

2012 Interim Report

China LotSynergy

China LotSynergy Holdings Limited

華彩控股有限公司*

(Incorporated in Bermuda with limited liability)

Stock code: 8161



CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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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 2012, together with the comparative unaudited figures for the corresponding periods in 2011, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Unaudited			
		Three months ended		Six months ended	
		2012	2011	2012	2011
		30 June		30 June	
		2012	2011	2012	2011
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	2	136,869	131,636	291,656	243,255
Costs of sales and services	3	(63,594)	(23,126)	(92,258)	(43,093)
Gross profit		73,275	108,510	199,398	200,162
Other income and gains/(losses)	4	1,308	(1,090)	3,470	11,126
General and administrative expenses		(46,099)	(29,706)	(88,939)	(62,671)
Share option income/(expenses)		1,103	(17,689)	677	(18,591)
Operating profit	5	29,587	60,025	114,606	130,026
Finance Costs	6	(4,577)	(5,420)	(9,339)	(10,837)
Share of losses of jointly-controlled entities		(328)	(204)	(1,046)	(3,503)
Profit before income tax		24,682	54,401	104,221	115,686
Income tax	7	(9,615)	(11,862)	(25,654)	(24,688)
Profit for the period		15,067	42,539	78,567	90,998
Profit attributable to:					
Owners of the Company		997	5,100	23,674	24,632
Non-controlling interests		14,070	37,439	54,893	66,366
		15,067	42,539	78,567	90,998
Earnings per share attributable to owners of the Company during the period					
— basic — HK Cent	8	0.01	0.07	0.32	0.33
— diluted — HK Cent	8	0.01	0.07	0.32	0.33

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited			
	Three months ended 30 June		Six months ended 30 June	
	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit for the period	<u>15,067</u>	<u>42,539</u>	<u>78,567</u>	<u>90,998</u>
Other comprehensive (expense)/income:				
Fair value loss on available-for-sale financial assets	(1,006)	(1,852)	(2,883)	(10,516)
Currency translation differences	<u>(2,093)</u>	<u>8,059</u>	<u>(1,964)</u>	<u>8,552</u>
Other comprehensive (expense)/ income for the period, net of tax	<u>(3,099)</u>	<u>6,207</u>	<u>(4,847)</u>	<u>(1,964)</u>
Total comprehensive income for the period	<u>11,968</u>	<u>48,746</u>	<u>73,720</u>	<u>89,034</u>
Attributable to:				
Owners of the Company	(253)	8,996	20,676	20,357
Non-controlling interests	<u>12,221</u>	<u>39,750</u>	<u>53,044</u>	<u>68,677</u>
Total comprehensive income for the period	<u>11,968</u>	<u>48,746</u>	<u>73,720</u>	<u>89,034</u>

CONDENSED CONSOLIDATED BALANCE SHEET

	Unaudited As at 30 June 2012 Notes	Audited As at 31 December 2011 HK\$'000
Non-current assets		
Property, plant and equipment	363,743	281,679
Intangible assets	405,674	396,132
Investments in jointly-controlled entities	102,577	103,739
Available-for-sale financial assets	25,979	28,862
Deferred income tax assets	4,622	4,622
Prepaid rentals	2,675	3,260
	<u>905,270</u>	<u>818,294</u>
Total non-current assets		
Current assets		
Inventories	22,653	29,907
Accounts receivable	9 105,254	177,160
Prepayments, deposits and other receivables	121,004	70,461
Amount due from jointly-controlled entities	459	457
Amounts due from a related company	21,565	21,564
Cash and bank balances	720,719	648,867
	<u>991,654</u>	<u>948,416</u>
Total current assets		
Total assets	<u>1,896,924</u>	<u>1,766,710</u>
Current liabilities		
Accounts payable	10 25,813	12,813
Accruals and other payables	12,698	40,901
Amount due to a jointly-controlled entity	6,019	4,811
Income tax payable	7,234	18,110
Financial liabilities at fair value through profit or loss	11 2,792	9,155
Bank borrowings	602,553	380,602
Convertible note	—	68,308
	<u>657,109</u>	<u>534,700</u>
Total current liabilities		
Net current assets	<u>334,545</u>	<u>413,716</u>
Total assets less current liabilities	<u>1,239,815</u>	<u>1,232,010</u>

CONDENSED CONSOLIDATED BALANCE SHEET (CONT'D)

