THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this circular or as to the action you should take, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China LotSynergy Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities in China LotSynergy Holdings Limited.

China LotSynergy

China LotSynergy Holdings Limited

華彩控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock code: 8161)

MAJOR TRANSACTION
ACQUISITION OF INTERESTS IN
TRADITIONAL COMPUTER LOTTERY SYSTEM
AND
EQUIPMENT SUPPLIERS

Financial adviser to China LotSynergy Holdings Limited

SOMERLEY LIMITED

A notice convening a special general meeting of China LotSynergy Holdings Limited to be held at Concord Rooms 2 & 3, 8/F., Renaissance Harbour View Hotel, 1 Harbour Road, Wanchai, Hong Kong on Monday, 22 October 2007 at 10:00 a.m. is set out on pages 188 to 190 of this circular. Whether or not you intend to be present at the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the principal place of business of China LotSynergy Holdings Limited at Unit 3206, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof (as the case may be). Completion and return of the accompanying form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof (as the case may be) should you so wish.

This circular will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for at least 7 days from the date of its posting.

4 October 2007

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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In this circular, the following expressions have the meanings set out below unless the context requires otherwise.

"Acquisition"	the acquisition of the Sale Shares by UIL pursuant to the Acquisition Agreement
"Acquisition Agreement"	the conditional sale and purchase agreement dated 10 September 2007 entered into among CIL, UIL and the Warrantors in relation to the Acquisition
"Aggregate Cash Consideration"	HK$156.8 million in cash, being the aggregate of cash portion of the Consideration, the GZSH Consideration and the LHL Consideration
"Board"	the board of Directors
"Business Day(s)"	any day (excluding Saturdays and Sundays) on which banks generally are open for business in Hong Kong and the PRC
"BVI"	the British Virgin Islands
"Burwill"	Burwill Holdings Limited (stock code: 24), a company incorporated in Bermuda with limited liability, the shares of which are listed on the main board of the Stock Exchange and on Singapore Exchange Securities Trading Limited
"Cash Consideration"	HK$117.6 million in cash, being the cash portion of the Consideration
"China" or "PRC"	The People's Republic of China, which for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"CIL" or "Vendor"	Citibest Investments Limited, a company incorporated in the BVI with limited liability and is owned as to 50% by Ms. Tsang and 50% by Mr. Wong
"CMIL"	Champ Mark Investments Limited, a company incorporated in the BVI with limited liability and a wholly-owned subsidiary of the Vendor as at the date of the Acquisition Agreement
"CMIL Group"	CMIL and its subsidiaries
"Company"	China LotSynergy Holdings Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the GEM
"Completion"	completion of the Acquisition Agreement

"connected person(s)"	has the meaning ascribed to it under the GEM Listing Rules
"Consideration"	the aggregate consideration of HK$168.0 million for the Acquisition pursuant to the Acquisition Agreement
"Consideration Shares"	50.4 million new Shares to be allotted and issued by the Company to the Vendor as part of the Consideration under the Acquisition Agreement
"CTL", "GZSH Purchaser" or "LHL Purchaser"	Champ Technology Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of CMIL
"Director(s)"	the director(s) of the Company
"Enlarged Group"	the Group and the CMIL Group
"GEM"	The Growth Enterprise Market of the Stock Exchange
"GEM Listing Rules"	The Rules Governing the Listing of Securities on the GEM
"Group"	the Company and its subsidiaries
"GZL"	廣州洛圖終端技術有限公司 (Guangzhou Lottnal Terminal Technology Company Limited*), a company established in the PRC with limited liability and is wholly-owned by LHL
"GZSH"	廣州市三環永新科技有限公司 (Guangzhou San Huan Yong Xin Technology Company Limited*), a company established in the PRC with limited liability and was owned as to 60.0%, 22.4%, 6.4%, 6.4% and 4.8% by CTL, Mr. Chen, Mr. Lin, Mr. Yan and Mr. Wang respectively as at the date of the GZSH Acquisition Agreement
"GZSH Acquisition"	the acquisition of the GZSH Sale Interest by CTL pursuant to the GZSH Acquisition Agreement
"GZSH Acquisition Agreement"	the conditional sale and purchase agreement dated 10 September 2007 entered into between CTL and the GZSH Vendors in relation to the GZSH Acquisition
"GZSH Completion"	completion of the transfer of the GZSH Sale Interest under the GZSH Acquisition Agreement
"GZSH Consideration"	the consideration of HK$8.0 million for the GZSH Acquisition pursuant to the GZSH Acquisition Agreement

