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China LotSynergy Holdings Limited

華彩控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1371)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2016

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 referred to as the “Group”) for the six months ended 30 June 2016, together with the comparative unaudited figures for the corresponding periods in 2015, as follows:

Condensed Consolidated Statement of Profit or Loss

		Unaudited	
		Six months ended 30 June	
		2016	2015
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	2	96,646	522,460
Costs of sales and services	3	(106,355)	(136,608)
(Gross loss)/gross profit		(9,709)	385,852
Other income	4	6,224	16,757
Other gains/(losses) – net	5	8,591	(20,727)
General and administrative expenses		(130,662)	(282,561)
Share option expenses		(9,861)	(22,008)
Operating (loss)/profit	6	(135,417)	77,313
Finance costs	7	(29,313)	(32,702)
Share of losses of joint ventures		(1,436)	(2,687)
(Loss)/Profit before income tax		(166,166)	41,924
Income tax expense	8	(3,182)	(54,785)
Loss for the period		(169,348)	(12,861)
(Loss)/Profit attributable to:			
Owners of the Company		(127,825)	(148,072)
Non-controlling interests		(41,523)	135,211
		(169,348)	(12,861)
Loss per share attributable to owners of the Company for the period			
– basic – <i>HK Cent</i>	9	(1.49)	(1.75)
– diluted – <i>HK Cent</i>	9	(1.49)	(1.75)

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Unaudited	
	Six months ended 30 June	
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss for the period	(169,348)	(12,861)
Other comprehensive expenses:		
<i>Items that may be reclassified to profit or loss</i>		
Currency translation differences	—	(188)
Other comprehensive expenses for the period	—	(188)
Total comprehensive expenses for the period	(169,348)	(13,049)
Attributable to:		
Owners of the Company	(127,811)	(148,247)
Non-controlling interests	(41,537)	135,198
Total comprehensive expenses for the period	(169,348)	(13,049)

Condensed Consolidated Statement of Financial Position

		Unaudited	Audited
		As at	As at
		30 June	31 December
		2016	2015
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		609,717	668,968
Intangible assets		463,057	448,336
Investment in an associate		4,764	4,764
Investments in joint ventures		31,097	32,534
Available-for-sale financial assets		7,142	10,000
Deferred income tax assets		8,402	8,402
		<u>1,124,179</u>	<u>1,173,004</u>
Current assets			
Inventories		32,032	58,516
Accounts receivable	<i>10</i>	113,579	88,632
Prepayments, deposits and other receivables		583,283	371,134
Financial assets at fair value through profit or loss		448,941	677,466
Cash and bank balances		664,195	792,637
		<u>1,842,030</u>	<u>1,988,385</u>
Total assets		<u>2,966,209</u>	<u>3,161,389</u>
Current liabilities			
Accounts and bills payable	<i>11</i>	5,734	16,489
Accruals and other payables		68,015	60,278
Amounts due to joint ventures		6,754	6,766
Income tax payable		5,744	1,105
Bank borrowings		533,274	583,038
		<u>619,521</u>	<u>667,676</u>
Net current assets		<u>1,222,509</u>	<u>1,320,709</u>
Total assets less current liabilities		<u>2,346,688</u>	<u>2,493,713</u>

Condensed Consolidated Statement of Financial Position (Cont'd)

		Unaudited As at 30 June 2016 <i>HK\$'000</i>	Audited As at 31 December 2015 <i>HK\$'000</i>
	<i>Notes</i>		
Non-current liabilities			
Convertible bonds		609,074	602,156
Deferred income tax liabilities		77,158	74,189
		<u>686,232</u>	<u>676,345</u>
Net assets		<u>1,660,456</u>	<u>1,817,368</u>
Equity attributable to owners of the Company			
Share capital	<i>12</i>	21,388	21,330
Reserves	<i>13</i>	1,446,753	1,433,762
Accumulated losses		(269,660)	(143,334)
		<u>1,198,481</u>	<u>1,311,758</u>
Non-controlling interests		<u>461,975</u>	<u>505,610</u>
Total equity		<u>1,660,456</u>	<u>1,817,368</u>

Condensed Consolidated Statement of Changes in Equity

	Unaudited				
	Six months ended 30 June 2016				
	Attributable to owners of the Company				
	Share capital <i>HK\$'000</i>	Reserves <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Non- controlling interests <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance as at 1 January 2016	21,330	1,433,762	(143,334)	505,610	1,817,368
Comprehensive expenses					
Loss for the period	–	–	(127,825)	(41,523)	(169,348)
Other comprehensive (expenses)/income:					
Release of revaluation reserve upon depreciation of leasehold land and building	–	(121)	121	–	–
Currency translation differences	–	14	–	(14)	–
Total other comprehensive (expenses)/income	–	(107)	121	(14)	–
Total comprehensive expenses	–	(107)	(127,704)	(41,537)	(169,348)
Share option schemes:					
– value of employee services	–	5,433	–	–	5,433
– value of other participants' services	–	4,429	–	–	4,429
– share options exercised	58	4,614	–	–	4,672
– vested share options lapsed	–	(1,378)	1,378	–	–
Total contributions by and distributions to owners of the Company, recognised directly in equity	58	13,098	1,378	–	14,534
Disposal of a subsidiary	–	–	–	(2,098)	(2,098)
Total transactions with owners, recognised directly in equity	58	13,098	1,378	(2,098)	12,436
Balance as at 30 June 2016	21,388	1,446,753	(269,660)	461,975	1,660,456