		Unaudited	Audited
		As at	As at
		30 June	31 December
		2012	2011
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
Non-current liabilities			
Deferred income tax liabilities		<u>13,555</u>	<u>14,472</u>
Total non-current liabilities		<u>13,555</u>	<u>14,472</u>
Net assets		<u>1,226,260</u>	<u>1,217,538</u>
Equity attributable to owners of the Company			
Share capital	12	18,631	18,530
Reserves	13	863,993	877,478
Retained profit		<u>147,868</u>	<u>109,896</u>
		1,030,492	1,005,904
Non-controlling interests		<u>195,768</u>	<u>211,634</u>
Total equity		<u>1,226,260</u>	<u>1,217,538</u>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	Unaudited Six months ended 30 June 2012 Attributable to owners of the Company				
	Share Capital HK\$'000	Reserves HK\$'000	Retained profit HK\$'000	Non- controlling interests HK\$'000	Total HK\$'000
Balance as at 1 January 2012	18,530	877,478	109,896	211,634	1,217,538
Comprehensive income					
Profit for the period	—	—	23,674	54,893	78,567
Other comprehensive expense:					
Fair value loss on available-for-sale financial assets	—	(2,883)	—	—	(2,883)
Currency translation differences	—	(115)	—	(1,849)	(1,964)
Total other comprehensive expense	—	(2,998)	—	(1,849)	(4,847)
Total comprehensive (expense)/income	—	(2,998)	23,674	53,044	73,720
Release of convertible note equity reserve upon redemption of convertible note	—	(11,670)	11,670	—	—
Issuance of consideration shares	101	4,488	—	—	4,589
Share option scheme:					
— value of employee services	—	(679)	—	—	(679)
— value of other participants' services	—	2	—	—	2
— vested share options cancelled and lapsed	—	(2,628)	2,628	—	—
Dividend paid to non-controlling interests	—	—	—	(68,910)	(68,910)
	101	(10,487)	14,298	(68,910)	(64,998)
Balance as at 30 June 2012	18,631	863,993	147,868	195,768	1,226,260

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

	Unaudited Six months ended 30 June 2011				
	Attributable to owners 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 (expense)/income:					
Release of revaluation reserve upon depreciation of leasehold land and building	—	(120)	120	—	—
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 (expense)/income	—	(4,395)	120	2,311	(1,964)
Total comprehensive (expense)/income	—	(4,395)	24,752	68,677	89,034
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	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	(828,699)	842,393	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 CASH FLOWS**

	Unaudited	
	Six months ended 30 June	
	2012	2011
	HK\$'000	HK\$'000
Operating cash flows before changes in working capital	126,661	148,964
Changes in working capital	15,205	(22,264)
Income tax paid	(36,530)	(41,492)
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Net cash generated from operating activities	105,336	85,208
Net cash used in investing activities	(108,986)	(4,803)
Net cash generated from/(used in) financing activities	75,502	(6,458)
	<hr/>	<hr/>
Net increase in cash and cash equivalents	71,852	73,947
Effect of foreign exchange rate changes	—	4,036
Cash and cash equivalents at beginning of the period	648,867	347,612
	<hr/>	<hr/>
Cash and cash equivalents at end of the period	720,719	425,595
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Analysis of the balances of cash and cash equivalents		
Cash and bank balances	720,719	425,595
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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 2011.

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 2012. 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 operation in the lottery market 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	
	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover				
Income from provision of lottery terminals and lottery sale channels	117,512	118,783	260,197	220,013
Income from sales of equipment	4,018	11,632	4,947	21,197
Income from provision of consultancy and mobile internet value-added services	15,339	1,221	26,512	2,045
	<u>136,869</u>	<u>131,636</u>	<u>291,656</u>	<u>243,255</u>

3. Costs of sales and services

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Depreciation of lottery terminals	6,262	7,968	13,134	16,200
Business tax	7,125	6,850	15,504	12,481
Cost of inventories recognised as expense	2,307	4,458	2,650	8,918
Other cost of sales and services	18,111	3,850	31,181	5,494
Impairment of accounts receivable recognized as maintenance fee expense	29,789	—	29,789	—
	63,594	23,126	92,258	43,093

4. Other income and gains/(losses)

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fair value (loss)/gain on Financial assets at fair value through profit or loss	—	(2,379)	—	9,131
Fair value gain on Financial liabilities at fair value through profit or loss	567	—	1,773	—
Interest income from bank deposits	741	1,289	1,697	1,995
	1,308	(1,090)	3,470	11,126

5. Operating profit

	Unaudited		Unaudited	
	Three months ended		Six months ended	
	30 June		30 June	
	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Operating profit is stated after charging:				
Staff costs (excluding share options expenses)	20,010	16,364	42,301	32,613
Amortisation of intangible assets	1,632	1,632	3,264	3,264
Depreciation of other items of property, plant and equipment	2,172	2,231	4,200	4,385
	<u>2,172</u>	<u>2,231</u>	<u>4,200</u>	<u>4,385</u>

6. Finance costs

	Unaudited		Unaudited	
	Three months ended		Six months ended	
	30 June		30 June	
	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest expenses on bank borrowings	3,399	304	6,396	605
Imputed interest expense on convertible note	1,178	5,116	2,943	10,232
	<u>4,577</u>	<u>5,420</u>	<u>9,339</u>	<u>10,837</u>

7. Income tax

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current tax				
— People's Republic of China ("PRC") Enterprise Income Tax	9,952	12,922	26,498	27,012
— Adjustments in respect of prior periods	73	—	73	—
Deferred tax				
— Origination and reversal of temporary difference	(410)	(1,060)	(917)	(2,324)
	<u>9,615</u>	<u>11,862</u>	<u>25,654</u>	<u>24,688</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 2012 (2011: 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.

