



Burwill Holdings Limited

寶威控股有限公司

(incorporated in Bermuda with limited liability)

Stock code : 24



Interim Report

2009





The Directors of Burwill Holdings Limited (the "Company") hereby present the unaudited condensed consolidated financial statements of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2009 as follows:

Condensed Consolidated Income Statement

| | Notes | Unaudited Six months ended 30 June | |
|---|-------|---------------------------------------|----------------------|
| | | 2009 HK\$'000 | 2008 HK\$'000 |
| Sales | 2 | 1,210,319 | 4,024,848 |
| Cost of sales | | <u>(1,182,267)</u> | <u>(3,801,381)</u> |
| Gross profit | | 28,052 | 223,467 |
| Other gains/(losses), net | 3 | 23,480 | (46,074) |
| Selling and distribution expenses | | (21,769) | (34,863) |
| General and administrative expenses | | <u>(35,472)</u> | <u>(34,684)</u> |
| Operating (loss)/profit | 2 & 4 | (5,709) | 107,846 |
| Finance costs | 5 | (12,227) | (28,215) |
| Share of (loss)/profit of associates | | <u>(10,790)</u> | <u>451</u> |
| (Loss)/Profit before taxation | | (28,726) | 80,082 |
| Taxation | 6 | <u>1,622</u> | <u>(2,814)</u> |
| (Loss)/Profit for the period | | <u>(27,104)</u> | <u>77,268</u> |
| Attributable to: | | | |
| Equity holders of the Company | | (26,752) | 76,396 |
| Minority interests | | <u>(352)</u> | <u>872</u> |
| | | <u>(27,104)</u> | <u>77,268</u> |
| (Loss)/Earnings per share for (loss)/profit attributable to the equity holders of the Company during the period | 7 | | |
| – basic and diluted | | <u>(0.86) HK Cents</u> | <u>6.60 HK Cents</u> |



Condensed Statement of Comprehensive Income

| | Unaudited | |
|--|--------------------------|---------------|
| | Six months ended 30 June | |
| | 2009 | 2008 |
| | HK\$'000 | HK\$'000 |
| (Loss)/Profit for the period | (27,104) | 77,268 |
| Other comprehensive income | | |
| Currency translation difference | <u>(659)</u> | <u>21,314</u> |
| Total comprehensive (loss)/income for the period | <u>(27,763)</u> | <u>98,582</u> |
| Attributable to: | | |
| Equity holders of the Company | (27,411) | 94,359 |
| Minority interests | <u>(352)</u> | <u>4,223</u> |
| | <u>(27,763)</u> | <u>98,582</u> |



Condensed Consolidated Balance Sheet

| | | Unaudited 30 June 2009 <i>HK\$'000</i> | Audited 31 December 2008 <i>HK\$'000</i> |
|--|--------------|---|---|
| | <i>Notes</i> | | |
| ASSETS | | | |
| Non-current assets | | | |
| Leasehold land and land use rights | | 78,593 | 79,416 |
| Property, plant and equipment | | 94,515 | 99,258 |
| Investment properties | | 522,726 | 522,726 |
| Intangible assets | | 150 | 150 |
| Investments in associates | | 263,542 | 271,334 |
| Available-for-sale financial assets | | 1,509 | 1,509 |
| Other receivables | | 440 | 537 |
| Deferred tax assets | | 24,486 | 20,054 |
| | | <hr/> | <hr/> |
| Total non-current assets | | 985,961 | 994,984 |
| Current assets | | | |
| Inventories | | 100,017 | 162,574 |
| Financial assets at fair value through profit or loss | | 9,694 | 40,195 |
| Bills and accounts receivable | 8 | 939,898 | 973,906 |
| Deposits, prepayments and other receivables | | 194,945 | 127,863 |
| Due from associates | | 2,539 | 2,527 |
| Taxation recoverable | | 139 | 139 |
| Cash and bank balances | 9 | 292,989 | 361,849 |
| | | <hr/> | <hr/> |
| Total current assets | | 1,540,221 | 1,669,053 |
| | | <hr/> | <hr/> |
| Total assets | | 2,526,182 | 2,664,037 |

**Condensed Consolidated Balance Sheet (continued)**

| | | Unaudited 30 June 2009 HK\$'000 | Audited 31 December 2008 HK\$'000 |
|---|--------------|--|--|
| | <i>Notes</i> | | |
| EQUITY | | | |
| Capital and reserves attributable to the Company's equity holders | | | |
| Share capital | 10 | 311,228 | 311,228 |
| Other reserves | | 764,642 | 761,931 |
| Retained profits | | 264,617 | 291,369 |
| | | 1,340,487 | 1,364,528 |
| Minority interests | | 104,441 | 104,793 |
| Total equity | | 1,444,928 | 1,469,321 |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Borrowings | | 252,463 | 153,423 |
| Deferred tax liabilities | | 91,242 | 91,122 |
| Total non-current liabilities | | 343,705 | 244,545 |
| Current liabilities | | | |
| Borrowings | | 371,999 | 443,849 |
| Due to associates | | 24,291 | 24,301 |
| Bills and accounts payable | 11 | 259,298 | 335,897 |
| Other payables and accruals | | 78,791 | 125,841 |
| Taxation payable | | 3,170 | 20,283 |
| Total current liabilities | | 737,549 | 950,171 |
| Total liabilities | | 1,081,254 | 1,194,716 |
| Total equity and liabilities | | 2,526,182 | 2,664,037 |
| Net current assets | | 802,672 | 718,882 |
| Total assets less current liabilities | | 1,788,633 | 1,713,866 |

