

2014 Interim Report

China **LotSynergy**

China LotSynergy Holdings Limited

華彩控股有限公司*

(Incorporated in Bermuda with limited liability)

Stock code: 1371

INTERIM FINANCIAL STATEMENTS

The board of directors (the "Board" or the "Directors") of China LotSynergy Holdings Limited (the "Company") hereby presents the unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2014, together with the comparative unaudited figures for the corresponding periods in 2013, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		Unaudited	
		Six months ended	
		30 June	
	<i>Notes</i>	2014	2013
		HK\$'000	HK\$'000
Turnover	2	460,547	341,639
Costs of sales and services	3	(128,864)	(85,020)
Gross profit		331,683	256,619
Other income	4	11,987	11,247
Other (losses)/gains – net	5	(9,561)	15,405
General and administrative expenses		(100,246)	(98,459)
Share option expenses		(1,540)	(4,944)
Operating profit	6	232,323	179,868
Finance costs	7	(20,822)	(10,466)
Share of losses of joint ventures		(1,147)	(3,642)
Profit before income tax		210,354	165,760
Income tax expense	8	(50,334)	(44,356)
Profit for the period		160,020	121,404
Profit attributable to:			
Owners of the Company		54,874	40,597
Non-controlling interests		105,146	80,807
		160,020	121,404
Earnings per share attributable to owners of the Company for the period			
– basic – <i>HK Cent</i>	9	0.72	0.54
– diluted – <i>HK Cent</i>	9	0.70	0.54

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME**

	Unaudited	
	Six months ended	
	30 June	
	2014	2013
	HK\$'000	HK\$'000
Profit for the period	160,020	121,404
Other comprehensive (expense)/income:		
<i>Items that may be reclassified to profit or loss</i>		
Fair value gain on available-for-sale financial assets	293	723
Currency translation differences	(24,653)	12,672
Other comprehensive (expense)/income for the period	(24,360)	13,395
Total comprehensive income for the period	135,660	134,799
Attributable to:		
Owners of the Company	37,957	49,678
Non-controlling interests	97,703	85,121
Total comprehensive income for the period	135,660	134,799

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	Unaudited As at 30 June 2014 HK\$'000	Audited As at 31 December 2013 HK\$'000
Non-current assets			
Property, plant and equipment		653,665	635,111
Intangible assets		445,181	435,792
Investments in joint ventures		92,961	95,705
Available-for-sale financial assets		35,831	35,538
Deferred income tax assets		8,401	8,401
Prepaid rentals		760	1,299
		<u>1,236,799</u>	<u>1,211,846</u>
Current assets			
Inventories		33,210	28,168
Accounts receivable	10	88,187	83,607
Prepayments, deposits and other receivables		320,265	195,141
Amounts due from joint ventures		134	79
Amounts due from a related company		21,564	21,564
Financial assets at fair value through profit or loss		309,056	–
Cash and bank balances		1,086,032	841,129
		<u>1,858,448</u>	<u>1,169,688</u>
Total assets		<u>3,095,247</u>	<u>2,381,534</u>
Current liabilities			
Accounts payable	11	28,236	7,638
Accruals and other payables		35,355	36,884
Amounts due to joint ventures		5,835	5,365
Income tax payable		26,699	28,058
Bank borrowings		768,935	797,243
Dividend payable		18,675	–
		<u>883,735</u>	<u>875,188</u>
Net current assets		<u>974,713</u>	<u>294,500</u>
Total assets less current liabilities		<u>2,211,512</u>	<u>1,506,346</u>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
(CONT'D)

		Unaudited As at 30 June 2014 HK\$'000	Audited As at 31 December 2013 HK\$'000
	<i>Notes</i>		
Non-current liabilities			
Deferred income tax liabilities		64,379	50,170
Convertible bonds		581,517	–
		<hr/> 645,896	<hr/> 50,170
Net assets		<hr/> 1,565,616	<hr/> 1,456,176
Equity attributable to owners of the Company			
Share capital	12	19,409	19,017
Reserves	13	912,218	886,497
Retained profits		325,547	289,091
		<hr/> 1,257,174	<hr/> 1,194,605
Non-controlling interests		<hr/> 308,442	<hr/> 261,571
Total equity		<hr/> 1,565,616	<hr/> 1,456,176

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited Six months ended 30 June 2014 Attributable to owners of the Company				
	Share capital HK\$'000	Reserves HK\$'000	Retained profits HK\$'000	Non- controlling interests HK\$'000	Total HK\$'000
Balance as at 1 January 2014	19,017	886,497	289,091	261,571	1,456,176
Comprehensive income					
Profit for the period	-	-	54,874	105,146	160,020
Other comprehensive (expense)/income:					
Release of revaluation reserve upon depreciation of leasehold land and building	-	(121)	121	-	-
Fair value gain on available-for-sale financial assets	-	293	-	-	293
Currency translation differences	-	(17,210)	-	(7,443)	(24,653)
Total other comprehensive (expense)/income	-	(17,038)	121	(7,443)	(24,360)
Total comprehensive (expense)/income	-	(17,038)	54,995	97,703	135,660
Repurchase of shares	(124)	(27,389)	-	-	(27,513)
Share option schemes:					
– value of employee services	-	1,151	-	-	1,151
– value of other participants' services	-	389	-	-	389
– share options exercised	516	28,682	-	-	29,198
Recognition of equity component of convertible bonds	-	51,693	-	-	51,693
Deferred tax liability on recognition of equity component of convertible bonds	-	(11,767)	-	-	(11,767)
2013 final dividend	-	-	(18,539)	-	(18,539)
Total contributions by and distributions to owners of the Company, recognised directly in equity	392	42,759	(18,539)	-	24,612
Dividend paid to non-controlling interests	-	-	-	(50,832)	(50,832)
Total transactions with owners, recognised directly in equity	392	42,759	(18,539)	(50,832)	(26,220)
Balance as at 30 June 2014	19,409	912,218	325,547	308,442	1,565,616