8. Earnings per share

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to owners 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	
	2012	2011	2012	2011
	Profit attributable to owners of the Company (HK\$'000)	<u>997</u>	<u>5,100</u>	<u>23,674</u>
Weighted average number of ordinary shares in issue	<u>7,451,691,904</u>	<u>7,406,714,747</u>	<u>7,431,827,952</u>	<u>7,403,547,978</u>
Basic earnings per share — HK Cent	<u>0.01</u>	<u>0.07</u>	<u>0.32</u>	<u>0.33</u>

8. Earnings per share (Cont'd)

(b) Diluted

Diluted earnings 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	
	2012	2011	2012	2011
Profit attributable to owners of the Company (HK\$'000)	<u>997</u>	<u>5,100</u>	<u>23,674</u>	<u>24,632</u>
Weighted average number of ordinary shares in issue	<u>7,451,691,904</u>	7,406,714,747	<u>7,431,827,952</u>	7,403,547,978
Effect of dilutive potential ordinary shares:				
— Share options	—	9,436,822	—	16,963,512
— Contingent consideration shares	<u>31,691,143</u>	<u>—</u>	<u>51,331,905</u>	<u>—</u>
Weighted average number of ordinary shares for diluted earnings per share	<u>7,483,383,047</u>	<u>7,416,151,569</u>	<u>7,483,159,857</u>	<u>7,420,511,490</u>
Diluted earnings per share — HK Cent	<u>0.01</u>	<u>0.07</u>	<u>0.32</u>	<u>0.33</u>

The computation of diluted earnings per share has not assumed the conversion of convertible note since its conversion would result in an increase in earnings per share. The computation of diluted earnings per share for the three months and six months ended 30 June 2012 has not assumed the exercise of share options because their exercise would increase the earnings per share.

9. Accounts receivable

Ageing analysis of accounts receivable is as follows:

	Unaudited As at 30 June 2012 HK\$'000	Audited As at 31 December 2011 HK\$'000
Less than three months	98,168	78,208
Over three months but less than one year	6,595	69,866
Over one year	491	29,086
	<u>105,254</u>	<u>177,160</u>

10. Accounts payable

Ageing analysis of accounts payable is as follows:

	Unaudited As at 30 June 2012 HK\$'000	Audited As at 31 December 2011 HK\$'000
Less than three months	20,519	12,004
Over three months but less than one year	5,247	649
Over one year	47	160
	<u>25,813</u>	<u>12,813</u>

11. Financial liabilities at fair value through profit or loss

	Unaudited As at 30 June 2012 HK\$'000	Audited As at 31 December 2011 HK\$'000
Contingent consideration shares in relation to the acquisition of subsidiaries	<u>2,792</u>	<u>9,155</u>

12. Share capital

	Unaudited Authorised ordinary shares	
	<i>Number of shares</i>	<i>HK\$'000</i>
At 1 January 2012 and 30 June 2012	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 2012	7,411,964,000	18,530
Consideration shares issued (Note (i))	27,612,666	69
Consideration shares issued (Note (ii))	13,008,000	32
At 30 June 2012	7,452,584,666	18,631

Notes:

- (i) Pursuant to the terms and conditions of a Transfer Agreement dated 14 February 2011 and entered into by the Company's subsidiary, up to 27,612,666 consideration shares (subject to adjustment if the vendors cannot fulfill the Profit Guarantee for 2011) will be conditionally allotted and issued by the Company at an issue price of HK\$0.45 per consideration share as partial settlement of the relevant acquisition. The Company has allotted and issued the total of 27,612,666 shares of the Company on 3 April 2012 in accordance with the terms of that Transfer Agreement.
- (ii) Pursuant to the terms and conditions of a Transfer Agreement dated 2 November 2011 and entered into by the Company's subsidiary, 43,360,000 consideration shares (subject to adjustment if the vendors cannot fulfill the Profit Guarantee for 2011 and Profit Guarantee for 2012) will be conditionally allotted and issued by the Company at an issue price of HK\$0.45 per consideration share as partial settlement of the relevant acquisition. The Company has allotted and issued the total of 13,008,000 shares of the Company, as first batch, on 3 April 2012 in accordance with the terms of that Transfer Agreement.



13. Reserves

	Share premium HK\$'000	Convertible note HK\$'000	Capital reserve HK\$'000	Unaudited		Revaluation reserve HK\$'000	Available-for-sale investments HK\$'000	Total HK\$'000
				Six months ended 30 June 2012				
				Currency translation reserve HK\$'000	Share-based compensation reserve HK\$'000			
Balance as at 1 January 2012	735,484	11,670	15,158	51,591	46,460	11,653	5,462	877,478
Release of convertible note equity reserve upon redemption of convertible note	—	(11,670)	—	—	—	—	—	(11,670)
Issuance of consideration shares	4,488	—	—	—	—	—	—	4,488
Share option scheme:								
— value of employee services	—	—	—	—	(679)	—	—	(679)
— value of other participants' services	—	—	—	—	2	—	—	2
— vested share options cancelled and lapsed	—	—	—	—	(2,628)	—	—	(2,628)
Fair value loss on available-for-sale financial assets	—	—	—	—	—	—	(2,883)	(2,883)
Currency translation differences	—	—	—	—	—	—	—	—
— overseas jointly-controlled entities	—	—	—	(115)	—	—	—	(115)
Balance as at 30 June 2012	<u>739,972</u>	<u>—</u>	<u>15,158</u>	<u>51,476</u>	<u>43,155</u>	<u>11,653</u>	<u>2,579</u>	<u>863,993</u>
	Share premium HK\$'000	Convertible note HK\$'000	Capital reserve HK\$'000	Unaudited		Revaluation reserve HK\$'000	Available-for-sale investments HK\$'000	Total HK\$'000
				Six months ended 30 June 2011				
				Currency translation reserve HK\$'000	Share-based compensation reserve 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	<u>735,484</u>	<u>21,388</u>	<u>15,158</u>	<u>47,807</u>	<u>45,316</u>	<u>11,714</u>	<u>4,445</u>	<u>881,312</u>