**Condensed Consolidated Statement of Changes in Equity**

Unaudited six months ended 30 June 2008
Attributable to equity holders
of the Company

| | Share capital <i>HK\$'000</i> | Other reserves <i>HK\$'000</i> | Retained profits <i>HK\$'000</i> | Minority interests <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|--|-------------------------------------|--------------------------------------|--|--|--------------------------|
| At 1 January 2008 | 111,213 | 644,300 | 440,237 | 56,218 | 1,251,968 |
| Total comprehensive income for the period | – | 17,963 | 76,396 | 4,223 | 98,582 |
| Repurchase of shares | (60) | (246) | (60) | – | (366) |
| Share of reserves of associates | – | 8,434 | – | – | 8,434 |
| Capital injection | – | – | – | 76 | 76 |
| At 30 June 2008 | <u>111,153</u> | <u>670,451</u> | <u>516,573</u> | <u>60,517</u> | <u>1,358,694</u> |

Unaudited six months ended 30 June 2009
Attributable to equity holders
of the Company

| | Share capital <i>HK\$'000</i> | Other reserves <i>HK\$'000</i> | Retained profits <i>HK\$'000</i> | Minority interests <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|--|-------------------------------------|--------------------------------------|--|--|--------------------------|
| At 1 January 2009 | 311,228 | 761,931 | 291,369 | 104,793 | 1,469,321 |
| Total comprehensive loss for the period | – | (659) | (26,752) | (352) | (27,763) |
| Share of reserves of associates | – | 3,370 | – | – | 3,370 |
| At 30 June 2009 | <u>311,228</u> | <u>764,642</u> | <u>264,617</u> | <u>104,441</u> | <u>1,444,928</u> |



Condensed Consolidated Cash Flow Statement

| | Unaudited | |
|--|--------------------------|-----------------------|
| | Six months ended 30 June | |
| | 2009 | 2008 |
| | HK\$'000 | HK\$'000 |
| Net cash used in operating activities | (72,158) | (167,520) |
| Net cash generated from/(used in) investing activities | 13,275 | (52,222) |
| Net cash generated from financing activities | 27,120 | 154,627 |
| Decrease in pledged bank deposits | <u>—</u> | <u>122</u> |
| Decrease in cash and cash equivalents | (31,763) | (64,993) |
| Cash and cash equivalents at 1 January | 311,553 | 283,461 |
| Effect of exchange rate changes | <u>—</u> | <u>6,494</u> |
| Cash and cash equivalents at 30 June | <u>279,790</u> | <u>224,962</u> |
| Analysis of the balances of cash and cash equivalents | | |
| Cash and bank balances | <u>279,790</u> | <u>224,962</u> |



NOTES TO CONDENSED FINANCIAL STATEMENTS

1. Basis of preparation and accounting policies

The unaudited condensed consolidated financial statements have been prepared in accordance with HKAS 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The unaudited condensed consolidated financial statements should be read in conjunction with the financial statements for the year ended 31 December 2008.

The accounting policies used in the preparation of these unaudited condensed consolidated financial statements are consistent with those used in the financial statements for the year ended 31 December 2008, except that the Group has adopted the following new and revised standards, amendments or interpretations which are mandatory for financial year ending 31 December 2009.

| | |
|--------------------------------|--|
| HKFRSs (Amendments) | Improvements to HKFRSs |
| HKAS 1 (Revised) | Presentation of Financial Statements |
| HKAS 23 (Revised) | Borrowing Costs |
| HKAS 32 & HKAS 1 (Amendments) | Puttable Financial Instruments and Obligations Arising on Liquidation |
| HKFRS 1 & HKAS 27 (Amendments) | Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate |
| HKFRS 2 (Amendment) | Vesting Conditions and Cancellations |
| HKFRS 3 (Revised) | Business Combinations |
| HKFRS 8 | Operating Segments |
| HK(IFRIC)-Int 13 | Customer Loyalty Programmes |
| HK(IFRIC)-Int 16 | Hedges of a Net Investment in a Foreign Operation |

The adoption of such new and revised standards, amendments or interpretations has no significant effect on these financial statements.

The segment results have been presented in a new format for the adoption of HKFRS 8.

The Group has not early adopted any new or revised standards, amendments or interpretations that have been issued by the HKICPA but are not yet effective.



