3,200,000)	—	—	—
	18/09/2007	0.904	18/09/2009	17/09/2011	2,800,000	—	—	(2,800,000)	—	—	—
	13/11/2007	0.960	18/09/2008	17/09/2012	8,000,000	—	—	(8,000,000)	—	—	—
	13/11/2007	0.960	18/09/2009	17/09/2012	8,000,000	—	—	(8,000,000)	—	—	—
	13/11/2007	0.960	18/09/2010	17/09/2012	8,000,000	—	—	(8,000,000)	—	—	—
	25/08/2008	0.500	25/08/2009	24/08/2013	2,000,000	—	—	(2,000,000)	—	—	—
	25/08/2008	0.500	25/08/2010	24/08/2013	2,000,000	—	—	(2,000,000)	—	—	—
	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)	—	—	—
	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%	—
	13/05/2011	0.216	13/05/2011	12/05/2013	—	10,500,000	—	—	—	10,500,000	0.142%
									25,000,000	0.337%	—
HOONG Cheong Thard	30/06/2006	0.285	16/08/2007	29/06/2016	17,600,000	—	—	—	—	17,600,000	0.237%
	30/06/2006	0.285	16/08/2008	29/06/2016	17,600,000	—	—	—	—	17,600,000	0.237%
	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%
	13/05/2011	0.216	13/05/2011	12/05/2013	—	2,000,000	—	—	—	2,000,000	0.027%
									55,200,000	0.744%	—

Participants	Date of grant	Exercise price per share HK\$	Exercise period from	Exercise period until	held as at 1/1/2011	No. of shares under the options				held as at 30/6/2011	Approximate Percentage of the Company's issued share capital
						granted during the period (note 1)	exercised during the period (note 2)	cancelled during the period	lapsed during the period		
(i) Directors (Cont'd)											
HUANG	08/06/2006	0.305	08/06/2007	07/06/2011	600,000	—	—	—	(600,000)	—	—
Shenglan	08/06/2006	0.305	08/06/2008	07/06/2011	600,000	—	—	—	(600,000)	—	—
	08/06/2006	0.305	08/06/2009	07/06/2011	600,000	—	—	—	(600,000)	—	—
	08/06/2006	0.305	08/06/2010	07/06/2011	600,000	—	—	—	(600,000)	—	—
	13/05/2011	0.216	13/05/2011	12/05/2013	—	2,000,000	—	—	—	2,000,000	0.027%
										2,000,000	0.027%
CHAN Ming Fai	08/06/2006	0.305	08/06/2008	07/06/2011	600,000	—	—	—	(600,000)	—	—
	08/06/2006	0.305	08/06/2009	07/06/2011	600,000	—	—	—	(600,000)	—	—
	08/06/2006	0.305	08/06/2010	07/06/2011	600,000	—	—	—	(600,000)	—	—
	13/05/2011	0.216	13/05/2011	12/05/2013	—	2,000,000	—	—	—	2,000,000	0.027%
										2,000,000	0.027%
CUI Shuming	13/05/2011	0.216	13/05/2011	12/05/2013	—	2,000,000	—	—	—	2,000,000	0.027%
										2,000,000	0.027%
(ii) Continuous contract employees											
	08/06/2006	0.305	08/06/2007	07/06/2011	8,600,000	—	—	—	(8,600,000)	—	—
	08/06/2006	0.305	08/06/2008	07/06/2011	11,000,000	—	(600,000)	—	(10,400,000)	—	—
	08/06/2006	0.305	08/06/2009	07/06/2011	11,000,000	—	(600,000)	—	(10,400,000)	—	—
	08/06/2006	0.305	08/06/2010	07/06/2011	11,000,000	—	(600,000)	—	(10,400,000)	—	—
	11/05/2007	0.775	02/05/2008	01/05/2014	1,800,000	—	—	—	—	1,800,000	0.024%
	11/05/2007	0.775	02/05/2009	01/05/2014	1,800,000	—	—	—	—	1,800,000	0.024%
	11/05/2007	0.775	02/05/2010	01/05/2014	1,800,000	—	—	—	—	1,800,000	0.024%
	11/05/2007	0.775	02/05/2011	01/05/2014	1,800,000	—	—	—	—	1,800,000	0.024%
	11/05/2007	0.775	02/05/2012	01/05/2014	1,800,000	—	—	—	—	1,800,000	0.024%
	11/05/2007	0.775	02/05/2013	01/05/2014	3,000,000	—	—	—	—	3,000,000	0.040%
	04/07/2007	0.975	04/07/2008	03/07/2012	400,000	—	—	—	—	400,000	0.005%
	04/07/2007	0.975	04/07/2009	03/07/2012	400,000	—	—	—	—	400,000	0.005%
	02/10/2007	0.920	01/01/2008	31/12/2011	1,500,000	—	—	—	—	1,500,000	0.020%
	02/10/2007	0.920	01/01/2009	31/12/2011	1,500,000	—	—	—	—	1,500,000	0.020%
	13/11/2007	0.960	01/01/2008	31/12/2011	1,000,000	—	—	—	—	1,000,000	0.013%
	13/11/2007	0.960	01/01/2009	31/12/2011	1,000,000	—	—	—	—	1,000,000	0.013%
	25/08/2008	0.500	11/03/2009	10/03/2013	600,000	—	—	—	—	600,000	0.008%
	25/08/2008	0.500	11/03/2010	10/03/2013	600,000	—	—	—	—	600,000	0.008%
	25/08/2008	0.500	11/03/2011	10/03/2013	600,000	—	—	—	—	600,000	0.008%
	25/08/2008	0.500	11/03/2012	10/03/2013	600,000	—	—	—	—	600,000	0.008%
	25/08/2008	0.500	25/08/2009	24/08/2013	2,400,000	—	—	—	—	2,400,000	0.032%
	25/08/2008	0.500	25/08/2010	24/08/2013	2,400,000	—	—	—	—	2,400,000	0.032%
	25/08/2008	0.500	25/08/2011	24/08/2013	2,400,000	—	—	—	—	2,400,000	0.032%
	25/08/2008	0.500	25/08/2012	24/08/2013	2,400,000	—	—	—	—	2,400,000	0.032%
	09/04/2009	0.500	17/08/2009	16/08/2013	400,000	—	—	—	—	400,000	0.005%
	09/04/2009	0.500	17/08/2010	16/08/2013	400,000	—	—	—	—	400,000	0.005%
	09/04/2009	0.500	17/08/2011	16/08/2013	400,000	—	—	—	—	400,000	0.005%
	09/04/2009	0.500	17/08/2012	16/08/2013	400,000	—	—	—	—	400,000	0.005%
	15/06/2009	0.500	15/06/2010	14/06/2015	5,000,000	—	—	—	—	5,000,000	0.067%
	15/06/2009	0.500	15/06/2011	14/06/2015	5,000,000	—	—	—	—	5,000,000	0.067%