14. Operating lease commitments

As at 30 June 2012, the Group had aggregate future minimum lease payments under non-cancellable operating lease in respect of rented premises as follows:

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2012	2011
	HK\$'000	HK\$'000
No later than one year	7,756	9,765
Later than one year and no later than five years	13,881	11,006
	21,637	20,771

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2012 (2011: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is engaged as a technology and service provider of lottery systems, terminal equipment, game products and operation in the lottery market in China. The principal businesses of the Group cover various lottery products ranging from video lottery, computer ticket game ("CTG") and high frequency lottery to new media lottery. With technical competencies and effective operational management, the Group has established a solid foundation and a reputable brand name providing the Group with comprehensive capability for sustainable development in the industry.

China Lottery Performance

Strong growth momentum was maintained in the lottery market in China in the first half of 2012, with total sales of lottery nationwide amounting to RMB129.056 billion, representing 27.6% growth compared to the same period of last year. Of which, Welfare Lottery contributed RMB75.196 billion, up 27.5% year on year ("YOY") and Sports Lottery contributed RMB53.86 billion, up 27.8% YOY.

Business Review and Outlook

In the first half of 2012, the Group continued to maintain healthy growth in the business segments for existing lottery products, which include the further ramping up of VLT, the only video lottery in the country, with the deployment of the new VLT terminal, and the breakthrough in CTG business with Chongqing added to the portfolio after Guangdong, the top performer in Welfare Lottery in the country. Meanwhile, the Group continued to develop the new media lottery business covering paperless distribution, new lottery types and games.

Video Lottery Business

China Welfare Lottery Video Lottery (VLT) Business

As a high technology base lottery game, VLT plays a vital role in the China lottery industry. The group is the exclusive equipment and service provider for VLT. Strong growth momentum was maintained for VLT in the first half of 2012, with sales of RMB10.2 billion, up 30% as compared to the same period in 2011. The total number of VLT sales venues and terminals both increased slightly in the first half of 2012, nearly 10% more venues have been added. The average daily sales per terminal continued to expand by more than 20% YOY. A one-off adjustment was made to the financial performance of the VLT business in the first half of the year as a result of the signing of the relevant supplementary agreement. Details of the adjustment are contained in the "Financial Review" section. A breakdown of the sales in the first six months by province shows that the top five provinces were Zhejiang (RMB1.3477 billion), Shandong (RMB1.0436 billion), Guangdong (RMB816.8 million), Jiangsu (RMB811.4 million) and Hubei (RMB698.4 million). In terms of YOY sales growth, Shanghai (152%), Guizhou (125%) and Hainan (75%) formed the top three performing provinces. In analyzing the product's sales contribution as a percentage to the total sales of welfare lotteries in the provinces, Anhui, Zhejiang and Gansu were identified to be the leaders with 26.75%, 26.54% and 25.56% respectively.

The Group has received orders of a total of 3,500 units of the third-generation terminal from Central Welfare Lottery Centre (CWLC) including an order of 3,000 units received in the period under review. The Group has already delivered more than 3,000 units to the provinces. In adherence to the VLT deployment planning of CWLC, the Group is working closely with both CWLC and provincial welfare lottery centres on system upgrade, testing and registration without affecting the operation of the venues. The venues to house third-generation terminals are newly renovated and favoured by players.

In the first half of 2012, growth in VLT sales has greatly contributed to the growth of Welfare Funds, which have been used in a number of public welfare initiatives including social security and charitable programs benefitting individuals and disadvantaged groups in need. They include a Care for Senior Citizens event organized by Jiangsu Welfare Lottery, a program to subsidize children welfare centres by Heilongjiang Welfare Lottery, and a charity walk event by Guizhou Welfare Lottery to raise social awareness of the need to extend more help to disadvantaged people. Similar programs and events have been implemented by Welfare Lottery authorities across China to promote the values of Welfare Lottery: public welfare, charity, health, happiness and innovation.

In the second half of 2012, the Group is expected to receive further orders of the third-generation terminal. A new order for an additional 6,000 units was already received in early August. After a series of technical advancements on the terminal and system, VLT is set to embark on another high growth period.

CTG and High Frequency Lottery Business

CTG Business

In the first half of 2012, Guangdong remained the top performing province in Welfare Lottery with RMB5.1 billion in CTG sales or growth of 31% YOY. The Group is the exclusive terminal provider of CTG terminal to the province's Welfare Lottery. As agreed with Guangdong Welfare Lottery Centre, the Group will work with them in rolling out additional CTG terminals in developed regions including Guangzhou, and provide assistance in developing new high frequency lottery product as an effort to boost sales in the province. The Group's subsidiary Guangzhou San Huan Yong Xin Technology Company Limited ("GZSH")(廣州市三環永新科技有限公司) attended the public tender for the project of procurement of CTG terminal and technical services for Chongqing Welfare Lottery Centre on 18 April this year. According to the pre-announcement on 8 May this year, GZSH is the winning candidate of the tender. The Group is making preparations for the project. GZSH will provide terminal and technical services on revenue-sharing basis upon receipt of the notification of award and execution of the supply contract with Chongqing Welfare Lottery Centre.