Condensed Consolidated Statement of Changes in Equity (Cont'd)

	Unaudited				
	Six months ended 30 June 2015				
	Attributable to owners of the Company				
	Share capital <i>HK\$'000</i>	Reserves <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Non- controlling interests <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance as at 1 January 2015	21,131	1,365,162	375,396	444,076	2,205,765
Comprehensive (expenses)/income (Loss)/Profit for the period	<u>–</u>	<u>–</u>	<u>(148,072)</u>	<u>135,211</u>	<u>(12,861)</u>
Other comprehensive (expenses)/income:					
Release of revaluation reserve upon depreciation of leasehold land and building	–	(121)	121	–	–
Reclassification adjustment on disposal of available-for-sale financial assets	–	(8,006)	–	–	(8,006)
Currency translation differences	<u>–</u>	<u>(175)</u>	<u>–</u>	<u>(13)</u>	<u>(188)</u>
Total other comprehensive (expenses)/income	<u>–</u>	<u>(8,302)</u>	<u>121</u>	<u>(13)</u>	<u>(8,194)</u>
Total comprehensive (expenses)/income	<u>–</u>	<u>(8,302)</u>	<u>(147,951)</u>	<u>135,198</u>	<u>(21,055)</u>
Share option schemes:					
– value of employee services	–	5,433	–	–	5,433
– value of other participants' services	–	16,575	–	–	16,575
– share options exercised	186	33,754	–	–	33,940
2014 final dividend	<u>–</u>	<u>–</u>	<u>(21,317)</u>	<u>–</u>	<u>(21,317)</u>
Total contributions by and distributions to owners of the Company, recognised directly in equity	<u>186</u>	<u>55,762</u>	<u>(21,317)</u>	<u>–</u>	<u>34,631</u>
Balance as at 30 June 2015	<u>21,317</u>	<u>1,412,622</u>	<u>206,128</u>	<u>579,274</u>	<u>2,219,341</u>

Condensed Consolidated Statement of Cash Flows

	Unaudited	
	Six months ended 30 June	
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Operating cash flows before changes in working capital	(93,888)	307,665
Changes in working capital	(213,642)	80,386
Income tax refunded/(paid)	1,457	(70,264)
	<hr/>	<hr/>
Net cash (used in)/generated from operating activities	(306,073)	317,787
Net cash generated from investing activities	473,518	117,772
Net cash used in financing activities	(57,215)	(319,965)
	<hr/>	<hr/>
Net increase in cash and cash equivalents	110,230	115,594
Cash and cash equivalents at beginning of the period	517,116	407,245
	<hr/>	<hr/>
Cash and cash equivalents at end of the period	<u>627,346</u>	<u>522,839</u>
Analysis of the balances of cash and cash equivalents		
Cash and bank balances including time deposits	664,195	831,072
<i>Less:</i> Pledged time deposits with maturity of more than three months	–	(264,339)
Pledged bank deposits	(36,849)	(43,894)
	<hr/>	<hr/>
	<u>627,346</u>	<u>522,839</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 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 the 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 2015.

The directors of the Company made an assessment as of the date of initial application of amended HKFRS 10 “Consolidated Financial Statements” in 2013 and concluded that the adoption of HKFRS 10 does not change any of the control conclusions reached by the Group in respect of its involvement with the investees as at 1 January 2013 and after.

The Group has adopted the standards, amendments and interpretations that have been issued and effective for the accounting periods beginning on or after 1 January 2016. The adoption of such standards, amendments and interpretations did not have material effect on these financial statements.

2. Segment information and turnover

The Group’s revenue and loss were mainly derived from the provision of technology and operation service for lottery systems, terminal equipment and gaming products in China’s lottery market, 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	
	Six months ended 30 June	
	2016	2015
	HK\$’000	HK\$’000
Turnover		
Income from provision of lottery terminals and lottery sales channels	57,188	494,324
Income from sales of equipment	39,030	27,928
Income from provision of consultancy services	428	208
	<hr/>	<hr/>
	96,646	522,460

3. Costs of sales and services

	Unaudited	
	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Depreciation of lottery terminals	66,175	58,089
Business tax	101	26,306
Cost of inventories recognised as expense	33,013	24,159
Repairs and maintenance	3,133	7,156
Commission and handling charges	544	15,121
Others	3,389	5,777
	106,355	136,608

4. Other income

	Unaudited	
	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Interest income from bank deposits and others	6,224	16,757