Participants	Date of grant	Exercise price per share HK\$	Exercise period from	Exercise period until	held as at 1/1/2011	No. of shares under the options				held as at 30/6/2011	Approximate Percentage of the Company's issued share capital
						granted during the period (note 1)	exercised during the period (note 2)	cancelled during the period	lapsed during the period		
(ii) Continuous contract employees (Cont'd)	17/08/2009	0.500	17/02/2010	16/08/2014	41,000,000	—	—	—	—	41,000,000	0.553%
	17/08/2009	0.500	17/08/2010	16/08/2014	41,000,000	—	—	—	—	41,000,000	0.553%
	02/10/2009	0.500	01/09/2010	31/08/2014	1,450,000	—	—	—	—	1,450,000	0.020%
	02/10/2009	0.500	01/09/2011	31/08/2014	1,450,000	—	—	—	—	1,450,000	0.020%
	02/10/2009	0.500	01/09/2012	31/08/2014	1,450,000	—	—	—	—	1,450,000	0.020%
	02/10/2009	0.500	01/09/2013	31/08/2014	1,450,000	—	—	—	—	1,450,000	0.020%
	04/12/2009	0.500	04/06/2010	03/12/2012	5,000,000	—	—	—	—	5,000,000	0.067%
	04/12/2009	0.500	04/12/2010	03/12/2012	5,000,000	—	—	—	—	5,000,000	0.067%
	04/12/2009	0.500	04/06/2011	03/12/2012	5,000,000	—	—	—	—	5,000,000	0.067%
	13/05/2011	0.216	13/05/2011	12/05/2013	—	72,500,000	(8,000,000)	—	(500,000)	64,000,000	0.863%
										208,200,000	2.809%
(iii) Other participants	08/06/2006	0.305	08/06/2008	07/06/2011	4,000,000	—	—	—	(4,000,000)	—	—
	08/06/2006	0.305	08/06/2009	07/06/2011	4,000,000	—	—	—	(4,000,000)	—	—
	08/06/2006	0.305	08/06/2010	07/06/2011	4,000,000	—	—	—	(4,000,000)	—	—
	25/08/2008	0.500	25/08/2009	24/08/2013	150,000	—	—	—	—	150,000	0.002%
	25/08/2008	0.500	25/08/2010	24/08/2013	150,000	—	—	—	—	150,000	0.002%
	25/08/2008	0.500	25/08/2011	24/08/2013	150,000	—	—	—	—	150,000	0.002%
	25/08/2008	0.500	25/08/2012	24/08/2013	150,000	—	—	—	—	150,000	0.002%
	13/05/2011	0.216	13/05/2011	12/05/2013	—	89,200,000	—	—	—	89,200,000	1.203%
	30/05/2011	0.250	12/05/2013	29/05/2013	—	296,000,000	—	—	—	296,000,000	3.994%
									385,800,000	5.205%	
				Total:	371,800,000	487,700,000	(9,800,000)	(81,700,000)	(61,300,000)	706,700,000	