2. Segment information

Turnover recognised during the six months period is as follows:

| | Unaudited | |
|----------------|---------------------------------|------------------|
| | Six months ended 30 June | |
| | 2009 | 2008 |
| | HK\$'000 | HK\$'000 |
| Sale of goods | 1,193,040 | 4,006,777 |
| Rental income | 9,094 | 7,425 |
| Service income | 8,185 | 10,646 |
| | <u>1,210,319</u> | <u>4,024,848</u> |

The results of the operating segments are as follows:

| | Unaudited | | | | | |
|-------------------------------|-------------------------------|------------------|---------------------|---------------|-------------|------------------|
| | Six months ended 30 June 2008 | | | | | |
| | Steel trading | Steel processing | Commercial property | Others | Unallocated | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Total segment sales | 3,694,570 | 312,622 | 7,542 | 10,616 | - | 4,025,350 |
| Inter-segment sales | (160) | - | (117) | (225) | - | (502) |
| Sales | <u>3,694,410</u> | <u>312,622</u> | <u>7,425</u> | <u>10,391</u> | <u>-</u> | <u>4,024,848</u> |
| Operating profit/(loss) | 146,092 | 31,467 | 3,761 | 149 | (73,623) | 107,846 |
| Finance costs | (10,813) | (10,253) | (2,329) | (313) | (4,507) | (28,215) |
| Share of profit of associates | - | - | - | - | 451 | 451 |
| Profit/(Loss) before taxation | 135,279 | 21,214 | 1,432 | (164) | (77,679) | 80,082 |
| Taxation | | | | | | <u>(2,814)</u> |
| Profit for the period | | | | | | <u>77,268</u> |



2. Segment information (continued)

| | Unaudited | | | | | Total HK\$'000 |
|-------------------------------|-------------------------------|---------------------------------|------------------------------------|--------------------|-------------------------|-------------------|
| | Six months ended 30 June 2009 | | | | | |
| | Steel trading HK\$'000 | Steel processing HK\$'000 | Commercial property HK\$'000 | Others HK\$'000 | Unallocated HK\$'000 | |
| Total segment sales | 1,053,852 | 147,676 | 9,206 | 8,974 | - | 1,219,708 |
| Inter-segment sales | (9,053) | - | (112) | (224) | - | (9,389) |
| Sales | <u>1,044,799</u> | <u>147,676</u> | <u>9,094</u> | <u>8,750</u> | <u>-</u> | <u>1,210,319</u> |
| Operating profit/(loss) | 9,615 | (18,349) | 2,946 | (620) | 699 | (5,709) |
| Finance costs | (4,312) | (4,278) | (2,588) | - | (1,049) | (12,227) |
| Share of loss of associates | - | - | - | - | (10,790) | (10,790) |
| Profit/(Loss) before taxation | 5,303 | (22,627) | 358 | (620) | (11,140) | (28,726) |
| Taxation | | | | | | 1,622 |
| Loss for the period | | | | | | <u>(27,104)</u> |

The sales by location of customers are as follows:

| | Unaudited | |
|--|--|------------------|
| | Six months ended 30 June 2009 HK\$'000 | 2008 HK\$'000 |
| Mainland China | 797,513 | 1,328,089 |
| Europe | 236,632 | 836,915 |
| Asia (other than Mainland China and Hong Kong) | 155,932 | 1,688,228 |
| Others | <u>20,242</u> | <u>171,616</u> |
| | <u>1,210,319</u> | <u>4,024,848</u> |

**3. Other gains/(losses), net**

| | Unaudited | |
|--|---------------------------------|-----------------|
| | Six months ended 30 June | |
| | 2009 | 2008 |
| | HK\$'000 | HK\$'000 |
| Net fair value gain/(loss) on financial assets at fair value through profit or loss | 13,479 | (45,083) |
| Interest income: | | |
| – on bank deposits | 1,664 | 4,379 |
| – on other receivables | 110 | 623 |
| Dividend income | 98 | 278 |
| | <hr/> | <hr/> |
| Investment income/(loss) | 15,351 | (39,803) |
| Net gain on disposals of property, plant and equipment | 685 | 435 |
| Premium on deemed acquisition of interest in an associate | – | (13,537) |
| Others | 7,444 | 6,831 |
| | <hr/> | <hr/> |
| | 23,480 | (46,074) |
| | <hr/> | <hr/> |

4. Operating (loss)/profit

Operating (loss)/profit is stated after charging and crediting the following:–

| | Unaudited | |
|--|---------------------------------|-----------------|
| | Six months ended 30 June | |
| | 2009 | 2008 |
| | HK\$'000 | HK\$'000 |
| Depreciation of property, plant and equipment | 5,649 | 5,257 |
| Amortisation of prepaid operating lease payments | 824 | 824 |
| Operating lease rentals | 4,045 | 4,548 |
| Provision for impairment of receivables | – | 555 |
| Net exchange gain | (2,112) | (2,934) |
| | <hr/> | <hr/> |



