

2012 Third Quarterly Report

China **LotSynergy**

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.

QUARTERLY FINANCIAL STATEMENTS

The board of directors (the "Board" or the "Directors") of China LotSynergy Holdings Limited (the "Company") hereby presents the unaudited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the three months and nine months ended 30 September 2012, together with the comparative unaudited figures for the corresponding periods in 2011, as follows:

CONSOLIDATED INCOME STATEMENT

	Notes	Unaudited Three months ended 30 September 2012		Unaudited Nine months ended 30 September 2011	
		HK\$'000	2011 HK\$'000	HK\$'000	2011 HK\$'000
Turnover	2	152,665	132,859	444,321	376,114
Cost of sales and services	3	(29,403)	(28,926)	(121,661)	(72,019)
Gross profit		123,262	103,933	322,660	304,095
Other income and gains/(losses)	4	9,215	(4)	12,685	11,122
General and administrative expenses		(37,913)	(27,104)	(126,852)	(89,775)
Share options (expenses)/income		(235)	(711)	442	(19,302)
Operating profit	5	94,329	76,114	208,935	206,140
Finance costs	6	(6,278)	(5,409)	(15,617)	(16,246)
Share of losses of jointly-controlled entities		(1,252)	(2,259)	(2,298)	(5,762)
Profit before income tax		86,799	68,446	191,020	184,132
Income tax	7	(23,088)	(9,678)	(48,742)	(34,366)
Profit for the period		63,711	58,768	142,278	149,766
Profit attributable to:					
Owners of the Company		22,335	17,025	46,009	41,657
Non-controlling interests		41,376	41,743	96,269	108,109
		63,711	58,768	142,278	149,766
Earnings per share attributable to owners of the Company during the period					
— basic — HK Cent	8	0.30	0.23	0.62	0.56
— diluted — HK Cent	8	0.30	0.23	0.61	0.56

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited			
	Three months ended		Nine months ended	
	30 September		30 September	
	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit for the period	<u>63,711</u>	<u>58,768</u>	<u>142,278</u>	<u>149,766</u>
Other comprehensive income/(expenses):				
Fair value gain/(loss) on available-for-sale financial assets	<u>2,552</u>	<u>(3,285)</u>	<u>(331)</u>	<u>(13,801)</u>
Currency translation differences	<u>(152)</u>	<u>8,928</u>	<u>(2,116)</u>	<u>17,480</u>
Other comprehensive income/(expenses) for the period, net of tax	<u>2,400</u>	<u>5,643</u>	<u>(2,447)</u>	<u>3,679</u>
Total comprehensive income for the period	<u><u>66,111</u></u>	<u><u>64,411</u></u>	<u><u>139,831</u></u>	<u><u>153,445</u></u>
Attributable to:				
Owners of the Company	<u>24,735</u>	<u>19,041</u>	<u>45,411</u>	<u>39,398</u>
Non-controlling interests	<u>41,376</u>	<u>45,370</u>	<u>94,420</u>	<u>114,047</u>
Total comprehensive income for the period	<u><u>66,111</u></u>	<u><u>64,411</u></u>	<u><u>139,831</u></u>	<u><u>153,445</u></u>

Notes:

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited consolidated results 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 Listings Rules of the Stock Exchange.

The principal accounting policies and methods of computation used in the preparation of these unaudited consolidated results are consistent with those used in the preparation of the Group's audited financial statements for the year ended 31 December 2011.

The Group has adopted the standards, amendments and interpretations of that have been issued and effective for the accounting periods beginning on or after 1 January 2012. The adoption of such standards, amendments and interpretations did not have material effect on these results.

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

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Turnover				
Income from provision of lottery terminals and lottery sales channels	145,769	128,613	405,966	348,626
Income from sales of equipment	714	4,117	5,661	25,314
Income from provision of consultancy and mobile internet value-added services	6,182	129	32,694	2,174
	<u>152,665</u>	<u>132,859</u>	<u>444,321</u>	<u>376,114</u>

3. COST OF SALES AND SERVICES

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Depreciation of lottery terminals	9,175	7,631	22,309	23,831
Business tax	6,628	7,273	22,132	19,754
Cost of inventories recognised as expense	685	3,109	3,335	12,027
Other cost of sales and services	12,915	10,913	44,096	16,407
Impairment of accounts receivable recognized as maintenance fee expense	-	-	29,789	-
	<u>29,403</u>	<u>28,926</u>	<u>121,661</u>	<u>72,019</u>