"GZSH Sale Interest"	capital contribution in the sum of RMB2.0 million made by GZSH Vendors to GZSH, representing 20% of the total equity interests in GZSH
"GZSH Vendors"	Mr. Chen, Mr. Lin, Mr. Yan and Mr. Wang
"HKFRS"	Hong Kong Financial Reporting Standards
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Issue Price"	HK$1.0 per Share, being the issue price per Consideration Share and the issue price per LHL Consideration Share pursuant to the Acquisition Agreement and the LHL Acquisition Agreement respectively
"Last Trading Day"	10 September 2007, being the last trading day immediately preceding the date of the Acquisition Agreement, the GZSH Acquisition Agreement and the LHL Acquisition Agreement
"Latest Practicable Date"	2 October 2007, being the latest practicable date prior to printing of this circular for the purpose of ascertaining certain information contained herein
"LHL"	Lottnal Holdings Limited (洛圖控股有限公司), a company incorporated in Hong Kong with limited liability and was owned as to 60.0%, 22.0%, 14.0% and 4.0% by CTL, Mr. Chen, Mr. Lin and Mr. Miao respectively as at the date of the LHL Acquisition Agreement
"LHL Acquisition"	the acquisition of the LHL Sale Shares by CTL pursuant to the LHL Acquisition Agreement
"LHL Acquisition Agreement"	the conditional sale and purchase agreement dated 10 September 2007 entered into among CTL, the LHL Vendors, the LHL Warrantors and UIL in relation to the LHL Acquisition
"LHL Completion"	completion of the LHL Acquisition Agreement
"LHL Consideration"	the aggregate consideration of HK$48.0 million for the LHL Acquisition pursuant to the LHL Acquisition Agreement
"LHL Consideration Shares"	16.8 million new Shares to be allotted and issued by the Company to the LHL Vendors as part of the LHL Consideration under the LHL Acquisition Agreement
"LHL Group"	LHL and GZL

"LHL Sale Shares"	70,000 shares of US$1.0 each in the share capital of LHL, representing 20% of the total issued share capital of LHL
"LHL Vendors"	Mr. Chen, Mr. Lin and Mr. Miao
"LHL Warrantors"	Ms. Tsang, Mr. Wong, Mr. Yan, Mr. Wang and CIL, being the warrantors under the LHL Acquisition Agreement
"Mr. Chen"	Chen Hengben
"Mr. Lin"	Lin Jianzhong
"Mr. Miao"	Miao Zhikun
"Mr. Wang"	Wang Youcheng
"Mr. Wong"	Wong Chun Lam
"Mr. Yan"	Yan Hao
"Ms. Tsang"	Tsang Hoi Yin
"Net Profit"	the net profit after tax before minority interest from principal business activities of the CMIL Group, excluding (a) goodwill of any member of the CMIL Group; (b) the release and/or waiver of any amounts from any member of the CMIL Group to its shareholders and/or directors; (c) non-operating income; and (d) net profit from the New Project
"New Project"	a new agreement expected to be entered into between the CMIL Group and an independent third party in relation to the supply of terminals or other machinery by the CMIL Group
"Sale Shares"	3,600 issued shares of no par value in the share capital of CMIL, representing the entire issued share capital of CMIL
"SGM"	the special general meeting of the Company to be convened on Monday, 22 October 2007 for the purpose of considering and, if thought fit, approving the Acquisition, the GZSH Acquisition and the LHL Acquisition and the allotment and issue of the Consideration Shares and the LHL Consideration Shares
"Share(s)"	ordinary share(s) of HK$0.0025 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)

"Stage Two Acquisition Completion"	the fulfillment or waiver of all conditions precedent to the GZSH Acquisition and the LHL Acquisition
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"UIL" or "Purchaser"	Upmax Investments Limited, a company incorporated in the BVI with limited liability and a wholly-owned subsidiary of the Company
"VLT"	video lottery terminal
"Warrantors"	Ms. Tsang, Mr. Wong, Mr. Chen, Mr. Lin, Mr. Miao, Mr. Yan and Mr. Wang, being the warrantors under the Acquisition Agreement
"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"US$"	United States dollar(s), the lawful currency of the United States of America
"%"	per cent.