5. Finance costs

| | Unaudited | |
|---|---------------------------------|-----------------|
| | Six months ended 30 June | |
| | 2009 | 2008 |
| | HK\$'000 | HK\$'000 |
| Interest on: | | |
| – Bank borrowings repayable within five years | 11,163 | 27,047 |
| – Bank borrowings repayable after five years | 612 | 587 |
| – Other loans | 392 | 443 |
| – Finance lease liabilities | 60 | 138 |
| | <u>12,227</u> | <u>28,215</u> |

6. Taxation

The Company is exempted from taxation in Bermuda until 2016. The Company's subsidiaries established in the British Virgin Islands are exempted from British Virgin Islands income taxes. Hong Kong profits tax has been provided at the rate of 16.5% (2008: 16.5%) on the estimated assessable profit for the six months period. Subsidiaries of the Group in Mainland China are subject to Mainland China enterprise income tax ranging from 12% to 25% (2008: 12% to 25%) on their taxable income determined according to Mainland China tax laws. Other overseas taxation has been calculated on the estimated assessable profits for the six months period at the rates prevailing in the respective jurisdictions.

The amount of taxation recognised in the condensed income statement represents:

| | Unaudited | |
|--------------------------------|---------------------------------|-----------------|
| | Six months ended 30 June | |
| | 2009 | 2008 |
| | HK\$'000 | HK\$'000 |
| Current taxation | | |
| – Mainland China taxation | 127 | 211 |
| Under provision in prior years | | |
| – Hong Kong profits tax | 2,500 | – |
| – Mainland China taxation | 61 | 1,120 |
| | <u>2,561</u> | <u>1,120</u> |
| Deferred taxation | <u>(4,310)</u> | <u>1,483</u> |
| | <u>(1,622)</u> | <u>2,814</u> |



7. (Loss)/Earnings per share

Basic and diluted

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

| | Unaudited | |
|--|---------------------------------|--------------------|
| | Six months ended 30 June | |
| | 2009 | 2008 |
| (Loss)/Profit attributable to the equity holders of the Company (HK\$'000) | <u>(26,752)</u> | <u>76,396</u> |
| Weighted average number of ordinary shares in issue (thousands) (restated) | <u>3,112,280</u> | <u>1,158,133</u> |
| Basic and diluted (loss)/earnings per share (HK cents per share) | <u><u>(0.86)</u></u> | <u><u>6.60</u></u> |

The weighted average number of ordinary shares for the six months period ended 30 June 2008 was restated and adjusted for the effect of an open offer of 2,000,751,226 shares completed in September 2008.

The Company has no dilutive potential ordinary shares for the six months periods ended 30 June 2008 and 2009.



8. Bills and accounts receivable

The Group normally grants to its customers credit periods for sales of goods ranging from 30 days to 120 days. Consideration in respect of sold properties is payable by the purchasers pursuant to the terms of the sale and purchase agreement. Rentals in respect of leased properties is payable by the tenants on a monthly basis.

Ageing analysis of bills and accounts receivable is as follows:

| | Unaudited 30 June 2009 HK\$'000 | Audited 31 December 2008 HK\$'000 |
|---|--|--|
| Within three months | 675,869 | 950,473 |
| Over three months but within six months | 259,671 | 23,048 |
| Over six months but within twelve months | 3,981 | 1,151 |
| Over twelve months | 3,042 | 2,666 |
| | 942,563 | 977,338 |
| Less: provision for impairment of receivables | (2,665) | (3,432) |
| | 939,898 | 973,906 |

9. Cash and bank balances

| | Unaudited 30 June 2009 HK\$'000 | Audited 31 December 2008 HK\$'000 |
|---------------------------|--|--|
| Cash at banks and in hand | 218,259 | 167,241 |
| Short-term bank deposits | 74,730 | 194,608 |
| | 292,989 | 361,849 |

**10. Share capital**

| | Unaudited | |
|---------------------------------------|--------------------------|----------------|
| | Number of shares '000 | HK\$'000 |
| <i>Authorised</i> | | |
| Ordinary shares of HK\$0.10 each | | |
| As at 1 January 2009 and 30 June 2009 | <u>3,800,000</u> | <u>380,000</u> |
| <i>Issued and fully paid</i> | | |
| Ordinary shares of HK\$0.10 each | | |
| As at 1 January 2009 and 30 June 2009 | <u>3,112,280</u> | <u>311,228</u> |

11. Bills and accounts payable

Ageing analysis of bills and accounts payable is as follows:

| | Unaudited 30 June 2009 HK\$'000 | Audited 31 December 2008 HK\$'000 |
|--|--|--|
| Within three months | 259,298 | 334,400 |
| Over six months but within twelve months | – | 1,497 |
| | <u>259,298</u> | <u>335,897</u> |

12. Related party transactions

The following transactions were carried out with related parties during the period:

| | Unaudited | |
|---|--|------------------|
| | Six months ended 30 June 2009 HK\$'000 | 2008 HK\$'000 |
| Rental income received from associates | 883 | 343 |
| Service income received from an associate | 213 | 196 |
| Sales to an associate | 754 | 880 |
| Purchases from an associate | 6,220 | 37,876 |
| Rental expense paid to an associate | 384 | 480 |
| Key management compensation | <u>9,479</u> | <u>14,381</u> |

DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2009 (2008: Nil).