Constant innovation and improvement in the Group's CTG terminal and component products including lottery scanner and reader have maintained its competitive advantage in this regard. In the period under review, the Group's subsidiary Guangzhou Lottnal Terminal Company Limited ("GZL")(廣州洛圖終端技術有限公司) continued to provide its "YL2000RS" reader to several provincial Sports Lottery Centers for lottery ticket verification. GZL also supplies lottery terminal, reader and printer to a number of domestic lottery companies for the latter to develop the domestic market as well as Southeast Asian markets.

Furthermore, the Group looks to expand its presence in the Sports Lottery space by actively participating in the next round bidding exercise of the China Sports Lottery Administration Centre (CSLC) for provision of CTG terminal and services. Preparatory work including sample production, testing and documentation for three types of terminals including an economical type, a standard type and a portable type has been completed. The Group endeavors to seize such opportunity available and offered by CSLC once every five years to become an approved provider of CTG terminal and services to Sports Lottery.

High Frequency Lottery Business (KENO)

Total sales of KENO in the first half of 2012 grew 4.1% compared to the same period last year. KENO has been selected as a priority development product in the 12th Five-Year Plan of Welfare Lottery, and together with CTG, scratch card and VLT, form the four main lottery products of Welfare Lottery. For the development of KENO, a higher payout ratio is a necessary prerequisite. However, KENO has been different from all other provincial high-frequency lottery games due to its wider geographical coverage as it is the only nationwide hi-frequency lottery product, its different gameplay structure which is more than just a quick draw version of a CTG game, and therefore it targets a different stratum of players rather than cannibalizing other games. All technical and marketing issues surrounding the increase of the payout ratio for KENO have been resolved after discussions between CWLC and the lottery regulatory authority. The management of the Group believes that the new payout ratio and adoption of a flexible business model such as co-location arrangement will provide the catalyst for KENO to break the development bottleneck and grow rapidly.

New Media Lottery Business

The Group's new media lottery business includes telephone lottery and Internet services for existing lottery products in the market, and new-type lottery covering new lottery types and games.

On the telephone lottery and Internet services business, the Group follows the requirements of lottery authorities by implementing plans on its lottery platform to promote mobile lottery client-end products, optimizing the Internet service platform and fostering its cooperation with various business partners. In the second quarter of 2012, the sales generated by the Group's telephone lottery grew over 200% YOY. The launch of the Group's new-version of lottery mobile client-end in all online application stores and a series of promotions on major events such as the European Cup have resulted in more downloads of the mobile client-end and more sales. Meanwhile, the Group also launched lottery information business to better meet customer needs.

The reinforced cooperation with financial institutions including China Merchants Bank, Bank of Communications and China UnionPay in promoting the mobile client-end business have seen significant sales growth in the second quarter of this year. Sales contributed by China Merchants Bank and Bank of Communications customers were up 66% and 82% respectively compared to the previous quarter. A number of promotional activities by China Merchants Bank have contributed to the substantial increase in the number of registered mobile lottery users. Meanwhile the Group continued to work closely with China Mobile, China Unicom and China Telecom. The gradual launch of promotions with the mobile payment arm of China Mobile has contributed to constant sales increases.

In line with the Group's overall planning, efforts will be made to achieve better allocation of resources, improvements in lottery sales management platform, launch of new gameplay on the mobile client-end and introduction of more top-up channels. Additionally, more promotions will be carried out to ensure sustained and stable development of the business.

On the new-type lottery business, the Group has sought to improve its technology by enhancing robustness of its system architecture and developing a greater variety of unique game products. The system and games are now ready for test run. The next stage is to continue to enhance technical performance and perfect the products to prepare for onsite system deployment as well as pre-launch technical inspection. This is to ensure a sound technological foundation for the launch of sales to follow. In the meantime, all other preparatory work is underway to gain first-mover advantage.

The Group believes the new media lottery business to be the next spotlight and main growth driver for the Group. While the recurring expenses in relation to the investment in the new businesses increased as the Group continued to develop paperless lottery lotteries, it expects such efforts will gain the first opportunities for the Group in the paperless lottery market set to boom and greatly improve the revenue for the Group.

Technical Competency

In the last six months, the technical services division of the Group worked closely with the Group's customers to implement comprehensive enhancements and improvements to the security, stability, ease of maintenance and functionality of the relevant core systems and terminal products. The overall technical capabilities of the Group have been further improved.

Conclusion

The implementation details of the Regulations on the Administration of Lottery, which took effect early this year, have laid a solid foundation for the integrated development of physical and paperless lottery distribution channels and rationalization of player structure. According to the estimate of a research organization recently, the lottery market in China is likely to maintain a compound annual growth rate of 27% in the next four years, mainly driven by the sales of lottery via paperless channels. The development of Internet-related technology in the past decade has cleared the technical hurdles for the development of paperless lottery, while the number of 3G users of all three telecom operators has grown rapidly and steadily. The country's lottery market is ready for a new era of lottery to be led by new media innovation.

The Group is a pioneer in the country's lottery market, backed by technical strength and participation in a wide variety of lottery products. While maintaining steady growth in its system and terminal business for existing lottery products in the market, the Group has made good progress in its new media lottery front. The Group will strive to accomplish more breakthroughs in the second half of this year.