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

	Unaudited Six months ended 30 June 2013				
	Attributable to owners of the Company				
	Share capital HK\$'000	Reserves HK\$'000	Retained profits HK\$'000	Non- controlling interests HK\$'000	Total HK\$'000
Balance as at 1 January 2013	18,631	866,477	196,344	173,093	1,254,545
Comprehensive income					
Profit for the period	–	–	40,597	80,807	121,404
Other comprehensive income:					
Release of revaluation reserve upon depreciation of leasehold land and building	–	(121)	121	–	–
Fair value gain on available-for-sale financial assets	–	723	–	–	723
Currency translation differences	–	8,358	–	4,314	12,672
Total other comprehensive income	–	8,960	121	4,314	13,395
Total comprehensive income	–	8,960	40,718	85,121	134,799
Issuance of consideration shares	23	1,115	–	–	1,138
Share option schemes:					
– value of employee services	–	3,758	–	–	3,758
– value of other participants' services	–	1,186	–	–	1,186
– vested share options expired	–	(15,038)	15,038	–	–
2012 final dividend	–	–	(13,415)	–	(13,415)
Total contributions by and distributions to owners of the Company, recognised directly in equity	23	(8,979)	1,623	–	(7,333)
Dividend paid to non-controlling interests	–	–	–	(35,045)	(35,045)
Total transactions with owners, recognised directly in equity	23	(8,979)	1,623	(35,045)	(42,378)
Balance as at 30 June 2013	<u>18,654</u>	<u>866,458</u>	<u>238,685</u>	<u>223,169</u>	<u>1,346,966</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited	
	Six months ended	
	30 June	
	2014	2013
	HK\$'000	HK\$'000
Operating cash flows before changes in working capital	273,531	206,384
Changes in working capital	(114,583)	(87,155)
Income tax paid	(49,252)	(35,568)
	<hr/>	<hr/>
Net cash generated from operating activities	109,696	83,661
Net cash used in investing activities	(357,864)	(195,212)
Net cash generated from financing activities	512,504	124,367
	<hr/>	<hr/>
Net increase in cash and cash equivalents	264,336	12,816
Effect of foreign exchange rate changes	(6,932)	5,348
Cash and cash equivalents at beginning of the period	339,850	266,692
	<hr/>	<hr/>
Cash and cash equivalents at end of the period	597,254	284,856
	<hr/> <hr/>	<hr/> <hr/>
Analysis of the balances of cash and cash equivalents:		
Cash and bank balances including time deposits	1,086,032	781,059
Less: Pledged time deposits with maturity of more than three months	(488,778)	(496,203)
	<hr/>	<hr/>
	597,254	284,856
	<hr/> <hr/>	<hr/> <hr/>

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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules").

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 2013.

The directors of the Company made an assessment as of the date of initial application of amended Hong Kong Financial Reporting Standards ("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 2014. 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 contribution to profit were mainly derived from the provision of technology and operation service for lottery systems, terminal equipment and game products in the lottery market in China, which is regarded as a single reportable segment in a manner consistent with the way in which information is reported internally to the Group's senior management for purposes of resource allocation and performance assessment. Accordingly, no segment analysis is presented other than entity-wide disclosures.

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

	Unaudited Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
Turnover		
Income from provision of lottery terminals and lottery sales channels	447,238	340,970
Income from sales of equipment	11,912	634
Income from provision of consultancy services	1,397	35
	460,547	341,639

3. COSTS OF SALES AND SERVICES

	Unaudited Six months ended 30 June	
	2014 HK\$'000	2013 HK\$'000
Depreciation of lottery terminals	51,678	34,712
Business tax	22,658	18,344
Cost of inventories recognised as expense	9,803	272
Repairs and maintenance	3,610	3,622
Commission and handling charges	36,982	23,465
Other costs of sales and services	4,133	4,605
	<u>128,864</u>	<u>85,020</u>

4. OTHER INCOME

	Unaudited Six months ended 30 June	
	2014 HK\$'000	2013 HK\$'000
Interest income from bank deposits	<u>11,987</u>	<u>11,247</u>

5. OTHER (LOSSES)/GAINS – NET

	Unaudited Six months ended 30 June	
	2014 HK\$'000	2013 HK\$'000
Financial assets at fair value through profit or loss (held for trading)	1,147	–
Fair value adjustment of contingent consideration	–	(44)
Dividend income from financial assets (held for trading)	39	–
Loss on disposal of property, plant and equipment	(1,343)	(68)
Foreign exchange (losses)/gains	<u>(9,404)</u>	<u>15,517</u>
	<u>(9,561)</u>	<u>15,405</u>

**6. OPERATING PROFIT**

	Unaudited Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
Operating profit is stated after charging:		
Staff costs (excluding share options expenses)	58,531	54,453
Amortisation of intangible assets	3,264	3,264
Depreciation of other items of property, plant and equipment	4,493	3,847
	<u>66,288</u>	<u>61,564</u>

7. FINANCE COSTS

	Unaudited Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
Interest expenses on bank borrowings wholly repayable within five years	11,216	10,466
Interest expense on convertible bonds	9,606	–
	<u>20,822</u>	<u>10,466</u>

8. INCOME TAX EXPENSE

	Unaudited Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
Current tax:		
– People's Republic of China ("PRC") Enterprise Income Tax	47,892	44,154
Deferred tax:		
– Origination and reversal of temporary differences	2,442	202
	<u>50,334</u>	<u>44,356</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 2014 (2013: Nil).