4. OTHER INCOME AND GAINS/(LOSSES)

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	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	-	(1,578)	-	7,553
Fair value gain on financial liabilities at fair value through profit or loss	121	-	1,894	-
Interest income from bank deposits	9,094	1,574	10,791	3,569
	<u>9,215</u>	<u>(4)</u>	<u>12,685</u>	<u>11,122</u>

5. OPERATING PROFIT

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Operating profit is stated after charging: Staff costs (excluding share options expenses)	19,198	16,177	61,499	48,790
Amortisation of intangible assets	1,632	1,632	4,896	4,896
Depreciation of other items of property, plant and equipment	2,020	2,235	6,220	6,620
	<u>22,850</u>	<u>20,044</u>	<u>72,615</u>	<u>60,306</u>



6. FINANCE COSTS

	Unaudited Three months ended 30 September 2012		Unaudited Nine months ended 30 September 2012	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Interest expenses on bank borrowings	6,278	293	12,674	898
Imputed interest expense on convertible note	—	5,116	2,943	15,348
	<u>6,278</u>	<u>5,409</u>	<u>15,617</u>	<u>16,246</u>

7. INCOME TAX

	Unaudited Three months ended 30 September 2012		Unaudited Nine months ended 30 September 2012	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Current tax				
— People's Republic of China ("PRC") Enterprise Income Tax	18,892	10,738	45,390	37,750
— Adjustments in respect of prior periods	4,412	—	4,485	—
Deferred tax				
— Origination and reversal of temporary differences	(216)	(1,060)	(1,133)	(3,384)
	<u>23,088</u>	<u>9,678</u>	<u>48,742</u>	<u>34,366</u>

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profit during the three months and nine months ended 30 September 2012 (2011: Nil and Nil).

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

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 period.

	Unaudited Three months ended 30 September 2012		Unaudited Nine months ended 30 September 2012	
		2011		2011
Profit attributable to owners of the Company (HK\$'000)	<u>22,335</u>	<u>17,025</u>	<u>46,009</u>	<u>41,657</u>
Weighted average number of ordinary shares in issue	<u>7,452,584,666</u>	<u>7,411,964,000</u>	<u>7,438,797,360</u>	<u>7,407,518,212</u>
Basic earnings per share — HK Cent	<u>0.30</u>	<u>0.23</u>	<u>0.62</u>	<u>0.56</u>

(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 September 2012		Unaudited Nine months ended 30 September 2012	
		2011		2011
Profit attributable to owners of the Company (HK\$'000)	<u>22,335</u>	<u>17,025</u>	<u>46,009</u>	<u>41,657</u>
Weighted average number of ordinary shares in issue	<u>7,452,584,666</u>	<u>7,411,964,000</u>	<u>7,438,797,360</u>	<u>7,407,518,212</u>
Effect of dilutive potential ordinary shares:				
— Contingent consideration shares	<u>30,352,000</u>	<u>—</u>	<u>44,287,557</u>	<u>—</u>
Weighted average number of ordinary shares for diluted earnings per share	<u>7,482,936,666</u>	<u>7,411,964,000</u>	<u>7,483,084,917</u>	<u>7,407,518,212</u>
Diluted earnings per share — HK Cent	<u>0.30</u>	<u>0.23</u>	<u>0.61</u>	<u>0.56</u>

The computation of diluted earnings per share has not assumed the exercise of share options and the conversion of convertible note because their exercise and conversion would increase the earnings per share.

9. SHARE CAPITAL

	Unaudited Authorised ordinary shares	
	<i>Number of shares</i>	<i>HK\$'000</i>
At 1 January 2012 and 30 September 2012	16,000,000,000	40,000
	7,411,964,000	18,530
	27,612,666	69
	13,008,000	32
At 30 September 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.