5. Other gains/(losses) – net

	Unaudited	
	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Fair value gain/(loss) on financial assets at fair value through profit or loss	12,691	(29,209)
Reclassification adjustment on disposal of available-for-sale financial assets	–	8,006
Impairment of available-for-sale financial assets	(2,858)	–
(Loss)/Gain on disposal of property, plant and equipment	(1)	84
Loss on disposal of a subsidiary	(185)	–
Foreign exchange (losses)/gains	(1,056)	392
	8,591	(20,727)

6. Operating (loss)/profit

	Unaudited	
	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Operating (loss)/ profit is stated after charging:		
Staff costs (excluding share options expenses)	74,725	89,015
Amortisation of intangible assets	–	3,264
Depreciation of other items of property, plant and equipment	6,035	6,046
Impairment of goodwill	–	95,319
	<u>–</u>	<u>95,319</u>

7. Finance costs

	Unaudited	
	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Interest expenses on bank borrowings	6,146	9,535
Interest expenses on convertible bonds	23,167	23,167
	<u>29,313</u>	<u>32,702</u>

8. Income tax expense

	Unaudited	
	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Current tax		
– People's Republic of China ("PRC") Enterprise Income Tax	6,395	72,266
Deferred tax		
– Origination and reversal of temporary difference	(3,213)	(17,481)
	<u>3,182</u>	<u>54,785</u>

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profit during the six months ended 30 June 2016 (2015: Nil).

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

9. Loss per share

(a) Basic

Basic loss per share is calculated by dividing the loss attributable to owners of the Company by the weighted average number of ordinary shares in issue during the periods.

	Unaudited	
	Six months ended 30 June	
	2016	2015
Loss attributable to owners of the Company (<i>HK\$'000</i>)	<u>(127,825)</u>	<u>(148,072)</u>
Weighted average number of ordinary shares in issue	<u>8,540,161,729</u>	<u>8,472,017,278</u>
Basic loss per share – <i>HK Cent</i>	<u>(1.49)</u>	<u>(1.75)</u>

(b) Diluted

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

	Unaudited	
	Six months ended 30 June	
	2016	2015
Loss attributable to owners of the Company (<i>HK\$'000</i>)	<u>(127,825)</u>	<u>(148,072)</u>
Weighted average number of ordinary shares for diluted loss per share	<u>8,540,161,729</u>	<u>8,472,017,278</u>
Diluted loss per share – <i>HK Cent</i>	<u>(1.49)</u>	<u>(1.75)</u>

The computation of diluted loss per share for the six months ended 30 June 2016 and 2015 did not assume the conversion of convertible bonds and the exercise of share options since their conversion and exercise would reduce the loss per share.

10. Accounts receivable

Ageing analysis of accounts receivable is as follows:

	Unaudited As at 30 June 2016 <i>HK\$'000</i>	Audited As at 31 December 2015 <i>HK\$'000</i>
Less than three months	42,745	14,771
Over three months but less than one year	5,398	73,050
Over one year	65,436	811
	<u>113,579</u>	<u>88,632</u>

11. Accounts and bills payable

Ageing analysis of accounts and bills payable is as follows:

	Unaudited As at 30 June 2016 <i>HK\$'000</i>	Audited As at 31 December 2015 <i>HK\$'000</i>
Less than three months	4,947	15,465
Over three months but less than one year	649	886
Over one year	138	138
	<u>5,734</u>	<u>16,489</u>

12. Share capital

	Unaudited	
	Issued and fully paid	
	ordinary shares	
	<i>Number of shares</i>	<i>HK\$'000</i>
At 1 January 2016	8,531,807,333	21,330
Share options exercised (<i>Note (i)</i>)	<u>23,500,000</u>	<u>58</u>
At 30 June 2016	<u>8,555,307,333</u>	<u>21,388</u>

Note:

- (i) Share options were exercised by optionholders during the period ended 30 June 2016 to subscribe for a total of 23,500,000 shares of HK\$0.0025 each by payment of subscription monies of approximately HK\$4,672,000, of which approximately HK\$58,000 was credited to share capital and the balance of approximately HK\$4,614,000 was credited to the share premium account.

13. Reserves

	Unaudited						
	Six months ended 30 June 2016						
	Share	Convertible	Capital	Currency	Share-based	Revaluation	Total
	premium	bond	reserve	translation	compensation	reserve	reserve
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Balance as at 1 January 2016	1,287,179	39,925	15,158	(20,925)	101,797	10,628	1,433,762
Share option schemes:							
– value of employee services	-	-	-	-	5,433	-	5,433
– value of other participants' services	-	-	-	-	4,429	-	4,429
– share options exercised	8,128	-	-	-	(3,514)	-	4,614
– vested share options lapsed	-	-	-	-	(1,378)	-	(1,378)
Release of revaluation reserve upon depreciation of leasehold land and building	-	-	-	-	-	(121)	(121)
Currency translation differences							
– overseas subsidiaries	-	-	-	14	-	-	14
Balance as at 30 June 2016	<u>1,295,307</u>	<u>39,925</u>	<u>15,158</u>	<u>(20,911)</u>	<u>106,767</u>	<u>10,507</u>	<u>1,446,753</u>