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

9. EARNINGS PER SHARE

(a) Basic

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

	Unaudited	
	Six months ended	
	30 June	
	2014	2013
Profit attributable to owners of the Company (HK\$'000)	<u>54,874</u>	<u>40,597</u>
Weighted average number of ordinary shares in issue	<u>7,654,268,124</u>	<u>7,456,660,449</u>
Basic earnings per share – HK Cent	<u>0.72</u>	<u>0.54</u>

(b) Diluted

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

	Unaudited	
	Six months ended	
	30 June	
	2014	2013
Profit attributable to owners of the Company (HK\$'000)	<u>54,874</u>	<u>40,597</u>
Weighted average number of ordinary shares in issue	<u>7,654,268,124</u>	<u>7,456,660,449</u>
Effect of dilutive potential ordinary shares:		
– Share options	<u>233,014,168</u>	<u>55,030,717</u>
Weighted average number of ordinary shares for diluted earnings per share	<u>7,887,282,292</u>	<u>7,511,691,166</u>
Diluted earnings per share – HK Cent	<u>0.70</u>	<u>0.54</u>

The computation of diluted earnings per share for the six months ended 30 June 2014 did not assume the conversion of the convertible bonds since its conversion would result in an increase in earnings per share.

**10. ACCOUNTS RECEIVABLE**

Ageing analysis of accounts receivable is as follows:

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2014	2013
	HK\$'000	HK\$'000
Less than three months	82,097	82,828
Over three months but less than one year	3,610	728
Over one year	2,480	51
	88,187	83,607

11. ACCOUNTS PAYABLE

Ageing analysis of accounts payable is as follows:

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2014	2013
	HK\$'000	HK\$'000
Less than three months	26,007	6,980
Over three months but less than one year	2,166	596
Over one year	63	62
	28,236	7,638

12. SHARE CAPITAL

	Unaudited	
	Authorised ordinary shares	
	<i>Number of shares</i>	<i>HK\$'000</i>
As at 1 January 2014 and 30 June 2014	<u>16,000,000,000</u>	<u>40,000</u>
	Unaudited	
	Issued and fully paid	
	ordinary shares	
	<i>Number of shares</i>	<i>HK\$'000</i>
As at 1 January 2014	7,606,872,820	19,017
Share options exercised (Note (i))	206,350,000	516
Repurchase of shares (Note (ii))	(49,800,000)	(124)
As at 30 June 2014	<u>7,763,422,820</u>	<u>19,409</u>

Notes:

- (i) Share options were exercised by optionholders during the period ended 30 June 2014 to subscribe for a total of 206,350,000 shares of HK\$0.0025 each by payment of subscription monies of approximately HK\$29,198,000, of which approximately HK\$516,000 was credited to share capital and the balance of approximately HK\$28,682,000 was credited to the share premium account.
- (ii) The Company repurchased 49,800,000 of its own shares of HK\$0.0025 each on the Stock Exchange during the period ended 30 June 2014. The highest and the lowest price paid per share were HK\$0.58 and HK\$0.52 respectively. The total amount paid for the repurchase of shares including expenses was approximately HK\$27,513,000 and has been deducted from shareholders' equity. The shares repurchased were subsequently cancelled.

13. RESERVES

	Unaudited							Total
	Six months ended 30 June 2014							
	Share premium	Convertible bonds	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 2014	759,047	-	15,158	65,095	27,704	11,110	8,383	886,497
Repurchase of shares	(27,389)	-	-	-	-	-	-	(27,389)
Share option schemes:								
– value of employee services	-	-	-	-	1,151	-	-	1,151
– value of other participants' services	-	-	-	-	389	-	-	389
– share options exercised	38,618	-	-	-	(9,936)	-	-	28,682
Release of revaluation reserve upon depreciation of leasehold land and building	-	-	-	-	-	(121)	-	(121)
Fair value gain on available-for-sale financial assets	-	-	-	-	-	-	293	293
Recognition of equity component of convertible bonds	-	51,693	-	-	-	-	-	51,693
Deferred tax liability on recognition of equity component of convertible bonds	-	(11,767)	-	-	-	-	-	(11,767)
Currency translation differences								
– overseas subsidiaries	-	-	-	(15,613)	-	-	-	(15,613)
– overseas joint ventures	-	-	-	(1,597)	-	-	-	(1,597)
Balance as at 30 June 2014	770,276	39,926	15,158	47,885	19,308	10,989	8,676	912,218

13. RESERVES (CONT'D)

	Unaudited							
	Six months ended 30 June 2013							
	Share premium	Convertible bonds	Capital reserve	Currency translation reserve	Share-based compensation reserve	Revaluation reserve	Available-for-sale investments	Total
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Balance as at 1 January 2013	739,973	-	15,158	51,755	40,512	11,351	7,728	866,477
Issuance of consideration shares	1,115	-	-	-	-	-	-	1,115
Share option schemes:								
– value of employee services	-	-	-	-	3,758	-	-	3,758
– value of other participants' services	-	-	-	-	1,186	-	-	1,186
– vested share options expired	-	-	-	-	(15,038)	-	-	(15,038)
Release of revaluation reserve upon depreciation of leasehold land and building	-	-	-	-	-	(121)	-	(121)
Fair value gain on available-for-sale financial assets	-	-	-	-	-	-	723	723
Currency translation differences								
– overseas subsidiaries	-	-	-	6,224	-	-	-	6,224
– overseas joint ventures	-	-	-	2,134	-	-	-	2,134
	<u>741,088</u>	<u>-</u>	<u>15,158</u>	<u>60,113</u>	<u>30,418</u>	<u>11,230</u>	<u>8,451</u>	<u>866,458</u>

14. OPERATING LEASE COMMITMENTS

As at 30 June 2014, the Group had aggregate future minimum lease payments under non-cancellable operating lease in respect of rented premises as follows:

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2014	2013
	HK\$'000	HK\$'000
No later than one year	6,987	10,991
In the second to fifth years inclusive	1,734	4,689
	<u>8,721</u>	<u>15,680</u>

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2014 (2013: Nil).



MANAGEMENT DISCUSSION AND ANALYSIS

The Group is engaged in the provision of technology and services for lottery systems, terminal equipment, gaming products and their operations 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. Through building up its technical competencies, expansion into new markets in China and high standards of corporate governance, the Group has established a solid foundation and a reputable brand name, providing it with comprehensive capabilities for sustainable development in the industry.