BUSINESS REVIEW AND OUTLOOK

During the first half of 2009, many economies were seriously impacted by the financial tsunami. Steel prices were under pressure due to weakened demand from international steel market. Up to June 2009, the international steel composite price index dropped by 50% over the corresponding period last year.

The Group results were under expectation. Owing to a slump in steel prices and transaction volume, sales revenue dropped by 70% to HK\$1.21 billion when compared to the corresponding period last year and the gross profit decreased by 87% to HK\$28 million. Affected by the unsatisfactory performance of the steel processing business, our core steel business recorded a loss before tax of HK\$17.3 million.

International Steel Trading

The impacts of the financial tsunami spread over all major markets throughout the world during the first half of the year. A number of unfavourable factors including the credit crunch, shortage of capital and the appreciation of US dollar gave pressure on the commodity prices. At the same time, the excess production capacity of steel also led to a sharp decline in transaction volume and demand. Such situations were extremely unusual. In particular, China, a net exporter of steel products, resulting from the surging domestic steel prices, recorded a sharp decrease in steel export volume for the first half of the year when compared with the corresponding period last year. In view of such unprecedented operation environment, the Group has continued to implement its prudent strategy to effectively manage its risks on international steel trading business. As a result, no significant loss was recorded for the execution of contracts during the first half of the year. In spite of the unfavourable operation conditions, the Group remained to maintain the profitability though it would be inevitably affected and even below our expectation.

During the period, in order to explore new markets and prepare for the anticipated rapid expansion of business volume in the economic recovery from the financial tsunami, the Group has further enhanced its global procurement and sales network by means of establishing a new representative office in Greece and upgrading the representative office in Turkey to a subsidiary company to extend our business to markets in North Africa, the Middle East as well as Southern and Eastern Europe. In the meantime, the Group actively stepped into the upstream steel business and successfully entered into an iron ore supply contract with FMG, the third largest iron ore producer in Australia, of approximately US\$380 million for a term of over five years. It laid a good foundation for our long term and stable development of upstream steel business in future.



BUSINESS REVIEW AND OUTLOOK *(continued)*

International Steel Trading *(continued)*

Looking forward to the second half of the year, with the launch of a series of economic stimulus packages, confidence in banking system will be resumed and the liquidity of currency will be improved. The role of US dollar as a safe-haven currency will be less significant against other strong currencies, such as EUR, JPY and AUD. Global commodity prices have already begun to pick up. Global steel trade saw significant growth in the end of the second quarter after a standstill for half a year when steel producers had finished the cut down of inventory. The transaction volume of the Group also increased remarkably. Particularly in China, strengthened measures for stimulating domestic consumption and increase the investment in basic infrastructure successfully reinstated market confidence and ensured the smooth operation of the economy as a whole. The Group believes that the steel market will recover in the second half of the year and both the transaction volume and revenue of the Group's steel trading business will be improved as compared with the first half of the year.

Steel Processing Business

The Group's two steel processing factories in Dongguan recorded a decline in operating results for the first half of the year as a result of the sharp drop in both export orders and sales prices. In recent years, those foreign-invested processing factories in the Pearl River Delta region are facing regional industries restructuring, having severe competition in their business models and finding no way to transform their businesses. Moreover, in the wake of financial tsunami in the fourth quarter last year, operations of these factories were further hampered as a result of the significant drop in orders from European and American customers in the first half of this year. Though there was slight increase in orders at the end of the second quarter this year, it is expected that the operation environment will unlikely be improved significantly during the second half of the year. As such, the two aforesaid factories will continue to implement effective cost control measures, actively participate in business transformation, expand RMB denominated domestic sales and strengthen import and export business to compensate and improve the weakness of our one-way export processing business. The Group is confident to curb and minimise the loss from steel processing business this year.



BUSINESS REVIEW AND OUTLOOK (continued)

Commercial Property Investment – Yangzhou Times Square

Yangzhou Times Square, an integrated shopping mall invested and operated by the Group in China, was less affected by the financial tsunami and continuously brought in stable rental income to the Group.

With the well established market position and sound management of Yangzhou Times Square as well as the increasing local purchasing power, the Group believes that there is remarkable room for rental increments going onward.

Listed Securities Investment – China Welfare Lottery Business of Associated Company

China LotSynergy Holdings Limited (Stock code: 8161) (“China LotSynergy”), an associated company founded and held by the Group since its establishment, was listed on the Growth Enterprise Market of the Hong Kong Stock Exchange. It is principally engaged in the provision of lottery systems, games products, terminal equipment and related technologies and marketing services for the welfare lottery market in China. The Group directly holds 20.83% interest in China LotSynergy.