Notes:

- For the share options granted during the period, (i) the closing price per Share immediately before the date of grant of 13 May 2011 was HK\$0.182; and (ii) the closing price per Share immediately before the date of grant of 30 May 2011 was HK\$0.236.
- The weighted average closing price of Share immediately before the date on which the options for 9,800,000 Shares were exercised was HK\$0.265.

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

As at 30 June 2011, 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 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 standards 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				Approximate percentage of the Company's issued share capital
	Beneficial interests	Family interests	Corporate interests	Total	
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)	20.47%(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)	20.47%(L) 0.31%(S)
LIAO Yuang-whang	572,000(L)	—	—	572,000(L)	0.01%(L)
HUANG Shenglan	4,000,000(L)	—	—	4,000,000(L)	0.05%(L)

Notes:

1. These shares were owned by Mr. CHAN Shing, the spouse of Ms. LAU Ting.
2. 147,162,496 shares, includes abovementioned 23,093,192 shares, were held by Hang Sing Overseas Limited ("Hang Sing") which was owned as to 51% by Orient Strength Limited ("Orient Strength"), a company which was wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 137,735,546 shares were held by Strong Purpose Corporation ("Strong Purpose"), a company which was wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 580,932,594 shares were held by Glory Add Limited ("Glory Add") which was wholly owned by Favor King Limited, a company which was wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 1,932,312 shares were held by Burwill Holdings Limited of which Ms. LAU Ting and Mr. CHAN Shing were the controlling shareholders.
3. 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.
4. These shares were owned by Ms. LAU Ting.
5. The letter "L" denotes long position(s) and the letter "S" denotes short position(s).

(2) Interests in Underlying Shares of the Company

As at 30 June 2011, certain Directors of the Company had the interests in respect of options to subscribe for the shares of the Company under the Option Scheme. Details of their interests in the share options of the Company are separately disclosed in the section "Share Option Scheme".

Save as otherwise disclosed above, as at 30 June 2011, 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 2011, according to the register required to be kept by the Company under Section 336 of the SFO, the following persons (other than the Directors and chief executive of the Company) had interests and/or short positions in the shares and underlying shares of the Company:

(1) Interests in Shares of the Company

Name of Shareholder	Number of shares					Approximate percentage interest in the Company's issued share capital
	Beneficial interests	Investment Manager	Corporate interests	Custodian	Total	
Atlantis Investment Management (Hong Kong) Limited	—	593,048,000(L)	—	—	593,048,000(L) (Note 1)	8.00%(L)
Liu Yang	—	—	593,048,000(L)	—	593,048,000(L) (Note 1)	8.00%(L)
Favor King Limited	—	—	582,864,906(L)	—	582,864,906(L) (Note 2)	7.86%(L)
JPMorgan Chase & Co.	584,000(L)	210,832,346(L)	—	300,000,000(L) 300,000,000(P)	511,416,346(L) 300,000,000(P) (Note 3)	6.90%(L) 4.05%(P)
Ward Ferry Management (BVI) Limited	—	511,612,000(L)	—	—	511,612,000(L) (Note 4)	6.90%(L)
Burbank John H.	—	—	442,118,000(L)	—	442,118,000(L) (Note 5)	5.96%(L)
Passport Capital, LLC	—	442,118,000(L)	—	—	442,118,000(L) (Note 5)	5.96%(L)
Passport Special Opportunities Master Fund, LP	442,118,000(L)	—	—	—	442,118,000(L) (Note 5)	5.96%(L)

Notes:

1. Ms. Liu Yang held the interest through Atlantis Investment Management (Hong Kong) Limited. These shares represent the same block of interest held by Atlantis Investment Management (Hong Kong) Limited and Ms. Liu Yang.
2. 1,932,312 shares were held by Burwill Holdings Limited 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.
3. 300,000,000 shares, represented the lending pool shares, were held by JPMorgan Chase Bank, N.A. which in turn was wholly-owned by JPMorgan Chase & Co.. 210,832,346 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.. 584,000 shares, represented the long position shares, were held by J.P. Morgan Whitefriars Inc. which in turn was owned by J.P. Morgan Overseas Capital Corporation, a company which 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.
4. 203,416,000 shares were held by WF Asia Fund Limited, 77,466,000 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.
5. Passport Capital, LLC was the investment manager of various funds. One of these funds was Passport Special Opportunities Master Fund, LP. Burbank John H. was the sole managing member to Passport Capital, LLC. The above information was notified by Passport Capital, LLC.
6. The letter "L" denotes long position(s) and the letter "P" denotes lending pool(s).

(2) Interests in Underlying Shares of the Company

As at 30 June 2011, International Game Technology 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 June 2011, there was no person (other than the Directors and chief executive 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.

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 securities during the six months ended 30 June 2011.

SHARE PREMIUM REDUCTION

The Board announced on 18 March 2011 that it intended to make a proposal to the shareholders of the Company for a reduction of the share premium account of the Company ("Share Premium Reduction"). The sum of the reduction would be applied to eliminate the accumulated losses of the Company as at 31 December 2010. The Board considers that the elimination of the accumulated losses of the Company in full would afford the Company more flexibility to declare dividends to its shareholders at the earliest opportunity in the future as and when the Board considers appropriate. The Share Premium Reduction has been approved by the shareholders of the Company at the Annual General Meeting held on 26 May 2011 and became effective on the same day.

COMPETING INTERESTS

The Board believes that none of the Directors 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's Audit Committee 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 interim results of the Group for the six months ended 30 June 2011 have been reviewed by the Audit Committee.

CORPORATE GOVERNANCE

The Company has complied with the 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 2011, except for the deviations from Code provisions A2.1, A4.1 and A4.2.

The Chairperson of the Company, Ms. LAU Ting, currently also assumes the role of the Chief Executive Officer. Although the Code provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual, the Board considers that given the nature of the Group's businesses which requires considerable market expertise, the vesting of the two roles provides the Group with stable and consistent leadership and allows for more effective planning and implementation of long term business strategies. The Board will continuously review the effectiveness of the structure to balance the power and authority of the Board and the management. Although some of the Non-Executive Directors of the Company are not appointed for a specific term as is stipulated in Code provision A4.1, all of them are subject to retirement by rotation in accordance with the Bye-laws of the Company. The Board will ensure the retirement of each Director, other than the one who holds the office as Chairperson or Managing Director, by rotation at least once every three years. The Chairperson is not subject to retirement by rotation as is stipulated in Code provision A.4.2 as the Board considers that the continuity of office of the Chairperson provides the Group a strong and consistent leadership and is of great importance to the smooth operations of the Group.

The Board will review the corporate governance structure and practices from time to time and shall make necessary arrangements when the Board considers 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 Code of Conduct during the six months ended 30 June 2011.

On behalf of the Board
LAU Ting
Chairperson

Hong Kong, 9 August 2011

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