China's Lottery Market

According to figures published by the Ministry of Finance, China's lottery market demonstrated sustained growth in the first half of 2014, with total lottery sales of RMB178.410 billion, representing an increase of 19.2% year on year ("YOY"). Welfare Lottery and Sports Lottery contributed RMB98.501 billion and RMB79.909 billion respectively, representing growth of 15.5% and 24.1% YOY respectively. The Lotto category formed the main source of revenue for the industry, accounting for 66% of total sales. The VLT category continued to grow rapidly at 28.5% YOY, and for the first time, exceeded 10% of total lottery sales. Driven by the 2014 World Cup, the Single Match Games ("SMG") category witnessed significant growth of 62.2% YOY during the period, and accounted for 14% of the lottery market. The Scratch Card category grew 1.5% YOY during the period, accounting for 10% of the lottery market. The Lotto category represents 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

The Group's business segments continued to develop steadily in the first half of 2014. VLT sales reached record highs, and all old-generation VLT terminals nationwide have been replaced with third-generation terminals, with over 33,000 connected units. On its Welfare CTG business, Guangdong Welfare Lottery maintained stable sales growth, retaining its number one nationwide sales rank. Meanwhile, Chongqing Welfare Lottery witnessed a significant uptick in sales, and has risen to rank 15th in the nation by sales. In August of this year, the Group and Shanghai Welfare Lottery Issuance Centre signed the Contract on New Sales and Management System and Technical Services pursuant to which the Group will provide CTG terminals and system. On its Sports Lottery CTG business, the Group's region-focused strategy delivered solid results, enabling it to win terminal supply contracts for the second time in two different provinces. In August of this year, the Group won the bid to supply Sports Lottery terminals for the Zhejiang Sports Lottery Administration Centre Terminal Equipment Procurement Scheme, the Group's second win in the terminal procurement of the province. Driven by government policies, the new media lottery business faces unprecedented development opportunities: the telephone lottery business has demonstrated rapid growth, while the new type lottery business has progressed steadily. By establishing closer ties with lottery authorities and channel partners on new channels and new lottery types, the Group ensures that it will maintain its competitive advantage in the new media lottery area.



Video Lottery Business

China Welfare Lottery Video Lottery (VLT) Business

As a technology-rich product, VLT has been playing a vital role in China's lottery industry. The Group is the exclusive terminal equipment provider for VLT. VLT sales amounted to RMB17.637 billion in the first half of 2014, representing a growth of 28.5% YOY, surpassing the overall lottery industry's growth of 19.2% YOY during the same period. Record sales figures during the period represent the first time in six years that the VLT category accounted for 10% of the nation's total lottery sales.

In the first half of 2014, Zhejiang province had the highest total VLT sales, at RMB2.053 billion, followed by Shandong (RMB1.566 billion), Jiangsu (RMB1.477 billion), Guangdong (RMB1.380 billion) and Hubei (RMB1.111 billion). Additionally, sales in Hunan province and Anhui province exceeded RMB1 billion each. Fifteen provinces recorded VLT sales growth of over 30% YOY. Sales growth in Henan, Jiangxi, Sichuan, Shanghai and Guizhou exceeded 50% YOY, out of which Guizhou recorded the highest sales growth, at 76% YOY. VLT sales accounted for more than 20% of total Welfare Lottery sales in Zhejiang, Shandong, Jiangsu, Hubei, Hunan, Anhui, Henan, Fujian and Shaanxi, out of which VLT sales in Zhejiang, Hunan and Anhui exceeded 30% of total Welfare Lottery sales. Thus, VLT has undoubtedly become a key growth driver for Welfare Lottery in different provinces.

In the first half of 2014, the average number of connected VLT terminals grew from over 28,000 units at the beginning of 2014 to over 33,000 units in June 2014. Corresponding to this increase, average daily VLT sales exceeded RMB102 million, and average daily sales per terminal exceeded RMB3,200. As at 30 June 2014, at the request of China Welfare Lottery Centre ("CWLC"), the Group had cumulatively deployed over 33,000 units of the third generation VLT terminals out of over 34,000 manufactured units to the provinces. Over 4,500 units were deployed in the first half of 2014. Currently, there are over 1,300 VLT halls in operation nationwide, with over 33,000 connected terminals. A total of 8,000 to 10,000 units of the third generation terminals are expected to be rolled out by the end of 2014.

As a fast growing game category of Welfare Lottery, VLT has garnered much attention from provincial Welfare Lottery centres across the nation, and lottery players have responded favourably to the launch of various marketing activities. In order to show their appreciation for lottery players' support, CWLC held a 40-day, RMB280 million prize giveaway beginning on 23 July 2014, the first nationwide prize giveaway since the introduction of VLT in the China market. We expect that ongoing deployment of the third generation terminals, coupled with vigorous promotional activities, will enable substantial VLT sales growth.

VLT is fast becoming one of China's most pivotal lottery categories. Provincial Lottery centres across the nation have begun actively conducting reforms on VLT, strengthening hall management, optimizing hall layouts, enhancing incentive and appraisal schemes and strengthening VLT's ethos of social responsibility, welfare, safety and brand awareness, with the aim of building VLT into Welfare Lottery's showcase, with standardized management, excellent service, high player satisfaction and strong social recognition. At the same time, more and more VLT lottery funds are being continuously channeled towards communities across the nation. The first half of 2014 saw the introduction of numerous welfare programmes to support the various disadvantaged groups of society, such as the "Welfare Lottery Warm Heart (福彩暖心行動)" activity held in Binzhou, Shandong, which supports isolated elderly people, an autistic children's programme held by in Qingdao, Shandong, the "Learn from Lei Feng month (雷鋒月)" programme held in Jinan, Shandong, and the "Where's Dad? (爸爸去哪兒)" programme held in Guangxi, where caring fathers celebrate the holidays with orphaned children. VLT has consistently upheld the motto of "assisting the elderly, the disabled, the orphaned and the impoverished", and is dedicated to continuously making positive contributions to social welfare and general good causes.