The operating performance of China LotSynergy was improved for the first half of the year. China LotSynergy is the exclusive equipment provider for the video lottery of China Welfare Lottery Online (中福在線), which is distributed nationwide by China Welfare Lottery Center. Following the adjustment for one and a half years, four new games were approved to be launched into the market in July this year. Besides, CLS-GTECH Company Limited, a joint venture established by China LotSynergy and GTECH Corporation, is the exclusive provider of systems and terminals for Keno, a high frequency welfare lottery game in China. After the State approval obtained in late 2008 to roll out in public venues in China, Keno has been selling through a network in eight provinces, namely Hunan, Shandong, Liaoning, Gansu, Sichuan, Hebei, Shanxi and Jilin. The sales of Keno increased in line with the number of provinces covered and terminals connected. In addition, as the exclusive supplier of traditional betting terminal equipment in Guangdong, China LotSynergy successfully won an open bid for, and entered into a 5-year contract in respect of, an enhancement project for lottery betting terminals and service procurement for Guangdong Provincial Welfare Lottery Issuance Centre in the first half of the year.

The Group believes that with the continuous and healthy development of China’s welfare lottery industry and China LotSynergy’s progress on related projects, China LotSynergy will bring in a satisfactory long-term return to the Group. For details of business outlook of China LotSynergy, please refer to its 2009 Interim Report or visit its website at www.chinalotsynergy.com.



LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2009, the Group's total equity was HK\$1,444,928,000 and the gearing ratio, as a ratio of total borrowings net of total cash and cash equivalents to total equity, was 0.24.

As at 30 June 2009, the Group had cash and bank balances of approximately HK\$292,989,000 and the current ratio, as a ratio of current assets to current liabilities, was 2.09.

As at 30 June 2009, the total borrowings of the Group was approximately HK\$624,462,000 and their maturity profile was as follows:

| | <i>HK\$ million</i> |
|----------------------------|---------------------|
| Within one year | 372 |
| Between one and two years | 31 |
| Between two and five years | 171 |
| Between five and ten years | 50 |
| | <hr/> |
| | 624 |
| | <hr/> <hr/> |

The Group's borrowings were principally denominated in US Dollar, Renminbi and Hong Kong Dollar, and were charged interest at prevailing market rates.

FOREIGN EXCHANGE RISK EXPOSURE

The Group considers that its operations are of minimal exchange risk as its receipts, payments, assets and liabilities are mainly denominated in US Dollar, Renminbi and Hong Kong Dollar. Forward exchange contracts are used for hedging purposes when required.

CONTINGENT LIABILITIES

There has been no material change in the Group's contingent liabilities since 31 December 2008.



CAPITAL COMMITMENTS

As at 30 June 2009, the Group had no material capital commitments.

CHARGE ON ASSETS

There has been no material change in the Group's charge on assets since 31 December 2008.

STAFF

As at 30 June 2009, the Group employed 623 staff. Staff remuneration packages are structured and reviewed by reference to market terms and individual merits. The Group also provides other staff benefits which include year end double pay, contributory provident fund and medical insurance. Share options and discretionary bonus may also be granted to eligible staff based on individual and Group performance. Training programmes for staff are provided as and when required.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2009.



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

As at 30 June 2009, 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 of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Interests in Shares and Underlying Shares

(A) The Company

| Name of Director | Number of ordinary shares & underlying shares | | | | Approximate percentage interest in the Company's issued share capital |
|-------------------------|---|------------------|---------------------|------------------|---|
| | Personal Interests | Family Interests | Corporate Interests | Total | |
| CHAN Shing | 106,398,521(L) | 104,042,601(L) | 1,729,266,037(L) | 1,939,707,159(L) | 62.32%(L) |
| | | (Note 1) | 1,406,427,301(S) | 1,406,427,301(S) | 45.19%(S) |
| | | | (Notes 2 & 3) | (Note 3) | |
| SIT Hoi Tung | 4,413,869(L) | - | - | 4,413,869(L) | 0.14%(L) |
| LAU Ting | 104,042,601(L) | 106,398,521(L) | 1,729,266,037(L) | 1,939,707,159(L) | 62.32%(L) |
| | | (Note 4) | 1,406,427,301(S) | 1,406,427,301(S) | 45.19%(S) |
| | | | (Notes 2 & 3) | (Note 3) | |
| TUNG Pui Shan, Virginia | 21,725,226(L) | 110,000(L) | 7,104,000(L) | 28,939,226(L) | 0.93%(L) |
| | | | (Note 5) | | |



DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES *(continued)*

Interests in Shares and Underlying Shares *(continued)*

(A) The Company *(continued)*

Notes:

1. These interests were held by Ms. LAU Ting, the spouse of Mr. CHAN Shing.
2. 1,290,961,336 shares were held by Glory Add Limited ("Glory Add"), a wholly-owned subsidiary of Favor King Limited (a company which is wholly-owned by Mr. CHAN Shing and Ms. LAU Ting). 226,403,853 shares were held by Hang Sing Overseas Limited ("Hang Sing") which is owned as to 51% by Orient Strength Limited ("Orient Strength"), a company which is wholly-owned by Mr. CHAN Shing and Ms. LAU Ting. 211,900,848 shares were held by Strong Purpose Corporation ("Strong Purpose"), a company which is wholly-owned by Mr. CHAN Shing and Ms. LAU Ting.
3. As the interests of each of Mr. CHAN Shing and Ms. LAU Ting are deemed to be the interests of each other, the figures referred to the same shares.
4. These interests were held by Mr. CHAN Shing, the spouse of Ms. LAU Ting.
5. 7,104,000 shares were owned by Focus Cheer Consultants Limited ("Focus Cheer"), a company which is wholly-owned by Ms. TUNG Pui Shan, Virginia.
6. The letter "L" denotes long position and the letter "S" denotes short position.