13. Reserves (Cont'd)

	Unaudited							Total
	Six months ended 30 June 2015							
	Share premium	Convertible bond	Capital reserve	Currency translation reserve	Share-based compensation reserve	Revaluation reserve	Available-for-sale investments	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance as at 1 January 2015	1,248,179	39,925	15,158	28,744	14,281	10,869	8,006	1,365,162
Share option schemes:								
– value of employee services	–	–	–	–	5,433	–	–	5,433
– value of other participants' services	–	–	–	–	16,575	–	–	16,575
– share options exercised	33,754	–	–	–	–	–	–	33,754
Release of revaluation reserve upon depreciation of leasehold land and building	–	–	–	–	–	(121)	–	(121)
Reclassification adjustment on disposal of available-for-sale financial assets	–	–	–	–	–	–	(8,006)	(8,006)
Currency translation differences								
– overseas subsidiaries	–	–	–	(175)	–	–	–	(175)
Balance as at 30 June 2015	<u>1,281,933</u>	<u>39,925</u>	<u>15,158</u>	<u>28,569</u>	<u>36,289</u>	<u>10,748</u>	<u>–</u>	<u>1,412,622</u>

14. Operating lease commitments

As at 30 June 2016, the Group had aggregate future minimum lease payments under non-cancellable operating lease in respect of rented premises as follows:

	Unaudited As at 30 June 2016 HK\$'000	Audited As at 31 December 2015 HK\$'000
Within one year	18,531	17,753
In the second to fifth year inclusive	29,707	25,940
Over five years	29,961	31,929
	<u>78,199</u>	<u>75,622</u>

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2016 (2015: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is engaged in the provision of technology and operation services for lottery systems, terminal equipments and gaming products in China's lottery market. The principal businesses of the Group cover various lottery products ranging from video lottery ("VLT"), computer-generated ticket games ("CTG") and KENO-type lottery to new media lottery. By building up its technical competencies, expanding into new markets and upholding high standards of corporate governance, the Group has established a solid foundation and an outstanding corporate brand name, providing it with comprehensive capabilities for sustainable development.

China's Lottery Market

According to figures published by the Ministry of Finance ("MOF"), China's lottery market continued to grow in the first half of 2016, with total lottery sales of RMB194.3 billion, representing a year-on-year ("YOY") growth of 3.5%. Welfare Lottery sales slipped 0.5% YOY to RMB102.3 billion, whereas Sports Lottery sales rose 8.4% YOY to RMB92.0 billion. Lotto, which is the industry's main source of revenue, edged down 0.3% in sales YOY, accounting for 62.5% of total lottery sales. VLT posted a slowdown in growth, with sales up 4.4% YOY, and accounted for 11.4% of total lottery sales. Single Match Games ("SMG") sales surged 23.4% YOY, accounting for 18.2% of total lottery sales. Paper-based Scratch Card sales and KENO sales declined by 3.3% YOY and 48.8% YOY and accounted for 7.8% and 0.1% of total lottery sales respectively. The Lotto category remains the backbone of China's lottery industry, followed by the VLT, SMG and Scratch Card categories, which form the other three key pillars of the sector.

Business Review and Outlook

Video Lottery Business

China Welfare Lottery Video Lottery ("Welfare VLT") Business

As a technology-rich product, Welfare VLT plays a vital role in China's lottery industry. The Group is the exclusive terminal equipment provider for Welfare VLT. In the first half of 2016, Welfare VLT sales amounted to RMB22.1 billion, and accounted for 11.4% of the nation's total lottery sales. This represents an increase of 4.4% relative to the previous year. Welfare VLT was the only welfare lottery category with positive growth among the four major categories including Lotto, Scratch Card, VLT and KENO.

Dongguan Tianyi Electronic Company Limited (“DGTY”), a subsidiary of the Group, has made three generations of Welfare VLT terminal replacements and upgrades in the last 13 years, supplying a total number of over 70,000 units of terminals. Currently, approximately 41,500 units of the third generation terminals are in good operational condition and support the sales of Welfare VLT nationwide. For the six months ended 30 June 2016, these approximately 41,500 units of terminals have been placed in nearly 1,900 Welfare VLT halls across 28 provinces, cities, autonomous regions and municipalities in China.

DGTY’s Welfare VLT supply contract expired on 28 June 2015. According to the supply contract, DGTY has the full ownership of the approximately 41,500 units of terminals generating all the sales of Welfare VLT, and has first right of refusal in the renewal of the Welfare VLT supply contract. The Group has not received notification from China Welfare Lottery Issuance and Administration Centre (“CWLC”) regarding a suspension of Welfare VLT sales after the expiry of the supply contract. The Group decided to maintain the Welfare VLT terminals it provided in fully operational condition for Welfare VLT’s continued use across 28 provinces after the expiry of the supply contract, so as to support the sustained and healthy growth of Welfare VLT. This ensured the consistent and steady sales growth of Welfare VLT after the expiry of the supply contract. According to legally binding documents that the Group sent to CWLC and the relevant cooperation partners, the Group shall be paid for the provision of these terminals for Welfare VLT’s continued use after the expiry of the supply contract. The Group is in active discussion with CWLC and the relevant cooperation partners regarding the payment. Meanwhile, the Group reserves all its rights to protect its lawful interests.