CTG and KENO-type Lottery Business

CTG Business

In the first half of 2014, nationwide Welfare CTG sales amounted to RMB70.96 billion, representing growth of 14.2% YOY. Guangdong province, which is served by the Group's subsidiary, Guangzhou San Huan Yong Xin Technology Company ("GZSH"), remained the largest provincial Welfare Lottery market in China, contributing RMB5.66 billion in CTG sales during the period, representing growth of 7.8% YOY. Chongqing, which is also served by GZSH, recorded CTG sales of RMB1.154 billion, representing growth of 20.8% YOY. Additionally, GZSH continued to provide terminal maintenance services to Shenzhen Welfare Lottery Centre. Through meticulous management, and by strengthening technical support and service quality, GZSH makes a positive contribution to the Provincial Welfare Lottery Centres that it serves. In August of this year, the Group and Shanghai Welfare Lottery Issuance Centre signed the Contract on New Sales and Management System and Technical Services pursuant to which the Group will provide CTG terminals and system.

In the first half of 2014, nationwide Sports CTG sales amounted to RMB46.36 billion, representing growth of 15.1% YOY. Guangzhou Lottnal Terminal Company Limited ("GZL"), a subsidiary of the Group, achieved further wins in bids for the supply of CTG terminals to Sports Lottery Centres in Guizhou and Gansu, to which it will provide standard type CTG terminals and technical services. The Group's success in securing these bids for the second time is a reflection of the operational excellence of its region-focused strategy. In August of this year, GZL won the bid to supply Sports Lottery terminals for the Zhejiang Sports Lottery Administration Centre Terminal Equipment Procurement Scheme, the Group's second win in the terminal procurement of the province. Meanwhile, GZL continues to work with domestic and international terminal manufacturers to provide customized terminals and lottery readers. With the Group's increasingly sophisticated product and technological capabilities coinciding with a period of peak demand for the addition and replacement of Sports Lottery CTG terminals, the Group will leverage its unique intellectual property rights and product advantages to gain more contracts and earn more business opportunities.

KENO-type Lottery Business (KENO)

In the first half of 2013, CWLC expanded its nationwide management of CTG games to include KENO, and focused its efforts on increasing the payout ratio of the game. However, as a result of its low payout ratio, and due to competitive pressure from other high frequency games with higher payout ratios in the relevant provinces, total sales of KENO continued to fall in the first half of 2014. The Group has called upon the relevant regulatory authority to increase the payout ratio as soon as possible, as well as to implement specific enhancement measures important for social games, such as co-location arrangements.

New Media Lottery Business

In April 2014, the Ministry of Finance issued an amendment of the “Provisional Regulation for the Administration of Telephone Lottery Sales”, which further clarified the government’s stance on its push to develop telephone lottery sales, thus laying a solid policy foundation for the explosive growth of the mobile-based lottery market. Driven by major sporting events such as the 2014 World Cup, the number of users purchasing lottery tickets through new type channels and the corresponding sales figures surged, highlighting the strong influence of technology in the lottery sector, and reflecting the market’s pressing demands for new products.

The “Provisional Regulation for the Administration of Telephone Lottery Sales” provides further clarification on the relevant management measures, thus providing a strong submission basis for the development of the business. In strict accordance with the latest measures, the Group has begun conducting system optimization and adjustment, including in aspects such as account systems, game regulation and responsible lottery. The Group’s continuous efforts and its early preparations for new type lottery were the basis for further breakthroughs achieved in the first half of 2014. System and product optimization have progressed smoothly.

In the first half of 2014, the internet and mobile lottery businesses ushered in unprecedented development opportunities, on the back of a lottery fever driven by the 2014 World Cup. The Group actively grasped these opportunities, and sales reached new highs, with sales growth in the first half of 2014 close to triple that of the same period last year. Key cooperation projects, such as those with China Merchants Bank and China Mobile, have

recorded strong sales increases. Within the first half of 2014, the Group commenced collaboration with China's largest financial institution, the Industrial and Commercial Bank of China ("ICBC"), and formally launched its "Bet Easy (融e購)" lottery platform in May. Additionally, the Group's collaboration project with Minsheng Bank also became operational during the period. Other events held during the period included China Merchants Bank's "Drifting Bottles (漂流瓶)" event, Bank of Communications' "Bank of Communications – China LotSynergy World Cup (交通銀行—華彩世界盃)" event, as well as ICBC's various promotional activities, all of which created positive word of mouth and favourable reception from the market. The increasingly broad and close nature of the Group's cooperation with financial institutions reflects its position as the lottery industry's leader in terms of its ties with the financial sector. The "Mobile Electronic Lottery Ticket Exchange (移動電子券換彩票)", another promotion held by the Group and China Mobile, was also launched in the first half of this year, and achieved promising results, with average daily sales growth reaching several times that of the same period last year. In the meantime, the Group deepened its ties with several provincial lottery authorities on the telephone lottery business, and has made progress on system construction and lottery distribution.

The Group is slated to maintain its development momentum in the second half of 2014, by fully utilizing its partnership resources, promotion of further sales growth, and, based on the enhancement and development of its telephone lottery product, the incorporation of new business models, such as WeChat Payment, among others. The Group will strive to achieve even better performance, and aims to make more contributions to the development of the new media lottery business for China's lottery industry.

Conclusion

In the first half of 2014, favourable policy measures, coupled with the effects of the 2014 World Cup, led to new highs in national lottery sales. China's lottery sector has undergone over twenty years of booming growth, and with the advent of the internet age, is currently facing unprecedented opportunities and transformations. As a participant at all levels of the lottery industry chain, the Group is poised to seize this historic opportunity to create new development initiatives with determination and focus.

In terms of traditional lottery, channel development is mainly the responsibility of provincial lottery authorities. Going forward, the trend of traditional lottery channel development will be towards the utilization of banks, telecommunications and other networking equipment channels. Traditional lottery also needs new games and continuous innovation, as well complementary new terminals and platform systems which require constant upgrading and replacement. These are all areas of focus for the Group's future development.