* *for identification purpose only*

China LotSynergy Holdings Limited
華彩控股有限公司
(Incorporated in Bermuda with limited liability)
(Stock code: 8161)

Executive Directors:
CHAN Shing *(Chairman)*
LAU Ting *(Deputy Chairman)*
HOONG Cheong Thard *(Chief Executive Officer)*
WU Jingwei
WANG Taoguang

Non-Executive Directors:
SUN Ho
Paulus Johannes Cornelis Aloysius KARSKENS

Independent Non-Executive Directors:
HUANG Shenglan
CHAN Ming Fai
LI Xiaojun

Registered office:
Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

Head office and principal place of business:
Unit 3206, Office Tower
Convention Plaza
1 Harbour Road
Wanchai
Hong Kong

4 October 2007

To the Shareholders and, for information only, holders of convertible note and options of the Company

Dear Sir or Madam,

MAJOR TRANSACTION
ACQUISITION OF INTERESTS IN
TRADITIONAL COMPUTER LOTTERY SYSTEM
AND
EQUIPMENT SUPPLIERS

INTRODUCTION

On 12 September 2007, the Board announced that on 10 September 2007, the Group, through entering into of the Acquisition Agreement, and the entering into of the GZSH Acquisition Agreement and the LHL Acquisition Agreement by the CMIL Group, has conditionally agreed to acquire an aggregate of 80% equity interests in GZSH and the LHL Group. The aggregate consideration of the Acquisition, the GZSH Acquisition and the LHL Acquisition amounts to HK$224.0 million which will be satisfied as to (i) HK$156.8 million by cash; and (ii) HK$67.2 million by the allotment and issue of an aggregate of 67.2 million new Shares at the Issue Price of HK$1.0 per Share. The Acquisition, the GZSH Acquisition and the LHL Acquisition will be completed in two stages as detailed below.

Stage 1: Acquisition of 60% equity interests in GZSH and the LHL Group

On 10 September 2007, the Group entered into the Acquisition Agreement with the Vendor under which the Group has conditionally agreed to acquire from the Vendor and the Vendor has conditionally agreed to sell to the Group 100% equity interests in CMIL for an aggregate consideration of HK$168.0 million (subject to adjustments) which will be satisfied as to (i) HK$117.6 million by cash; and (ii) HK$50.4 million by the allotment and issue of 50.4 million Consideration Shares at the Issue Price of HK$1.0 per Consideration Share. The principal asset of CMIL is its interests in CTL and CTL holds 60% equity interests in each of GZSH and the LHL Group.

Stage 2: Acquisition of further 20% equity interests in GZSH and the LHL Group

On the same date, CTL, a wholly-owned subsidiary of CMIL, also entered into the GZSH Acquisition Agreement and the LHL Acquisition Agreement respectively with the GZSH Vendors and the LHL Vendors pursuant to which (i) CTL has conditionally agreed to acquire from the GZSH Vendors and the GZSH Vendors have conditionally agreed to sell to CTL 20% equity interests in GZSH at a cash consideration of HK$8.0 million; and (ii) CTL has conditionally agreed to acquire from the LHL Vendors and the LHL Vendors have conditionally agreed to sell to CTL 20% equity interests in LHL for an aggregate consideration of HK$48.0 million which will be satisfied as to (a) HK$31.2 million by cash; and (b) HK$16.8 million by the allotment and issue of 16.8 million LHL Consideration Shares at the Issue Price of HK$1.0 per LHL Consideration Share.

The aggregate consideration of the Acquisition, the GZSH Acquisition and the LHL Acquisition is summarised as follows:

	Cash	**Consideration shares**	**Total**
	HK$ million	*HK$ million*	*HK$ million*
Stage 1:			
Acquisition of 60% equity interests in GZSH and the LHL Group	117.6	50.4	168.0
Stage 2:			
(i) Acquisition of further 20% equity interests in GZSH	8.0	–	8.0
(ii) Acquisition of further 20% equity interests in the LHL Group	31.2	16.8	48.0
	156.8	67.2	224.0

The Acquisition, the GZSH Acquisition and the LHL Acquisition constitute a major transaction for the Company under the GEM Listing Rules and are subject to the disclosure and Shareholders' approval requirements stipulated thereunder. The SGM will be convened to consider and, if thought fit, approve the Acquisition, the GZSH Acquisition and the LHL Acquisition and the allotment and issue of the Consideration Shares and the LHL Consideration Shares.

The purpose of this circular is to provide you with, among other things, (i) further details of the Acquisition, the GZSH Acquisition and the LHL Acquisition, (ii) financial information on the Group, the CMIL Group and the pro forma financial information on the Enlarged Group; (iii) notice of the SGM; and (iv) other information required under the GEM Listing Rules.