The terminals manufactured by DGTY are in full compliance with relevant legal and regulatory requirements for single-source procurement. The Group owns one of the world’s largest video lottery terminal manufacturing facility worldwide, which possesses several core technologies and patents in the field of manufacturing and development of VLT terminal. The terminals developed and manufactured by DGTY is the only Welfare VLT terminal approved and confirmed by all three ministries including the MOF, the Ministry of Public Security and the Ministry of Civil Affairs.

The Group has been the supplier of Welfare VLT terminals and related services for 13 years since 2003. It has unique and unmatched experience, capabilities and qualification for Welfare VLT terminal manufacturing and development. With the terminals and related services provided by the Group, Welfare VLT has become one of China lottery industry’s most pivotal lottery categories. It is the genuine wish of the Group to continue to supply terminals and related services for Welfare VLT to ensure the steady, consistent and rapid growth of the game category, and contribute to the China lottery business as a whole.

CTG Business

On the Welfare Lottery CTG side, Guangdong province, which is served by the Group, remained the largest provincial Welfare Lottery market in China, with sales of RMB6.6 billion in the first half of 2016, up 6.1% YOY. The Group has also been responsible for the development of new high-frequency games for Guangdong Welfare Lottery, which is expected to be rolled out in the second half of 2016. Chongqing Welfare CTG and Shanghai Welfare CTG, both are served by the Group, recorded sales of approximately RMB1.3 billion and RMB1.5 billion respectively. Moreover, the Group is currently developing a new generation lottery information management system to provide efficient technical means for Shanghai Welfare Lottery to move into electronic management.

The Group's Sports Lottery CTG terminal business grew at a robust pace in 2016. The Group successively won bids for the Sports Lottery CTG terminal procurement programmes of Shaanxi, Guizhou, Jiangsu and others, expanding its business to 16 provinces, further strengthening its leading position in the Sports Lottery industry. In the second half of this year, the Group will leverage its unique technology and product advantages to earn business from more provinces. At the same time, the Group will continue to maintain its collaboration with domestic and international terminal manufacturers to provide specialized lottery products and core components, including lottery terminals and scanners.

In addition to the active expansion in China, the Group has capitalized on its own resources and China's "One Belt, One Road" initiative to develop overseas markets. In the first half of 2016, the Group officially launched its Welfare Lottery CTG project beginning with a high-frequency game, "Lucky 5", in Cambodia in collaboration with Khmer Pool Welfare Lottery Co., Ltd, and recorded encouraging sales. The parties will extend their collaboration to launch mobile and internet lottery business in Cambodia with an objective to bring more convenient lottery purchasing services to the country's lottery players.

New Media Lottery Business

During the period under review, the Group continued to maintain its close ties with several provincial lottery authorities, provided active support on their business expansions, and launched an innovative mobile app, "電子投注單", which helps players manage their betting more easily. Meanwhile, the Group enhanced and upgraded the workflow optimization and monitoring function of its telephone lottery sales business in accordance with the business management and operational requirements of the provincial lottery authorities by perfecting the functions of data mining, sales and marketing, with the aim of providing better support for telephone lottery sales activities of lottery authorities.

In the second half of 2016, the Group will continue to work closely with lottery authorities, financial institutions and telecommunication operators to carry out exploration and practical work on telephone lottery sales business and other areas, and constantly refines and upgrades the telephone lottery sales management system and related products for provincial lottery authorities, in light of changes in policy and business environment, so as to lay a solid foundation for the further expansion of its new media lottery business.

China's lottery market continued to show a healthy and stable growth, despite some sluggishness, in the first half of 2016. There is a pressing demand to breathe new life into the market by developing new channels and new games. New media lottery is ready to go as technology and regulations are being refined, albeit the suspension of internet lottery sales for about one year and a half.

Recently, the General Administration of Sports of China has issued the Sports Lottery "13th Five-Year Plan" ("the Sports Lottery Plan"), and set Sports Lottery annual sales target of RMB250 billion by the end of the Sports Lottery Plan and RMB1 trillion in aggregate for the next five years. Fostering product incubation, creating new consumer group and expanding market scale are designated as top priority tasks for the next stage. The Sports Lottery Plan also highlights the positive role of telephone and internet lottery in Sports Lottery's contribution to the nation. On welfare lottery, a cross-industry approach, empowering the capacities of telephone and internet lottery sales, was introduced in the "13th Five-Year Plan" of the Ministry of Civil Affairs. This is in parallel with the sales and marketing as well as technical preparations efforts for new channels undertaken by CWLC. Driven by policy and technology support, the development of new channels, new game offerings and new consumer groups are set to be major strategies for the lottery authorities going forward.