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

Interests in Shares and Underlying Shares (continued)

(B) Associated Corporation – China LotSynergy Holdings Limited (“China LotSynergy”)

| Name of Director | Number of ordinary shares & underlying shares | | | | Approximate percentage interest in the issued share capital of China LotSynergy |
|-------------------------|---|---------------------------------|--|---|---|
| | Personal Interests | Family Interests | Corporate Interests | Total | |
| CHAN Shing | 343,807,092(L) (Note 1) | 215,555,212(L) (Notes 1 & 2) | 1,629,617,232(L) 23,093,192(S) (Notes 3 & 4) | 2,188,979,536(L) 23,093,192(S) (Note 4) | 29.57%(L) 0.31%(S) |
| SIT Hoi Tung | 11,115,276(L) | – | – | 11,115,276(L) | 0.15%(L) |
| LAU Ting | 215,555,212(L) (Note 1) | 343,807,092(L) (Notes 1 & 5) | 1,629,617,232(L) 23,093,192(S) (Notes 3 & 4) | 2,188,979,536(L) 23,093,192(S) (Note 4) | 29.57%(L) 0.31%(S) |
| TUNG Pui Shan, Virginia | 8,454,440(L) | 22,000(L) | 1,020,800(L) (Note 6) | 9,497,240(L) | 0.13%(L) |
| KWOK Wai Lam | 8,800,000(L) | – | – | 8,800,000(L) | 0.12%(L) |
| YIN Mark | 4,067,600(L) | – | – | 4,067,600(L) | 0.05%(L) |
| HUANG Shenglan | 6,400,000(L) (Note 1) | – | – | 6,400,000(L) | 0.09%(L) |



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

Interests in Shares and Underlying Shares (continued)

(B) Associated Corporation – China LotSynergy (continued)

Notes:

1. Among these interests, 2,400,000 underlying shares were share options.
2. These interests were held by Ms. LAU Ting, the spouse of Mr. CHAN Shing.
3. 45,280,768 shares were held by Hang Sing which is owned as to 51% by Orient Strength, a company which is wholly-owned by Mr. CHAN Shing and Ms. LAU Ting. 42,380,168 shares were held by Strong Purpose, a company which is wholly-owned by Mr. CHAN Shing and Ms. LAU Ting. 1,535,324,296 shares were directly held by the Company and 6,632,000 shares were held by Hillot Limited, a company wholly-owned by Burwill HK Portfolio Limited which is in turn wholly-owned by the Company.
4. As the interests of each of Mr. CHAN Shing and Ms. LAU Ting are deemed to be the interests of each other, the figures referred to the same shares.
5. These interests were held by Mr. CHAN Shing, the spouse of Ms. LAU Ting.
6. These shares were owned by Focus Cheer, a company which is wholly-owned by Ms. TUNG Pui Shan, Virginia.
7. The letter "L" denotes long position and the letter "S" denotes short position.

Save as otherwise disclosed above, as at 30 June 2009, 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 Part XV 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 Model Code for Securities Transactions by Directors of Listed Companies.



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

As at 30 June 2009, 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 short positions in the shares and underlying shares of the Company:

Interests in Shares and Underlying Shares

| Name of shareholder | Nature of interest | Number of ordinary shares & underlying shares | Approximate percentage interest in the Company's issued share capital | Note |
|---------------------------------|--------------------|---|---|------|
| Favor King Limited | Corporate | 1,290,961,336(L) 1,290,961,336(S) | 41.48%(L) 41.48%(S) | 1 |
| Hang Sing | Beneficiary | 226,403,853(L) 115,465,965(S) | 7.27%(L) 3.71%(S) | 2 |
| Orient Strength | Corporate | 226,403,853(L) 115,465,965(S) | 7.27%(L) 3.71%(S) | 2 |
| Zhong Shan Company Limited | Corporate | 226,403,853(L) 115,465,965(S) | 7.27%(L) 3.71%(S) | 2 |
| Superior Quality Assets Limited | Corporate | 226,403,853(L) 115,465,965(S) | 7.27%(L) 3.71%(S) | 2 |
| Strong Purpose | Beneficiary | 211,900,848(L) | 6.81%(L) | 3 |



SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES (continued)

Interests in Shares and Underlying Shares (continued)

Notes:

1. These interests were held by Glory Add, a company which is wholly-owned by Favor King Limited. Favor King Limited is owned as to 50% by Mr. CHAN Shing and as to 50% by Ms. LAU Ting.
2. 51% of the issued share capital of Hang Sing was owned by Orient Strength, a company which is wholly-owned by Mr. CHAN Shing and Ms. LAU Ting, and 49% of the issued share capital of Hang Sing was owned by Superior Quality Assets Limited, a company which is wholly-owned by Zhong Shan Company Limited. Zhong Shan Company Limited was wholly-owned by the Jiangsu Provincial People's Government of the PRC. These 226,403,853 shares held by Hang Sing formed part of the interests of Mr. CHAN Shing and Ms. LAU Ting as disclosed herein.
3. These interests were held by Strong Purpose, a company which is wholly-owned by Mr. CHAN Shing and Ms. LAU Ting, formed part of the interests of Mr. CHAN Shing and Ms. LAU Ting as disclosed herein.
4. The letter "L" denotes long position and the letter "S" denotes short position.

Save as disclosed above, as at 30 June 2009, there was no person (other than the Directors and chief executive of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and/or who were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

SHARE OPTION SCHEME

No options had been granted, exercised, cancelled nor lapsed since the adoption of the share option scheme pursuant to the ordinary resolution of the shareholders of the Company passed on 6 June 2002.



AUDIT COMMITTEE

The Company has established an Audit Committee which comprises the three Independent Non-Executive Directors of the Company, Mr. CUI Shu Ming, Mr. MIAO Gengshu and Mr. HUANG Shenglan. The Audit Committee has reviewed and discussed with the management the accounting principles and practices adopted by the Group and auditing, internal controls and financial reporting matters. The unaudited interim financial statements of the Group for the six months ended 30 June 2009 have been reviewed by the Audit Committee.

REMUNERATION COMMITTEE

The Company has established a Remuneration Committee which comprises an Executive Director and the Deputy General Manager, Mr. SIT Hoi Tung, and two Independent Non-Executive Directors, Mr. CUI Shu Ming and Mr. HUANG Shenglan. The Remuneration Committee is responsible for considering and reviewing the terms of service contracts of the Directors and the senior management of the Company.

OTHER INFORMATION

Change in Board of Directors

Mr. SHAM Kai Man was appointed as an Executive Director of the Company with effect from 20 July 2009.

Changes in Directors' Biographies

The changes in directors' biographies available to the Company during the period and up to the date of this report were:

1. Mr. HUANG Shenglan, the Independent Non-Executive Director of the Company, has been appointed as an independent non-executive director of Symphony Holdings Limited, a company listed in Hong Kong, with effect from 8 July 2009;
2. Mr. MIAO Gengshu, the Independent Non-Executive Director of the Company, has ceased to be a supervisor of Industrial and Commercial Bank of China Limited with effect from 25 May 2009; and
3. Mr. SZE Tsai Ping, Michael, the Non-Executive Director of the Company, has ceased to be a member of the Market Misconduct Tribunal.



CORPORATE GOVERNANCE

The Company has complied with the code provisions of the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) throughout the six months ended 30 June 2009, except for the following deviations:

- Code provision A.1.1 stipulates that the board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals with active participation, either in person or through other electronic means of communication, of a majority of directors entitled to be present. As the Company did not announce its quarterly results, one regular board meeting was held during the period for reviewing and approving the annual results of the Group for the year of 2008, which the relevant Code provision had not been fully complied with. Board meetings will be held on other occasions when board decisions are required.
- 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 Chairman and Managing Director of the Company, Mr. CHAN Shing, currently assumes the roles of the chairman and also the chief executive officer. Given the nature of the Group’s businesses which require considerable market expertise, the Board believed that 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.
- Code provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election, and Code provision A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.



CORPORATE GOVERNANCE *(continued)*

The Non-Executive Directors of the Company are not appointed for a specific term but are subject to retirement by rotation in accordance with the Bye-laws of the Company (the "Bye-laws"). The Directors have not been required by the Bye-laws to retire by rotation at least once every three years. However, in accordance with Bye-law 85 of the Bye-laws, at each annual general meeting of the Company one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not greater than one-third), other than the Director holding office as Chairman or Managing Director, shall retire from office by rotation. The Board will ensure the retirement of each Director, other than the one who holds the office as Chairman or Managing Director, by rotation at least once every three years in order to comply with Code provision A.4.2. The Board considered that the continuity of office of the Chairman provides the Group a strong and consistent leadership and is of great importance to the smooth operations of the Group.

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as its code of conduct for dealings in securities of the Company by the Directors. Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the required standard set out in the Model Code during the six months ended 30 June 2009.

On behalf of the Board
CHAN Shing
Chairman

Hong Kong, 18 September 2009

As at the date of this report, the Board of Directors of the Company comprises Mr. Chan Shing, Mr. Sit Hoi Tung, Mr. Yang Da Wei, Ms. Lau Ting, Ms. Tung Pui Shan, Virginia, Mr. Kwok Wai Lam, Mr. Yin Mark and Mr. Sham Kai Man as executive directors, Mr. Cui Shu Ming, Mr. Miao Gengshu and Mr. Huang Shenglan as independent non-executive directors and Mr. Sze Tsai Ping, Michael as non-executive director.