THE ACQUISITION AGREEMENT

1. Date

10 September 2007

2. Parties

(i) UIL, a wholly-owned subsidiary of the Company, as the purchaser of the Sale Shares;

(ii) CIL as the vendor of the Sale Shares; and

(iii) the Warrantors as the warrantors.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Vendor, its ultimate beneficial owners and the Warrantors are third parties independent of the Group and connected persons of the Group. CIL is an investment holding company holding 60% equity interests in each of GZSH and the LHL Group.

3. Principal terms of the Acquisition Agreement

Assets to be acquired

Pursuant to the Acquisition Agreement, the Purchaser has conditionally agreed to acquire from the Vendor and the Vendor has conditionally agreed to sell to the Purchaser the Sale Shares, representing the entire issued share capital of CMIL.

The principal assets of the CMIL Group are 60% equity interests in each of GZSH and the LHL Group.

Upon Completion, the Group is not restricted from disposing of the Sale Shares.

The Consideration

The Consideration is HK$168.0 million (subject to adjustments), to be satisfied as to (i) HK$117.6 million by cash, of which HK$16.8 million was paid within 3 Business Days after the date of the Acquisition Agreement and the remaining balance of HK$100.8 million is payable at Completion; and (ii) HK$50.4 million by the allotment and issue of 50.4 million Consideration Shares at the Issue Price of HK$1.0 per Consideration Share, credited as fully paid, to the Vendor (or its nominees) at Completion.

Based on the closing price of HK$0.85 per Share on the Last Trading Day, the Consideration Shares had a market value of HK$42.84 million. The Directors intend to finance the cash consideration by internal resources.

(a) Basis of the Consideration

The Consideration was determined after arm's length negotiation between the Vendor and the Purchaser, with reference to, among other things (i) the future growth prospects and earnings capability of the CMIL Group; and (ii) the financial position of the CMIL Group. The Directors consider that the Consideration, including its payment terms, is fair and reasonable and the entering into of the Acquisition Agreement is in the interest of the Company and the Shareholders as a whole.

(b) The Consideration Shares and the Issue Price

The Consideration Shares will be issued at the Issue Price of HK$1.0 per Consideration Share, which was determined with reference to the prevailing market prices of the Shares on the Last Trading Day. The Issue Price represents:

(i) a premium of approximately 17.6% over the closing price of HK$0.85 per Share as quoted on the Stock Exchange on the date of the Acquisition Agreement;

(ii) a premium of approximately 13.4% over the average closing price of approximately HK$0.882 per Share for the last 5 trading days immediately prior to the date of the Acquisition Agreement;

(iii) a premium of approximately 10.0% over the average closing price of approximately HK$0.909 per Share for the last 10 trading days immediately prior to the date of the Acquisition Agreement; and

(iv) a premium of approximately 8.7% over the closing price of HK$0.92 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Consideration Shares represent approximately 0.67% of both the total existing issued share capital of the Company as at the Latest Practicable Date and the total issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares.

The Consideration Shares, when issued and credited as fully paid, will rank pari passu amongst themselves and in all respects with the existing Shares in issue as at the date of Completion. An ordinary resolution will be proposed at the SGM to seek, among other things, a specific mandate for the issue of the Consideration Shares pursuant to the Acquisition Agreement.

An application has been made by the Company to the Stock Exchange for granting the approval for the listing of, and permission to deal in, the Consideration Shares.

(c) Consideration adjustments

The Consideration will be adjusted downwards if the Net Profit in the audited consolidated accounts of the CMIL Group for the year ending 31 December 2007 and/or 31 December 2008 is less than HK$25 million (the "2007 Target Profit") and/or HK$40 million (the "2008 Target Profit") respectively. The adjusted consideration will be repayable by the Vendor in cash in accordance with a formula with reference to the level of CMIL's shareholding interests in GZSH and the LHL Group and the Net Profit achieved for the year ending 31 December 2007 and/or 31 December 2008, subject to a maximum of HK$67.2 million in aggregate. In respect of the Net Profit of the CMIL Group for the year ending 31 December 2007, the adjusted consideration will be equal to the proportion of the shortfall of the 2007 Target Profit over the 2007 Target Profit times the Cash Consideration (before the Stage Two Acquisition Completion) or the Aggregate Cash Consideration (after the Stage Two Acquisition Completion). In respect of the Net Profit of the CMIL Group for the year ending 31 December 2008, the adjusted consideration will be equal to the proportion of the shortfall of the 2008 Target Profit over the 2008 Target Profit times 50% of the Cash Consideration (before the Stage Two Acquisition Completion) or 50% of the Aggregate Cash Consideration (after the Stage Two Acquisition Completion).