The Group has maintained close collaboration with lottery authorities at all levels in light of market development, and taken proactive steps to push forward with trial run and deployment of the relevant project. At the same time, the Group has actively assisted lottery authorities with market research and business model exploration, implemented new collaborative projects, and created more business opportunities through innovation. In terms of technologies and products, the Group made further progress on system construction and new project preparation for new type lottery, improved the relevant technical systems and developed new games, as part of the preparations for the launch of the products. To provide better technical support and marketing initiatives for the new channel-based products, the Group has enhanced the scalability of the current new type lottery transaction system by including cloud big data processing platform for processing queries and analysis of voluminous data swiftly.

Against the backdrop of rapid technological advancement, the demand of young players for innovation have become stronger. The Group will actively promote the progress of lottery authorities' further reformation and innovation to meet market needs, and provide lottery players with a whole new experience by leveraging its leading R&D and innovation capabilities.

Conclusion

In the first half of 2016, the Group's focus on building its own technology and product offering has enabled it to cover Video Lottery terminal, CTG terminal, CTG core transaction system, CTG management system, CTG game development and design, Scratch Card integrated management system, New Media Lottery sales system, New Media Lottery big data analysis system, and New Media Lottery game development and design. In addition, the Group has developed extensive operations and service capabilities for Video Lottery, CTG and New Media Lottery. Driven by technological innovation, the Group has showed its dedication to the lottery industry for over a decade with extensive investment, accountability and responsiveness to earn recognition as a leading market participant. Exploring new opportunities in the market with caution and prudence, the Group believes its efforts will pay off in the long run. Meanwhile, the Group will shape its strategies and execution in response to prevalent market trend and development as part of its preparation for lottery opportunities brought by China's 13th Five-Year Plan, for the benefit of its shareholders, employees and society as a whole.

Financial Review

In the first half of 2016, the Group recorded a turnover of approximately HK\$96.6 million (the first half of 2015: approximately HK\$522.5 million), representing a decrease of approximately 81.5% over the same period of last year. Loss attributable to owners of the Company for the first half of 2016 amounted to approximately HK\$127.8 million (the first half of 2015: approximately HK\$148.1 million). The decrease in turnover during the period under review was attributable to no revenue was recognised from the Video Lottery business. Although Welfare VLT supply contract expired on 28 June 2015, the Group has not received notification from CWLC regarding a suspension of Welfare VLT sales after the expiry of the supply contract, therefore the Group decided to maintain the Welfare VLT terminals it provided in fully operational condition for Welfare VLT's continued use after the expiry of the supply contract. The Group has continually discussed with CWLC on the interim arrangements after the expiry of the Welfare VLT supply contract and consulted with CWLC on the status of the procurement procedures for the relevant new supply contract. The revenue generated from these Welfare VLT terminals will be determined by the terms of the interim arrangements, which are still under negotiation.

Liquidity, Financial Resources, Gearing Ratio and Capital Structure

The Group believes that it has adequate financial resources to fund its capital and operating requirements. At 30 June 2016, the Company had an outstanding corporate guarantee for unlimited amount for total banking facilities of property installment loans of approximately HK\$153.7 million (at 31 December 2015: HK\$153.7 million), an outstanding corporate guarantee limited to approximately HK\$17 million (at 31 December 2015: HK\$17 million) for a banking facility of a property installment loan of approximately HK\$17 million (at 31 December 2015: HK\$17 million), an outstanding corporate guarantee for unlimited amount for credit facilities of investment purpose of US\$15 million (at 31 December 2015: US\$20 million), and an outstanding corporate guarantee for unlimited amount for credit facilities of investment purpose of US\$5 million (at 31 December 2015: US\$5 million) and an overdraft for liquidity purpose of US\$25 million (at 31 December 2015: US\$15 million).

The Group had outstanding bank borrowings at 30 June 2016 of approximately HK\$ 533.3 million (at 31 December 2015: HK\$583 million). At 30 June 2016, the bank borrowings and banking facilities of the Group were secured by (i) leasehold land and buildings of the Group with a carrying amount of approximately HK\$164 million (at 31 December 2015: HK\$165.8 million); (ii) standby letters of credit issued by banks for an aggregate amount of US\$32 million (at 31 December 2015: US\$32 million); (iii) bank deposits amounting to approximately HK\$289.5 million (at 31 December 2015: HK\$275.5 million); and (iv) financial assets of approximately HK\$434 million (at 31 December 2015: HK\$635.1 million).