Financial Review

In the first half of 2012, the Group recorded a turnover of approximately HK\$291.7 million (the first half of 2011: HK\$243.3 million), representing an increase of approximately 19.9% over the same period of last year. Profit attributable to equity holders for the first half of 2012 amounted to approximately HK\$23.7 million, as compared with the profit of approximately HK\$24.6 million in the first half of 2011. The Group's subsidiary 東莞天意電子有限公司 ("東莞天意") is principally engaged in the provision of VLT to Beijing Lottery Online Technology Co., Ltd ("CLO") under the contract. On 5 June 2012, 東莞天意 signed a supplementary agreement with CLO. Under the supplementary agreement, both parties agree to revise the VLT service fee from 2% to 1.7% with effect from 1 January 2012, where 0.4% fee for provision of maintenance services will be changed to 0.1% fee for provision of spare parts. 東莞天意 will no longer provide maintenance services to CLO for all existing and new VLT terminals. 東莞天意 is however responsible to provide the spare parts of VLT terminals to CLO who will take up all the maintenance services itself. During the period under review, 東莞天意 received 75% of the outstanding maintenance fee accumulated up to 31 December 2011 of approximately HK\$119.1 million. This amount comprised approximately HK\$89.3 million in cash receipt and the remaining outstanding of approximately HK\$29.8 million in the form of compensation to CLO for its contribution to the maintenance work in the last three years. The Group considers that the new arrangement represents the best combination of the respective strengths of the parties to the contract. The maintenance services for VLT delivered through local welfare lottery centres in the provinces and cities will allow such services to be provided in a more timely and cost-effective manner, while the role of 東莞天意 including its responsibilities and obligations in the provision of VLT will be more clearly defined. The Group expects the new arrangement will bring benefits to the Group with the long term and consistent rapid growth of VLT. As a result, turnover in the second quarter of 2012 has been reduced by approximately HK\$17.9 million for the retroactive adjustment of turnover in the first quarter of 2012. Normalized turnover and profits for the two quarters are shown below:

	First quarter of 2012 <i>HK\$'000</i>	Second quarter of 2012 <i>HK\$'000</i>	Interim results of 2012 <i>HK\$'000</i>
Turnover	154,787	136,869	291,656
Normalized adjustment:			
— To revise VLT service fee in first quarter of 2012 (<i>Note (i)</i>)	(17,853)	17,853	—
Normalized turnover	<u>136,934</u>	<u>154,722</u>	<u>291,656</u>
Profit for the period	63,500	15,067	78,567
Normalized adjustments:			
— To revise VLT service fee in first quarter of 2012 (<i>Note (i)</i>)	(17,853)	17,853	—
— Reversal of impairment of accounts receivable recognized as maintenance fee expense from previous years (<i>Note (ii)</i>)	—	29,789	29,789
Normalized profit for the period	<u>45,647</u>	<u>62,709</u>	<u>108,356</u>
Profit attributable to:			
Owners of the Company	22,677	997	23,674
Normalized adjustments:			
— To revise VLT service fee in first quarter attributable to owners of the Company (<i>Note (iii)</i>)	(8,926)	8,926	—
— Reversal of impairment of accounts receivable recognized as maintenance fee expense from previous years attributable to owners of the Company (<i>Note (iii)</i>)	—	14,895	14,895
Normalized profit attributable to owners of the Company	<u>13,751</u>	<u>24,818</u>	<u>38,569</u>
Normalized profit attributable to non-controlling interests	<u>31,896</u>	<u>37,891</u>	<u>69,787</u>
	<u>45,647</u>	<u>62,709</u>	<u>108,356</u>

Notes:

- (i) Being 0.3% of total VLT sales in the first quarter of 2012.
- (ii) Being one-off adjustment of 25% of the outstanding VLT maintenance fee income up to 31 December 2011.
- (iii) The Group owns 50% controlling interests in VLT business.

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 2012, 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 2011: HK\$106.9 million) and an outstanding corporate guarantee for a maximum of RMB80 million plus interest and fees for a banking facilities of a working capital loan of RMB80 million (as at 31 December 2011: RMB80 million) granted to the Group. The Group had outstanding bank borrowing at 30 June 2012 of HK\$602.6 million (as at 31 December 2011: HK\$380.6 million). As at 30 June 2012, the bank borrowings and banking facilities of the Group were secured by (i) leasehold land and building of the Group at net book value of approximately HK\$178.2 million (as at 31 December 2011: HK\$135.5 million), (ii) standby letters of credit issued by a bank for an aggregate amount of US\$52.8 million (as at 31 December 2011: US\$29.8 million), (iii) accounts receivable of approximately HK\$85.6 million (as at 31 December: HK\$152.4 million) and (iv) bank deposits amounting to approximately HK\$429.6 million (as at 31 December 2011: HK\$293.8 million).

The Group's total equity amounted to approximately HK\$1,226.3 million as at 30 June 2012 (as at 31 December 2011: HK\$1,217.5 million). As at 30 June 2012, net current asset of the Group amounted to approximately HK\$334.5 million (as at 31 December 2011: HK\$413.7 million), including approximately HK\$720.7 million in cash and deposits with banks and financial institution (as at 31 December 2011: HK\$648.9 million).