10. RESERVES AND RETAINED PROFIT/(ACCUMULATED LOSSES)

	Unaudited Nine months ended 30 September 2012								
	Share premium HK\$'000	Convertible note HK\$'000	Capital reserve HK\$'000	Currency translation reserve HK\$'000	Share-based compensation reserve HK\$'000	Revaluation reserve HK\$'000	Available-for-sale investments HK\$'000	Retained profit HK\$'000	Total HK\$'000
Balance as at 1 January 2012	735,484	11,670	15,158	51,591	46,460	11,653	5,462	109,896	987,374
Profit for the period	-	-	-	-	-	-	-	46,009	46,009
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	-	-	-	-	(444)	-	-	-	(444)
— 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	-	-	-	-	-	-	(331)	-	(331)
Currency translation differences									
— overseas jointly controlled entities	-	-	-	(267)	-	-	-	-	(267)
Balance as at 30 September 2012	739,972	-	15,158	51,324	43,390	11,653	5,131	170,203	1,036,831

	Unaudited Nine months ended 30 September 2011								
	Share premium HK\$'000	Convertible note HK\$'000	Capital reserve HK\$'000	Currency translation reserve HK\$'000	Share-based compensation reserve HK\$'000	Revaluation reserve HK\$'000	Available-for-sale investments HK\$'000	Retained profit/(accumulated losses) HK\$'000	Total HK\$'000
Balance as at 1 January 2011	1,546,166	21,388	15,158	41,566	56,184	11,834	22,110	(808,897)	905,509
Profit for the period	-	-	-	-	-	-	-	41,657	41,657
Reduction of share premium	(813,537)	-	-	-	-	-	-	813,537	-
Share option scheme:									
— value of employee services	-	-	-	-	5,934	-	-	-	5,934
— value of other participants' services	-	-	-	-	13,368	-	-	-	13,368
— 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	-	-	-	-	-	-	(13,801)	-	(13,801)
Currency translation differences									
— overseas subsidiaries	-	-	-	8,066	-	-	-	-	8,066
— overseas jointly controlled entities	-	-	-	3,476	-	-	-	-	3,476
Release of revaluation reserve upon depreciation of leasehold land and building	-	-	-	-	-	(180)	-	180	-
Release of convertible note equity reserve upon redemption of convertible note	-	(9,717)	-	-	-	-	-	9,717	-
Disposal of available-for-sale financial assets	-	-	-	-	-	-	(7,149)	-	(7,149)
Balance as at 30 September 2011	735,484	11,671	15,158	53,108	46,027	11,654	1,160	85,050	959,312

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the nine months ended 30 September 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 three quarters of 2012, with total sales of lottery countrywide amounting to RMB189.48 billion, representing approximately 20.1% growth compared to the same period of last year. Welfare Lottery and Sports Lottery contributed RMB111.08 billion and RMB78.40 billion, up approximately 21.0% and approximately 18.8% year on year ("YOY") respectively. All lottery types have shown double digit growth in terms of sales except Scratch Cards under both lotteries. Video Lottery, CTG and Single Match Game ("SMG") have grown 30.5%, 25.8% and 22.4% YOY respectively.

Business Review and Outlook

In the third quarter of 2012, the Group continued to maintain healthy growth in all business segments for existing lottery products. VLT, the only video lottery in the country, made the spotlight with the highest growth in sales. The gradual deployment of the new VLT terminal together with the approval of more VLT venues will further enlarge the terminal installed base and boost sales. The CTG business grew steadily as Guangdong province remained the top performer in Welfare Lottery and surpassed Jiangsu province in the third quarter as the top performer in Sports Lottery as well. Meanwhile, the Group's efforts to develop the new media lottery business covering paperless distribution, new lottery types and games continued.

Video Lottery Business

China Welfare Lottery Video Lottery (VLT) Business

Taking high technology as its carrier, VLT has played a vital role in the China lottery industry. The Group is the exclusive equipment provider for VLT. In the third quarter of 2012, VLT made sales of approximately RMB5.82 billion, up approximately 31.1% YOY, which was substantially higher than the overall industry growth of approximately 6.7% YOY in the same period. The average daily sales per terminal of VLT came close to RMB3,200, up approximately 29% YOY. In the first three quarters of 2012, the total sales of VLT have amounted to approximately RMB16.03 billion, up approximately 30.5% compared to the same period in 2011. That made VLT not only the fastest growing lottery type of all in the country, but outpaced the overall 20.1% YOY growth in the same period, made it a truly vivid and high growth product in the market. In the first three quarters of 2012, the top five VLT provinces by sales were Zhejiang (RMB2.12 billion), followed by Shandong (RMB1.63 billion), Guangdong (RMB1.32 billion), Jiangsu (RMB1.24 billion) and Hubei (RMB1.07 billion). VLT has become more important to Zhejiang, Hubei, Anhui and Gansu where the product has contributed to over 25% of the sales of Welfare lottery games in each of these provinces. On the other hand, sales of VLT has achieved over 50% YOY growth in Guizhou, Shanghai, Hainan, Guangdong, Sichun, Gansu, Yunnan and Jiangxi. Undoubtedly, VLT has become a key growth driver for the Welfare Lottery in the provinces. Total sales of VLT in 2012 are estimated to exceed RMB22 billion.