In terms of new media lottery, the Group attaches great importance to the development of mobile phone and internet channels, and will utilize self-built and jointly-built channels to develop the scale of the Group's connected new media user base, as well as to increase the number of players by enhancing the user experience. Meanwhile, the Group also greatly values the development of new media lottery types. The Group firmly believes that new lottery game types that are geared specifically towards mobile and internet channels, which are different to traditional offline lottery types, will be the fundamental driving force for the development of new media lottery.

Traditional lottery will continue to grow alongside the rapidly growing new media lottery, as the development of these two businesses is complementary to each other rather than competing. Online-to-offline ("O2O"), the combination of online and offline businesses, is the next major trend of the lottery industry. The Group will focus on actively modelling its products and system after the O2O concept.

With lottery issuance and regulatory authorities advocating the need for better cooperation between the market and the government, the Group, as a trusted partner of lottery authorities, will continue to strive to provide professional and high quality services, and will strictly comply with lottery related policies and regulations. In 2014, the new media lottery sector is expected to thrive, and the lottery industry will witness an accelerated integration of online and offline businesses. The Group is poised to strengthen its existing businesses and earnings base, while striving to capture new business opportunities to achieve new growth drivers, thus creating greater value for its shareholders. We believe that the Group's commitment and dedication to China's lottery market will eventually prove to be very fruitful.



FINANCIAL REVIEW

In the first half of 2014, the Group recorded a turnover of approximately HK\$460.5 million (the first half of 2013: HK\$341.6 million), representing an increase of approximately 34.8% over the same period of last year. Profit attributable to owners of the Company for the first half of 2014 amounted to approximately HK\$54.9 million, representing an increase of approximately 35.2% over the same period of last year.

Liquidity, Financial Resources, Gearing Ratio and Capital Structure

The Group believes that it has adequate financial resources to fund its capital and operating requirements. As at 30 June 2014, the Company had an outstanding corporate guarantee for an unlimited amount for total banking facilities of property installment loans of approximately HK\$153.7 million (as at 31 December 2013: HK\$153.7 million), and an outstanding corporate guarantee limited to approximately HK\$17 million (as at 31 December 2013: HK\$17 million) for a banking facility of a property installment loan of approximately HK\$17 million (as at 31 December 2013: HK\$17 million); whereas, a subsidiary of the Group had an outstanding corporate guarantee for a maximum of RMB140 million (as at 31 December 2013: RMB150 million) plus interest and fees for a banking facility of a working capital loan of RMB200 million (as at 31 December 2013: RMB200 million) granted to the Group. The Group had outstanding bank borrowings as at 30 June 2014 of approximately HK\$768.9 million (as at 31 December 2013: HK\$797.2 million). As at 30 June 2014, 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\$171.8 million (as at 31 December 2013: HK\$172.9 million), (ii) standby letters of credit issued by bank for an aggregate amount of US\$59 million (as at 31 December 2013: US\$59 million), (iii) accounts receivable of approximately HK\$64 million (as at 31 December 2013: HK\$60.5 million) and (iv) bank deposits amounting to approximately HK\$488.8 million (as at 31 December 2013: HK\$501.3 million).

In the first half of 2014, the Company issued 5% convertible bonds due 2019 in total principal amount of HK\$650 million. Each convertible bond will be convertible into fully paid ordinary shares of HK\$0.0025 each of the Company at the initial conversion price of HK\$0.93 per share. The convertible bonds bear interest at the rate of 5% per annum payable semi-annually in arrears. During the period under review, there was no conversion of the convertible bonds into shares by the bondholders and no redemption of the convertible bonds made by the Company. As at 30 June 2014, the principal amount of the convertible bonds outstanding was HK\$650 million (as at 31 December 2013: Nil).

The Group's total equity amounted to approximately HK\$1,565.6 million as at 30 June 2014 (as at 31 December 2013: HK\$1,456.2 million). As at 30 June 2014, net current assets of the Group amounted to approximately HK\$974.7 million (as at 31 December 2013: HK\$294.5 million), including approximately HK\$1,086 million in cash and deposits with banks and financial institutions (as at 31 December 2013: HK\$841.1 million).

The gearing ratio (defined as total liabilities over total assets) of the Group as at 30 June 2014 was approximately 49.4% (as at 31 December 2013: 38.9%).

Exposure to Exchange Rates Fluctuation

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

Pledge of Asset

As at 30 June 2014, the Group's leasehold land and building at net book value of approximately HK\$171.8 million (as at 31 December 2013: HK\$172.9 million) was pledged to bank to secure the bank borrowing granted to the Group. As at 30 June 2014, the Group's accounts receivable at outstanding balance of approximately HK\$64 million (as at 31 December 2013: HK\$60.5 million) and bank deposits amounting to approximately HK\$488.8 million (as at 31 December 2013: HK\$501.3 million) were pledged to secure bank borrowings and banking facilities granted to the Group.



Contingent Liabilities

As at 30 June 2014, the Group did not have any material contingent liabilities (as at 31 December 2013: Nil).

Staff

As at 30 June 2014, the Group employed 461 staff (2013: 467). 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, and in particular on the buildup of its technical team, in order to offer enhanced services for China's lottery market.