The gearing ratio (defined as total liabilities over total assets) of the Group as at 30 June 2012 was approximately 35.4% (as at 31 December 2011: 31%). The current ratio (defined as current assets over current liabilities) of the Group as at 30 June 2012 was approximately 150.9% (as at 31 December 2011: 177.4%).

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 2012, the Group's leasehold land and building at net book value of approximately HK\$178.2 million (as at 31 December 2011: HK\$135.5 million) was pledged to bank to secure the bank borrowing granted to the Group. As at 30 June 2012, the Group's accounts receivable at outstanding balance of approximately HK\$85.6 million (as at 31 December 2011: HK\$152.4 million) and bank deposits amounting to approximately HK\$429.6 million (as at 31 December 2011: HK\$293.8 million) were pledged to bank to secure the working capital loan and banking facilities granted to the Group.

Contingent Liabilities

As at 30 June 2012, the Group did not have any material contingent liabilities (as at 31 December 2011: Nil).

Staff

As at 30 June 2012, the Group employed 446 staff (2011: 319). 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 and medical insurance. The Group also adopted a share option scheme under which options may be granted to eligible staff based on individual performance. Training programmes for staff are provided as and when required. The Group will continue to strengthen its team to ensure comprehensive and quality services are provided to the lottery market in China.

SHARE OPTION SCHEME

As at 30 June 2012, there were options for 635,200,000 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 2012:

Participants	Date of grant	Exercise price per share HK\$	Exercise period from until		No. of shares under the options				held as at 30/6/2012	Approximate Percentage of the Company's issued share capital	
					held as at 1/1/2012	granted during the period	exercised during the period	cancelled during the period			lapsed during the period
(i) Directors											
Wu Jingwei	04/07/2007	0.975	01/01/2012	31/12/2013	800,000	—	—	—	—	800,000	0.011%
	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	01/09/2011	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	0.154%
									26,500,000	0.356%	
Li Zi Kui	17/08/2009	0.500	17/02/2010	16/08/2014	5,000,000	—	—	—	—	5,000,000	0.067%
	17/08/2009	0.500	17/08/2010	16/08/2014	5,000,000	—	—	—	—	5,000,000	0.067%
									10,000,000	0.134%	
Hoong Cheong Thard	30/06/2006	0.285	16/08/2007	29/06/2016	17,600,000	—	—	—	—	17,600,000	0.236%
	30/06/2006	0.285	16/08/2008	29/06/2016	17,600,000	—	—	—	—	17,600,000	0.236%
	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	0.741%	
Huang Shenglan	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	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%	

Participants	Date of grant	Exercise price per share HK\$	Exercise period		held as at 1/1/2012	No. of shares under the options				held as at 30/6/2012	Approximate Percentage of the Company's issued share capital
			from	until		granted during the period	exercised during the period	cancelled during the period	lapsed during the period		
(ii) Continuous contract employees	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)	—	—
	02/10/2007	0.920	01/01/2009	31/12/2011	1,500,000	—	—	—	(1,500,000)	—	—
	13/11/2007	0.960	01/01/2008	31/12/2011	1,000,000	—	—	—	(1,000,000)	—	—
	13/11/2007	0.960	01/01/2009	31/12/2011	1,000,000	—	—	—	(1,000,000)	—	—
	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	2,600,000	—	—	—	*(2,000,000)	600,000	0.008%
	25/08/2008	0.500	11/03/2012	10/03/2013	2,600,000	—	—	—	*(2,000,000)	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%
	17/08/2009	0.500	17/02/2010	16/08/2014	36,000,000	—	—	—	—	36,000,000	0.483%
	17/08/2009	0.500	17/08/2010	16/08/2014	36,000,000	—	—	—	—	36,000,000	0.483%
	02/10/2009	0.500	01/09/2010	31/08/2014	1,450,000	—	—	—	—	1,450,000	0.019%
	02/10/2009	0.500	01/09/2011	31/08/2014	4,950,000	—	—	—	*(3,500,000)	1,450,000	0.019%
02/10/2009	0.500	01/09/2012	31/08/2014	4,950,000	—	—	—	*(3,500,000)	1,450,000	0.019%	
02/10/2009	0.500	01/09/2013	31/08/2014	4,950,000	—	—	—	*(3,500,000)	1,450,000	0.019%	
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	74,500,000	—	—	—	*(10,500,000)	64,000,000	0.859%	
									193,200,000	2.592%	
(iii) Other participants	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	—	—	—	(41,500,000)	47,700,000	0.640%
	30/05/2011	0.250	12/05/2013	29/05/2013	296,000,000	—	—	—	—	296,000,000	3.972%
									344,300,000	4.620%	
				Total:	706,700,000	—	—	—	(71,500,000)	635,200,000	

Note: A total of 25,000,000 share options were held by Mr. Liao Yuang-whang, who was a participant as a continuous contract employee and had resigned as the Company's Executive Director with effect from 16 March 2012. Those share options (the figures are marked with*) have been lapsed during the period.

A new share option scheme has been passed and adopted by the shareholders of the Company at the 2012 Annual General Meeting held on 18 May 2012 (the "New Option Scheme"). No option has been granted, exercised, cancelled nor lapsed under the New Option Scheme since its adoption.