In 2014, the Company had issued 5% convertible bonds (the “Convertible Bonds”) due 2019 in total aggregate principal of HK\$650 million. The Convertible Bonds shall be converted into the paid ordinary shares of HK\$0.0025 each (the “Shares”) of the Company at the applicable conversion price of HK\$0.92 each. The Convertible Bonds bear interest at the rate of 5% per annum payable semi-annually in arrears. Due the period under review, no Convertible Bonds had been converted into Shares by the bondholders and no redemption of the Convertible Bonds had been made by the Company. At 30 June 2016, the principal amount of the Convertible Bonds outstanding was HK\$650 million (at 31 December 2015: HK\$650 million).

The Group's total equity amounted to approximately HK\$1,660.5 million at 30 June 2016 (at 31 December 2015: HK\$1,817.4 million). At 30 June 2016, net current assets of the Group amounted to approximately HK\$1,222.5 million (at 31 December 2015: HK\$1,320.7 million), including approximately HK\$664.2 million in cash and deposits with banks and financial institutions (at 31 December 2015: HK\$792.6 million).

The gearing ratio (defined as total liabilities over total assets) of the Group at 30 June 2016 was approximately 44% (at 31 December 2015: 42.5%).

Exposure to Exchange Rates Fluctuations

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 Assets

At 30 June 2016, the Group's leasehold land and buildings at net book value of approximately HK\$164 million (at 31 December 2015: HK\$165.8 million) were pledged to banks to secure the bank borrowings granted to the Group. At 30 June 2016, the Group's bank deposits amounting to approximately HK\$253 million (at 31 December 2015: HK\$253 million) were pledged to secure bank borrowings and banking facilities granted to the Group. At 30 June 2016, the Group's cash deposits and financial assets at an aggregate carrying value of approximately HK\$470.5 million (at 31 December 2015: HK\$657.6 million) were pledged to financial institutions to secure the credit facilities granted to the Group.

Contingent Liabilities

At 30 June 2016, the Group did not have any material contingent liabilities (at 31 December 2015: Nil).

Staff

As at 30 June 2016, the Group employed 387 staff (2015: 460). The management believes that the competence of employees is a major contributing factor to the Group's sustained growth and advancement in profitability. Staff remuneration is based on performance and experience. In addition to basic salary, benefits for employees include a performance-related bonus, contributory provident fund, medical insurance and regulated employees' social security program in China. The Group also adopted a share option scheme under which options may be granted to eligible staff based on individual performance. Training programs for staff are provided as and when required. The Group will further strengthen its team buildup, in order to offer enhanced services for China's lottery market. The Group understands that environmental protection has a material effect on society and working environment of the staff. Therefore, the Group strives to enhance the awareness of the staff in saving energy, including implementing rules of reducing electricity consumption in the offices and arranging collection of recyclable materials.

SHARE OPTION SCHEMES

As at 30 June 2016, there were no outstanding options granted by the Company pursuant to the share option scheme adopted by the shareholders of the Company on 30 July 2002 (the "2002 Option Scheme"). Meanwhile, there were options for 878,625,000 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 18 May 2012 (the "2012 Option Scheme"), were valid and outstanding.

Movements of share options granted under the 2002 Option Scheme and 2012 Option Scheme during the six months ended 30 June 2016:

	Date of grant	Exercise price per share HK\$	Exercise period from until		No. of Shares under the options					
					held as at the beginning of the period	granted during the period	exercised during the period	cancelled during the period	lapsed during the period	held as at the end of the period
2002 Option Scheme										
(i) Name of Director										
Mr. HOONG Cheong Thard	30/06/2006	0.285	16/08/2008	29/06/2016	17,200,000	-	(12,000,000)	-	(5,200,000)	-
Sub-Total:					<u>17,200,000</u>	<u>-</u>	<u>(12,000,000)</u>	<u>-</u>	<u>(5,200,000)</u>	<u>-</u>
2012 Option Scheme										
(i) Name of Director										
Mr. WU Jingwei	14/07/2014	0.690	14/07/2017	13/07/2018	10,000,000	-	-	-	-	10,000,000
Ms. CHAN Tan Na, Donna	14/07/2014	0.690	14/07/2017	13/07/2018	10,000,000	-	-	-	-	10,000,000
Mr. LI Zi Kui	14/07/2014	0.690	14/07/2017	13/07/2018	5,000,000	-	-	-	-	5,000,000
Mr. HOONG Cheong Thard	14/07/2014	0.690	14/07/2017	13/07/2018	100,000	-	-	-	-	100,000
Mr. HUANG Shenglan	14/07/2014	0.690	14/07/2017	13/07/2018	100,000	-	-	-	-	100,000
Mr. CHAN Ming Fai	14/07/2014	0.690	14/07/2017	13/07/2018	100,000	-	-	-	-	100,000
Mr. CUI Shuming	14/07/2014	0.690	14/07/2017	13/07/2018	100,000	-	-	-	-	100,000
(ii) Continuous Contract Employees	13/11/2012	0.109	13/05/2014	12/05/2016	11,500,000	-	(11,500,000)	-	-	-
	14/07/2014	0.690	14/07/2017	13/07/2018	85,100,000	-	-	-	-	85,100,000
(iii) Other Participants	14/07/2014	0.690	14/07/2017	13/07/2018	75,525,000	-	-	-	-	75,525,000
	29/10/2014	0.840	29/10/2015	28/10/2018	46,000,000	-	-	-	-	46,000,000
	29/10/2014	0.840	29/10/2017	28/10/2020	11,600,000	-	-	-	-	11,600,000
	02/01/2015	0.600	02/01/2015	01/01/2017	40,000,000	-	-	-	-	40,000,000
	10/07/2015	0.400	10/07/2015	09/07/2017	170,000,000	-	-	-	-	170,000,000
	29/10/2015	0.460	29/10/2015	28/10/2017	425,000,000	-	-	-	-	425,000,000
Sub-Total:					<u>890,125,000</u>	<u>-</u>	<u>(11,500,000)</u>	<u>-</u>	<u>-</u>	<u>878,625,000</u>
Total:					<u>907,325,000</u>	<u>-</u>	<u>(23,500,000)</u>	<u>-</u>	<u>(5,200,000)</u>	<u>878,625,000</u>