SHARE OPTION SCHEMES

As at 30 June 2014, there were options for 119,450,000 shares of HK\$0.0025 each in the share capital of the Company granted by the Company pursuant to the share option scheme, as adopted by the shareholders of the Company on 30 July 2002 (the "2002 Option Scheme"), which were valid and outstanding; in addition, there were options for 89,000,000 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"), which 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 2014:

	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) Directors										
WU Jingwei	04/07/2007	0.975	01/01/2012	31/12/2013	800,000	-	-	-	(800,000)	-
	02/10/2009	0.500	01/09/2011	31/08/2014	3,400,000	-	(3,400,000)	-	-	-
	02/10/2009	0.500	01/09/2012	31/08/2014	3,400,000	-	(3,400,000)	-	-	-
	02/10/2009	0.500	01/09/2013	31/08/2014	3,400,000	-	(3,400,000)	-	-	-
LI Zi Kui	17/08/2009	0.500	17/02/2010	16/08/2014	5,000,000	-	-	-	-	5,000,000
	17/08/2009	0.500	17/08/2010	16/08/2014	5,000,000	-	-	-	-	5,000,000
HOONG	30/06/2006	0.285	16/08/2007	29/06/2016	17,600,000	-	(12,000,000)	-	-	5,600,000
Cheong Thard	30/06/2006	0.285	16/08/2008	29/06/2016	17,600,000	-	-	-	-	17,600,000
(ii) Continuous										
Contract	11/05/2007	0.775	02/05/2008	01/05/2014	1,800,000	-	-	-	(1,800,000)	-
Employees	11/05/2007	0.775	02/05/2009	01/05/2014	1,800,000	-	-	-	(1,800,000)	-
	11/05/2007	0.775	02/05/2010	01/05/2014	1,800,000	-	-	-	(1,800,000)	-
	11/05/2007	0.775	02/05/2011	01/05/2014	1,800,000	-	-	-	(1,800,000)	-
	11/05/2007	0.775	02/05/2012	01/05/2014	1,800,000	-	-	-	(1,800,000)	-
	11/05/2007	0.775	02/05/2013	01/05/2014	3,000,000	-	-	-	(3,000,000)	-
	15/06/2009	0.500	15/06/2010	14/06/2015	5,000,000	-	-	-	-	5,000,000
	15/06/2009	0.500	15/06/2011	14/06/2015	5,000,000	-	-	-	-	5,000,000
	17/08/2009	0.500	17/02/2010	16/08/2014	36,000,000	-	-	-	-	36,000,000
	17/08/2009	0.500	17/08/2010	16/08/2014	36,000,000	-	-	-	-	36,000,000
	02/10/2009	0.500	01/09/2010	31/08/2014	1,450,000	-	(950,000)	-	-	500,000
	02/10/2009	0.500	01/09/2011	31/08/2014	1,450,000	-	(200,000)	-	-	1,250,000
	02/10/2009	0.500	01/09/2012	31/08/2014	1,450,000	-	(200,000)	-	-	1,250,000
	02/10/2009	0.500	01/09/2013	31/08/2014	1,450,000	-	(200,000)	-	-	1,250,000
Total:					<u>156,000,000</u>	<u>-</u>	<u>(23,750,000)</u>	<u>-</u>	<u>(12,800,000)</u>	<u>119,450,000</u>



					No. of Shares Under the Options					
date of grant	exercise price per share HK\$	exercise period		held as	granted during the period	exercised during the period	cancelled during the period	lapsed during the period	held as	
		from	until	beginning of the period					at the end of the period	
2012 Option Scheme										
(i) Directors										
LAU Ting	13/11/2012	0.109	13/05/2014	12/05/2016	3,500,000	-	(3,500,000)	-	-	-
WU Jingwei	13/11/2012	0.109	13/05/2014	12/05/2016	24,000,000	-	(24,000,000)	-	-	-
CHAN Tan Na, Donna	13/11/2012	0.109	13/05/2014	12/05/2016	20,000,000	-	(20,000,000)	-	-	-
LI Zi Kui	13/11/2012	0.109	13/05/2014	12/05/2016	7,500,000	-	-	-	-	7,500,000
HOONG Cheong Thard	13/11/2012	0.109	13/05/2014	12/05/2016	2,500,000	-	(2,500,000)	-	-	-
HUANG Shenglan	13/11/2012	0.109	13/05/2014	12/05/2016	2,500,000	-	-	-	-	2,500,000
CHAN Ming Fai	13/11/2012	0.109	13/05/2014	12/05/2016	2,500,000	-	(2,500,000)	-	-	-
CUI Shuming	13/11/2012	0.109	13/05/2014	12/05/2016	2,500,000	-	(2,500,000)	-	-	-
(ii) Continuous	13/11/2012	0.109	13/05/2013	12/05/2015	38,100,000	-	(32,600,000)	-	-	5,500,000
Contract	13/11/2012	0.109	13/05/2014	12/05/2016	92,000,000	-	(43,500,000)	-	-	48,500,000
Employees	20/11/2012	0.109	20/05/2014	19/05/2016	1,500,000	-	(1,500,000)	-	-	-
(iii) Other Participants	13/11/2012	0.109	13/05/2014	12/05/2016	25,000,000	-	(25,000,000)	-	-	-
	20/11/2012	0.109	20/05/2013	19/05/2015	25,000,000	-	(25,000,000)	-	-	-
	20/11/2012	0.109	20/05/2014	19/05/2016	25,000,000	-	-	-	-	25,000,000
Total:					<u>271,600,000</u>	<u>-</u>	<u>(182,600,000)</u>	<u>-</u>	<u>-</u>	<u>89,000,000</u>

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

As at 30 June 2014, the interests and/or short positions of the Directors and chief executive of the Company (including those interests and short positions which were taken or deemed to have interests and short positions under the provisions of the Securities and Futures Ordinance (the "SFO")) in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standards of dealings by directors of the listed issuer as referred to Appendix 10 of the Listing Rules, were as follows:

(1) *Interests in Shares of the Company*

Directors	Number of Shares					Approximate percentage of the Company's issued share capital
	Beneficial interests	Family interests	Corporate interests	Security interests in shares	Total	
LAU Ting	37,974,373(L)	242,486,426(L)	894,762,948(L)	229,000,000(L)	1,404,223,747(L) (Note (i))	18.09%(L)
WU Jingwei	82,200,000(L)	-	-	-	82,200,000(L)	1.06%(L)
CHAN Tan Na, Donna	40,000,000(L)	-	-	-	40,000,000(L)	0.52%(L)
LI Zi Kui	16,500,000(L)	-	-	-	16,500,000(L)	0.21%(L)
HOONG Cheong Thard	2,500,000(L)	-	-	-	2,500,000(L)	0.03%(L)
HUANG Shenglan	600,000(L)	-	-	-	600,000(L)	0.01%(L)
CHAN Ming Fai	2,500,000(L)	-	-	-	2,500,000(L)	0.03%(L)
CUI Shuming	5,000,000(L)	-	-	-	5,000,000(L)	0.06%(L)