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

As at 30 June 2012, 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			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)	867,762,948(L) 23,093,192(S)	1,517,023,747(L) 23,093,192(S) (Note 1)	20.36%(L) 0.31%(S)
WU Jingwei	20,000,000(L)	—	—	20,000,000(L)	0.27%(L)
LI Zi Kui	6,500,000(L)	—	—	6,500,000(L)	0.09%(L)
HUANG Shenglan	4,000,000(L)	—	—	4,000,000(L)	0.05%(L)

Notes:

1. For the corporate interests, 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. The shares of the family interests were owned by Mr. CHAN Shing. As Mr. CHAN Shing is the spouse of Ms. LAU Ting, the interests of each of Ms. LAU Ting and Mr. CHAN Shing were deemed to be the interests of each other.
2. 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 2012, 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 2012, 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 2012, 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:

Interests in Shares of the Company

Name of Shareholder	Number of shares					Total	Approximate percentage interest in the Company's issued share capital
	Beneficial interests	Family interests	Investment Manager	Corporate interests	Custodian		
CHAN Shing	389,286,426(L)	259,974,373(L)	—	867,762,948(L) 23,093,192(S)	—	1,517,023,747(L) 23,093,192(S) (Note 1)	20.36%(L) 0.31%(S)
Atlantis Capital Holdings Limited	—	—	—	680,000,000(L)	—	680,000,000(L) (Note 2)	9.12%(L)
Liu Yang	—	—	—	680,000,000(L)	—	680,000,000(L) (Note 2)	9.12%(L)
Favor King Limited	—	—	—	582,864,906(L)	—	582,864,906(L) (Note 1)	7.82%(L)
FIL Limited	—	—	445,104,000(L)	—	—	445,104,000(L)	5.97%(L)

Notes:

- For the corporate interests, 147,162,496 shares, includes abovementioned 23,093,192 shares, were held by Hang Sing which was owned as to 51% by 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, a company which was wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 580,932,594 shares were held by 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. The shares of the family interests were owned by Ms. LAU Ting. As Ms. LAU Ting is the spouse of Mr. CHAN Shing, the interests of each of Mr. CHAN Shing and Ms. LAU Ting were deemed to be the interests of each other.

2. These shares represent the same block of interest held by Atlantis Capital Holdings Limited and Ms. Liu Yang. Atlantis Investment Management (Hong Kong) Limited interested in 680,000,000 shares among these shares. Atlantis Fund Management (Ireland) Limited and Atlantis Investment Management (London) Limited interested in 200,000,000 shares respectively among these shares. The above three companies were wholly-owned by Atlantis Capital Holdings Limited, which in turn was wholly-owned by Ms. Liu Yang. 20,000,000 shares were held by Riverwood Asset Management (Cayman) Limited which was wholly owned by Ms. Liu Yang.
3. The letter "L" denotes long position(s) and the letter "P" denotes lending pool(s).

Save as disclosed above, as at 30 June 2012, 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 2012.

REDEMPTION OF NEW CONVERTIBLE NOTE

Pursuant to the terms and conditions of the New Convertible Note (the "New Convertible Note") mentioned in the announcement of the Company dated 21 September 2010, the New Convertible Note matures on 12 May 2012. The Company has fully redeemed the outstanding principal amount of HK\$71,250,000 under the New Convertible Note in cash on 11 May 2012, the business day immediately preceding the Maturity Date, in accordance with the terms of the New Convertible Note.

CONSIDERATION SHARES

Pursuant to the terms and conditions of a Transfer Agreement entered into by the Company's subsidiary as mentioned in the announcement of the Company dated 14 February 2011, up to 27,612,666 consideration shares (subject to adjustment if the vendors cannot fulfill the Profit Guarantee for 2011) would be conditionally allotted and issued by the Company at an issue price of HK\$0.45 per consideration share as partial settlement of the relevant acquisition. The Company has allotted and issued the total of 27,612,666 shares of the Company on 3 April 2012 in accordance with the terms of that Transfer Agreement.

Pursuant to the terms and conditions of a Transfer Agreement entered into by the Company's subsidiary as mentioned in the announcement of the Company dated 2 November 2011, 43,360,000 consideration shares (subject to adjustment if the vendors cannot fulfill the Profit Guarantee for 2011 and Profit Guarantee for 2012) would be conditionally allotted and issued by the Company at an issue price of HK\$0.45 per consideration share as partial settlement of the relevant acquisition. The Company has allotted and issued the total of 13,008,000 shares of the Company, as the first batch, on 3 April 2012 in accordance with the terms of that Transfer Agreement.

CHANGES OF COMPANY SECRETARY, COMPLIANCE OFFICER AND AUTHORISED REPRESENTATIVES

The Company Secretary of the Company has been changed from Mr. TAN Yung Kai, Richard to Mr. WONG Hiu Wong; the Compliance Officer of the Company has been changed from Ms. LAU Ting to Ms. CHAN Tan Na, Donna; the authorized representatives of the Company have been changed from Ms. LAU Ting and Mr. TAN Yung Kai, Richard to Ms. CHAN Tan Na, Donna and Mr. WONG Hiu Wong. Both changes have been effected from 1 June 2012.

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 2012 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 2012, 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 2012.

On behalf of the Board
LAU Ting
Chairperson

Hong Kong, 8 August 2012

As at the date of this report, the Board comprises Ms. LAU Ting, Mr. WU Jingwei, Ms. CHAN Tan Na, Donna and Mr. LI Zi Kui 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.