The Group has received orders of a total of 9,500 units of the third-generation terminal from Central Welfare Lottery Center (CWLC) including an order of 6,000 units received in the third quarter. As at the end of October, the Group had completed the production of all 9,500 units as strongly requested by CWLC, and delivered more than 9,400 units to the provinces. In the meantime, according to the 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.

In the first three quarters 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. Similar programs and events have been implemented by welfare lottery organizations in the provinces to promote the culture and values of welfare lottery: public welfare, charity, health, happiness and innovation.

The venues to house third-generation terminals are newly renovated and favoured by players. In the third quarter of 2012, a total of 200 new VLT venues were approved by MOF. The Group expects to receive further orders of the third-generation terminal in the fourth quarter of 2012. 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 third quarter of 2012, total sales of Welfare CTG amounted to approximately RMB26 billion while the first three quarters of 2012 made over RMB80 billion, up approximately 24.4% YOY. Guangdong remained the top performing province in Welfare Lottery. It made approximately RMB2.6 billion sales in CTG alone in the third quarter of 2012, and approximately RMB7.6 billion in the first three quarters, up approximately 26.6% 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, Foshan and Dongguan, and provide assistance in developing new high frequency lottery games as part of the efforts of the province to promote sales.

Constant efforts in product innovation and improvement has made Guangzhou San Huan Yong Xin Technology Company Limited ("GZSH") (廣州市三環永新科技有限公司), a subsidiary of the Group, not only a valued provider of premium products and services to Guangdong province, but has maintained the company's competitive advantages in the provision of betting terminal and component products including lottery scanner and reader countrywide. Guangzhou Lottnal Terminal Company Limited ("GZL") (廣州洛圖終端技術有限公司), a subsidiary of the Group, has participated in the recent CTG terminal model selection and evaluation exercise of the China Sports Lottery Administration Centre (CSLC) which is held every several years. The Company expects to start providing CTG terminal and services to provincial Sports Lottery authorities next year. Meanwhile, GZL continues to provide its reader to several provincial Sports Lottery Centers for lottery ticket verification. GZL also supplies lottery terminal, and core components including reader and printer to a number of local lottery companies for them to develop the local market as well as Southeast Asian markets.

High Frequency Lottery Business (KENO)

Total sales of KENO in the third quarter of 2012 dropped compared to the same period of last year, mainly impacted by other high frequency games with higher payout ratio in the respective provinces. Approximately 1,000 units of KENO terminal were connected on average in the first three quarters of 2012. 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. CWLC is making preparations for the increase of the payout ratio for KENO. The increase of the payout ratio, if it takes place this year, will allow the first 8 selected KENO provinces to promote the game extensively to turnaround sales performance.

Since the issuance of KENO, the sales of traditional CTG games have grown steadily and other provincial high frequency games with high payout ratio have also performed very well. As the only countrywide high frequency lottery game, KENO is expected to become a new growth driver for the lottery industry following the increase of the payout ratio. The operational experience with KENO accumulated over the past few years especially in certain provinces such as Liaoning and Hebei has shown that KENO is an incremental lottery product without any adverse impact on the sales of traditional CTG games. That makes KENO not only a harmless game to co-exist with others, but its multiple gameplay will prove itself to be liked by players from all walks of life. Given such characteristics, KENO is a game that warrants more attention and efforts.

New Media Lottery Business

On the telephone lottery and Internet services business, the Group further strengthened its cooperation with channel partners including financial institutions and telecommunication operators in the third quarter of 2012. A variety of promotions were made on the lottery distribution platforms including the mobile client-end and the cooperative channels, contributing to over 180% increase in telephone lottery sales in the third quarter. In the first three quarters of 2012, sales contributed by telephone lottery increased over 200% YOY.

In the third quarter, more focus were placed on user experience and improvement in functionality for the mobile client-end platform by adding new top-up channels and new gameplays on Soccer SMG, as well as formulation of a tailored promotional strategy. In addition, the new Pad client-end will be launched in the next quarter.

On the cooperation with financial institutions, China Merchants Bank remained a top performer after its mobile banking client-end for Pad was launched that brought in over 40% growth YOY and substantial increase in the number of registered users. On the cooperation with telecommunication operators, a series of promotions were implemented by China Mobile's mobile payment arm that boosted both sales and the number of users. Maintaining a good relationship with China Unicom and China Telecom, further promotions will be launched with each of them soon.