Notes:

- (i) For the corporate interests, 147,162,496 shares were held by Hang Sing Overseas Limited (“Hang Sing”) which was owned as to 51% by Orient Strength Limited (“Orient Strength”), a company which was wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 137,735,546 shares were held by Strong Purpose Corporation (“Strong Purpose”), a company which was wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 607,932,594 shares were held by Glory Add Limited (“Glory Add”) which was wholly owned by Favor King Limited, a company which was wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 1,932,312 shares were held by Burwill Holdings Limited of which Ms. LAU Ting and Mr. CHAN Shing were the controlling shareholders. The shares of the family interests were owned by Mr. CHAN Shing. As Mr. CHAN Shing is the spouse of Ms. LAU Ting, the interests of each of Ms. LAU Ting and Mr. CHAN Shing were deemed to be the interests of each other.

- (ii) The letter “L” denotes long position(s).

(2) *Interests in Underlying Shares of the Company*

As at 30 June 2014, 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”.

Save as otherwise disclosed above, as at 30 June 2014, none of the Directors or chief executive of the Company had, or were deemed under the SFO to have, any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) which were required to be recorded in the register kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standards of dealing by directors of listed issuer as referred to in Appendix 10 of the Listing Rules.

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

As at 30 June 2014, according to the register required to be kept by the Company under Section 336 of the SFO, the following persons (other than the Directors and chief executive of the Company) had interests and/or short positions in the shares and underlying shares of the Company:

Interests in Shares of the Company

Shareholders	Number of Shares						Approximate percentage of the Company's issued share capital
	Beneficial interests	Family interests	Investment manager	Security interests in shares	Corporate interests	Total	
CHAN Shing	242,486,426(L)	266,974,373(L)	-	-	894,762,948(L)	1,404,223,747(L)	18.09%(L) (Note (i))
Favor King Limited	-	-	-	-	607,932,594(L)	607,932,594(L)	7.83%(L) (Note (i))
Barclays Plc	-	-	41,344,609(L)	640,000(L)	420,652,624(L) 142,278,000(S)	462,637,233(L) 142,278,000(S)	5.96%(L) 1.83%(S)

Notes:

- (i) For the corporate interests, 147,162,496 shares were held by Hang Sing which was owned as to 51% by Orient Strength, a company which was wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 137,735,546 shares were held by Strong Purpose, a company which was wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 607,932,594 shares were held by Glory Add which was wholly owned by Favor King Limited, a company which was wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 1,932,312 shares were held by Burwill Holdings Limited of which Ms. LAU Ting and Mr. CHAN Shing were the controlling shareholders. The shares of the family interests were owned by Ms. LAU Ting. As Ms. LAU Ting is the spouse of Mr. CHAN Shing, the interests of each of Mr. CHAN Shing and Ms. LAU Ting were deemed to be the interests of each other.
- (ii) The letter "L" denotes long position(s) and the letter "S" denotes short position(s).

Save as disclosed above, as at 30 June 2014, there was no person (other than the Directors and chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and/or who were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any members of the Group.

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

During the six months ended 30 June 2014, the Company repurchased its own shares on the Stock Exchange as follows:

Month/Year	Number of shares repurchased	Highest price paid per share <i>HK\$</i>	Lowest price paid per share <i>HK\$</i>	Aggregate price paid <i>HK\$'000</i>
April 2014	45,500,000	0.58	0.52	24,995
April 2014	<u>4,300,000</u>	0.56	0.56	<u>2,408</u>
	<u><u>49,800,000</u></u>			<u><u>27,403</u></u>

Saved as disclosed above, there were no other purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries during the period.

CHANGE IN AUDITORS

The practice of HLB Hodgson Impey Cheng, the former auditors of the Company, was reorganized as HLB Hodgson Impey Cheng Limited due to its internal corporate reorganization. HLB Hodgson Impey Cheng resigned as the auditors of the Group with effect from 27 January 2014 and HLB Hodgson Impey Cheng Limited has been appointed as the auditors of the Group with effect from 27 January 2014 to fill the casual vacancy following the resignation of HLB Hodgson Impey Cheng. The relevant resolution in relation to the re-appointment of HLB Hodgson Impey Cheng Limited has been approved at the annual general meeting of the Company on 27 May 2014.

CONVERTIBLE BONDS

The Company had completed to issue the convertible bonds in the principal amount of HK\$580 million on 17 April 2014 and additional convertible bonds in principal amount of HK\$70 million under the relevant subscription agreement on 2 May 2014, bringing the total issue size of the convertible bonds (the "Convertible Bonds") to HK\$650 million in aggregate principal amount. The Convertible Bonds shall be convertible into the paid ordinary shares of HK\$0.0025 each of the Company at an initial conversion price of HK\$0.93 each. As at 30 June 2014, there was no Convertible Bonds had been exercised by holders of the Convertible Bonds or redeemed by the Company. The Convertible Bonds are currently listed on the Stock Exchange.

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 2014 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 2014, 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. Although the Code provision A.6.7 stipulates that independent non-executive directors should, inter alia, attend general meetings, due to personal and other important engagement at the relevant time, Mr. HUANG Shenglan was absent from the 2014 annual general meeting of the Company.

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 2014.

On behalf of the Board
LAU Ting
Chairperson

Hong Kong, 19 August 2014

As at the date of this report, the Board comprises Ms. LAU Ting, Mr. WU Jingwei, Ms. CHAN Tan Na, Donna and Mr. LI Zi Kui as Executive Directors; Mr. HOONG Cheong Thard as a Non-executive Director; and Mr. HUANG Shenglan, Mr. CHAN Ming Fai and Mr. CUI Shuming as Independent Non-executive Directors.