(d) Share charges in respect of the Consideration Shares and the LHL Consideration Shares

The Vendor and the LHL Vendors will charge the Consideration Shares and the LHL Consideration Shares, respectively, in favour of the Purchaser at Completion and LHL Completion as security for repayment obligations of the Vendor arising as a result of the adjustment of the Consideration as referred to in paragraph headed "Consideration adjustments" above. 50% of the aforesaid charged Shares will be discharged if the Net Profit in the audited consolidated accounts of the CMIL Group for the year ending 31 December 2007 is not less than HK$25 million and the remaining 50% of the aforesaid charged Shares will be discharged if the Net Profit in the audited consolidated accounts of the CMIL Group for the year ending 31 December 2008 is not less than HK$40 million.

Key conditions precedent

Completion is conditional upon, among other things:

(i) completion of and satisfaction of the results of the due diligence exercise on the CMIL Group by the Purchaser;

(ii) the Shareholders approving the Acquisition Agreement and the transactions contemplated thereunder at the SGM, including but not limited to the allotment and issue of the Consideration Shares;

(iii) the listing committee of the Stock Exchange granting the approval for the listing of, and permission to deal in, the Consideration Shares;

(iv) the Bermuda Monetary Authority granting the approval for the allotment and issue of the Consideration Shares, if required;

(v) the entering into of the GZSH Acquisition Agreement between the GZSH Vendors and CTL in relation to the acquisition of further 20% equity interests in GZSH by CTL from the GZSH Vendors at a consideration of HK$8.0 million and the shareholders' agreement in respect of GZSH, in form and substance acceptable to the Purchaser;

(vi) the entering into of the LHL Acquisition Agreement between the LHL Vendors and CTL in relation to the acquisition of further 20% equity interests in LHL by CTL from the LHL Vendors at a total consideration of HK$48.0 million (as to HK$31.2 million by cash and as to HK$16.8 million by the LHL Consideration Shares) and the shareholders' agreement in respect of LHL, in form and substance acceptable to the Purchaser; and

(vii) the execution of a deed of taxation indemnity by the Vendor and the Warrantors in favour of the Purchaser in form and substance acceptable to the Purchaser.

Completion

Completion shall take place on the seventh Business Days or such later date as the parties may agree in writing after the fulfillment or waiver of the conditions. The conditions shall be fulfilled or waived within three months after the date of the Acquisition Agreement or such other later date as the parties to the Acquisition Agreement may agree in writing.

Other principal terms of the Acquisition Agreement

Net asset value warranty

The Vendor has warranted that the net asset value of the CMIL Group as shown in the consolidated audited accounts of the CMIL Group for the six months ended 30 June 2007 and the management accounts of the CMIL Group for the six months ended 30 June 2007, both prepared in accordance with the applicable Hong Kong accounting standards, shall not be less than HK$58.88 million. In the event that the net asset value as shown in any of the above accounts or in the management account for the period from 1 July 2007 to the last day of the calendar month immediately preceding the date of Completion is less than HK$58.88 million, the Vendor will compensate the shortfall of the net asset value, on a dollar-to-dollar basis, to the Purchaser.

The New Project

It is expected that a new lottery terminal supply agreement would be entered into between the CMIL Group and an independent third party company.

The Vendor and the Warrantors have undertaken to the Company to use their best endeavors to procure execution of the New Project within a reasonable practicable time after Completion. The Vendor and the Warrantors will be entitled to 30% of the net profit generated from the New Project by the CMIL Group for the period from the effective date of the New Project to 30 June 2009. Granting of profit entitlement to the Vendor and the Warrantors would provide the Vendor and the Warrantors with incentives to negotiate the terms of and enter into the New Project which would maximise the value of the CMIL Group and hence the Group. The granting of profit entitlement and the relevant sharing profit percentage were determined after arm's length negotiation among the Vendor, the Purchaser and the Warrantors. In light of the fact that (i) the Company has not taken into account the potential benefits generated from the New Project while determining the Consideration; and (ii) the reasons for the granting of profit entitlement as mentioned above, the Directors consider the granting of profit entitlement is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

THE GZSH ACQUISITION AGREEMENT

1. Date

10 September 2007

2. Parties

(i) CTL as the purchaser of the GZSH Sale Interest; and

(ii) Mr. Chen, Mr. Lin, Mr. Yan and Mr. Wang as vendors of the GZSH Sale Interest.