In the fourth quarter of 2012, the Group will continue to make improvements to its new media lottery platform by perfecting the functionality and services for the mobile and Pad client-end. Additionally, more promotions will be carried out to guarantee growth in this area.

On the new-type lottery business, the Group works closely with lottery authorities on the R&D and building of new channels and new lottery types within the general framework of the extended regulation on the sales of lottery via new distribution channels. The Group's ongoing efforts to improve its system products and introduce new game products have formed a valuable reserve of products and technology for the lottery authorities.

Technical Competency

The ongoing efforts of the technical services division of the Group to build up and strengthen its technical capabilities allow various business units of the Group to provide timely response and total technical support to customers' requests. In the third quarter of 2012, the technical services division worked closely with the customers to implement comprehensive enhancements to the security, stability, ease of maintenance and functionality of the relevant systems and terminal products. The best technical assurances are ensured for the commercial implementation and operation of the projects.

Conclusion

According to the latest report on lottery sales published by international lottery organization, global lottery sales in the first three quarters of 2012 have achieved more than 10% YOY growth compared to last year. Asia Pacific region was the spotlight with more than 20% YOY growth, with China lottery market exhibiting the highest growth as expected. The figures show great growth prospects for lottery sector as a whole.

Record breaking sales keep coming for the China lottery market represents strong evidence that lottery is widely recognized by players in the country as a form of entertainment and a source of funds for good causes to be made to society. The gradual implementation of the regulations on new media lottery together with mobile payment being made more secure and popular not only represents the trend for the future of lottery development, but also the emphasis and efforts of the government on the sustainability of lottery. The strict adherence to the core values of staying “focused, practical and innovative”, and commitment to the objective of technical self-sufficiency and wide participation in the market help the Group, a pioneer engaged in the country’s lottery sector, to grow and excel. The Group has maintained steady growth in its system and terminal businesses for existing lottery products in the market, and had orderly development in its new media lottery business in the first three quarters of 2012. More breakthroughs in different business segments are expected for the rest of the year.

FINANCIAL REVIEW

In the first three quarters of 2012, the Group recorded a turnover of approximately HK\$444.3 million (2011: approximately HK\$376.1 million), representing an increase of approximately 18.1% over the same period of last year. Profit attributable to equity holders for the first three quarters of 2012 amounted to approximately HK\$46 million (2011: approximately HK\$41.6 million), representing an increase of approximately 10.5% over the same period of last year. 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 till 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 impaired is considered as compensation to CLO for its contribution to the maintenance work in the last three years. The Group considers that the above adjustment represents the best combination of the respective strengths of the parties to the contract. The repair and 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 in the provision of VLT will be more clearly defined with the right responsibilities and obligations. This will only benefit the long term and consistent rapid growth of VLT. Moreover, the financial impact of above adjustment has been offset by the continuing increase in average daily sales per terminal of VLT across various provinces.

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

As at 30 September 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:

- 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.
- The letter "L" denotes long position(s) and the letter "S" denotes short position(s).

(2) Interests in Underlying Shares of the Company

Participants	Date of grant	Exercise price per share HK\$	Exercise period		held as at 1/1/2012	No. of shares under the options			lapsed during the period	held as at 30/9/2012	Approximate Percentage of the Company's issued share capital
			from	until		granted during the period	exercised during the period	cancelled during the period			
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	0.358%
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	0.135%	
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)	-	-
	06/04/2009	0.500	12/09/2010	11/09/2012	6,000,000	-	-	-	(6,000,000)	-	-
	06/04/2009	0.500	12/09/2011	11/09/2012	6,000,000	-	-	-	(6,000,000)	-	-
	13/05/2011	0.216	13/05/2011	12/05/2013	2,000,000	-	-	-	-	2,000,000	0.027%
										37,200,000	0.499%
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%	

Notes:

All interests in underlying shares were in long positions.

Save as otherwise disclosed above, as at 30 September 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 September 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.
- 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.
- The letter "L" denotes long position(s) and the letter "P" denotes lending pool(s).



Save as disclosed above, as at 30 September 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 nine months ended 30 September 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 third quarterly results of the Group for the nine months ended 30 September 2012 have been reviewed by the Audit Committee.

On behalf of the Board
LAU Ting
Chairperson

Hong Kong, 1 November 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.