Notes:

- The options are recognised as expenses in the accounts in accordance with Hong Kong Financial Reporting Standard 2.
- For the share options exercised under 2002 Option Scheme during the period, the weighted average closing price of Share immediately before the date on which the options for 12,000,000 Shares were exercised was approximately HK\$0.318. For the share options exercised under 2012 Option Scheme during the period, the weighted average closing price of Share immediately before the date on which the options for 11,500,000 Shares were exercised was approximately HK\$0.308.

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

As at 30 June 2016, 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 Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Rules Governing the Listing of Securities of the Stock Exchange (the "Listing Rules"), were as follows:

(1) Interests in Shares of the Company

Name of Director	Number of Shares				Security interests in shares	Total	Approximate percentage of the Company's issued share capital
	Beneficial interests	Family interests	Corporate interests				
Ms. LAU Ting	37,974,373(L)	242,486,426(L)	727,213,326(L)	229,000,000(L)	1,236,674,125(L)	14.46%(L)	
					(Note 1)		
Mr. WU Jingwei	82,200,000(L)	-	-	-	82,200,000(L)	0.96%(L)	
Ms. CHAN Tan Na, Donna	40,000,000(L)	-	-	-	40,000,000(L)	0.47%(L)	
Mr. LI Zikui	28,000,000(L)	-	-	-	28,000,000(L)	0.33%(L)	
Mr. HOONG Cheong Thard	6,000,000(L)	-	-	-	6,000,000 (L)	0.07%(L)	
Mr. HUANG Shenglan	1,100,000(L)	-	-	-	1,100,000(L)	0.01%(L)	
Mr. CUI Shuming	2,000,000(L)	-	-	-	2,000,000(L)	0.02%(L)	

Notes:

1. For the corporate interests, 75,052,874 shares were held by Hang Sing Overseas Limited (“Hang Sing”) which was wholly owned 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. 512,492,594 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).

(2) Interests in Underlying Shares of the Company

As at 30 June 2016, certain Directors of the Company had the interests in respect of options to subscribe for the shares of the Company under the option schemes. Details of their interests in the share options of the Company are separately disclosed in the section “Share Option Schemes” of this announcement.

Save as otherwise disclosed above, as at 30 June 2016, 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 Model Code set out in Appendix 10 of the Listing Rules.

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

As at 30 June 2016, 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 of the Company

Name of Shareholder	Number of Shares						Approximate percentage interest in the Company's issued share capital
	Beneficial interests	Family interests	Investment manager	Security interest in Shares	Corporate interests	Total	
Mr. CHAN Shing	242,486,426(L)	266,974,373(L)	-	-	727,213,326(L)	1,236,674,125(L)	14.46%(L)
						(Note 1)	
Tencent Holdings Limited	-	-	-	-	594,034,513(L)	594,034,513(L)	6.94%(L)
MIH TC Holdings Limited	-	-	-	-	594,034,513(L)	594,034,513(L)	6.94%(L)
Naspers Limited	-	-	-	-	594,034,513(L)	594,034,513(L)	6.94%(L)
Favor King Limited	-	-	-	-	512,492,594(L)	512,492,594(L)	5.99%(L)

Notes:

- For the corporate interests, 75,052,874 shares were held by Hang Sing Overseas Limited ("Hang Sing") which was wholly owned 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. 512,492,594 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).

Save as disclosed above, as at 30 June 2016, 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 other 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 2016.

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 2016 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") under Appendix 14 of the Listing Rules throughout the six months ended 30 June 2016, except for the deviations as disclosed below:

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 A.4.1, 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. Mr. HOONG Cheong Thard and Ms. LAU Ting were absent from the 2016 annual general meeting of the Company as is stipulated in Code provision A.6.7 and E.1.2 respectively due to their other important engagement.

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 Appendix 10 to the 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 2016.

On behalf of the Board
LAU Ting
Chairperson

Hong Kong, 25 August 2016

As at the date of this announcement, 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.

* *For identification purposes only*