The GZSH Vendors, who are experienced lottery-related business professionals, are the existing shareholders and management of GZSH. Further details of the management of GZSH are set out in the paragraph headed "Information on the CMIL Group" below. Save for being the parties to the Acquisition Agreement, the GZSH Acquisition Agreement and the LHL Acquisition Agreement, the GZSH Vendors are third parties independent of the Group and connected persons of the Group.

3. Principal terms of the GZSH Acquisition Agreement

Assets to be acquired

Pursuant to the GZSH Acquisition Agreement, the GZSH Purchaser has conditionally agreed to acquire from the GZSH Vendors and the GZSH Vendors have conditionally agreed to sell to the GZSH Purchaser the GZSH Sale Interest (on a pro rata basis in accordance with the GZSH Vendors' respective equity interests in GZSH, i.e. 11.2%, 3.2%, 3.2% and 2.4% equity interests in GZSH held by Mr. Chen, Mr. Lin, Mr. Yan and Mr. Wang respectively), representing 20% of the total equity interests in GZSH.

Upon GZSH Completion, the Group is not restricted from disposing of the GZSH Sale Interest.

The GZSH Consideration

The GZSH Consideration is HK$8.0 million payable in cash within 10 Business Days upon GZSH Completion. The Directors intend to finance the GZSH Consideration by internal resources. The GZSH Consideration of HK$8.0 million will be payable to Mr. Chen, Mr. Lin, Mr. Yan and Mr. Wang as to HK$4.48 million, HK$1.28 million, HK$1.28 million and HK$0.96 million respectively.

The GZSH Consideration was determined after arm's length negotiation between the GZSH Purchaser and the GZSH Vendors with reference to, among other things (i) the future growth prospects and earnings capability of GZSH; and (ii) the financial position of GZSH. The Directors consider that the GZSH Consideration, including its payment terms, is fair and reasonable and the entering into of the GZSH Acquisition Agreement is in the interest of the Company and the Shareholders as a whole.

Key conditions precedent

Payment of the GZSH Consideration is conditional upon, among other things:

(i) the board of directors of GZSH approving the transactions contemplated under the GZSH Acquisition Agreement;

(ii) obtaining all necessary approval(s) from the relevant approval authority for the equity transfer under the GZSH Acquisition Agreement; and

(iii) obtaining the new business licence of GZSH as a result of the GZSH Acquisition Agreement from the administration of industry and commerce.

It was agreed between the GZSH Vendors and the GZSH Purchaser that payment of the GZSH Consideration is conditional upon:

(i) the Shareholders approving the GZSH Acquisition Agreement at the SGM;

(ii) Completion; and

(iii) fulfillment and/or waiver of all the conditions precedent set out in the LHL Acquisition Agreement.

GZSH Completion

GZSH Completion is conditional upon the Shareholders approving the GZSH Acquisition Agreement at the SGM. GZSH Completion shall take place on the date on which the new business license of GZSH for the change of equity interests under the GZSH Acquisition Agreement is issued by the administration of industry and commerce. The GZSH

Vendors shall use their best efforts to fulfill the conditions within six months after the date of the GZSH Acquisition Agreement, or such later date as the parties to the GZSH Acquisition Agreement may agree within one month of the expiry of the above period.

The GZSH Consideration shall be payable in cash by the GZSH Purchaser to the GZSH Vendors within 10 Business Days upon GZSH Completion.

4. Shareholding structures of GZSH immediately before and after GZSH Completion

Set out below are the shareholding structures of GZSH immediately before and after GZSH Completion:

	Immediately before GZSH Completion	**Immediately after GZSH Completion**
CTL	60.0%	80.0%
GZSH Vendors:		
Mr. Chen	22.4%	11.2%
Mr. Lin	6.4%	3.2%
Mr. Yan	6.4%	3.2%
Mr. Wang	4.8%	2.4%

THE LHL ACQUISITION AGREEMENT

1. Date

10 September 2007

2. Parties

(i) CTL as purchaser of the LHL Sale Shares;

(ii) Mr. Chen, Mr. Lin and Mr. Miao as vendors of the LHL Sale Shares;

(iii) the LHL Warrantors as warrantors; and

(iv) UIL.

The LHL Vendors, who are experienced lottery-related business professionals, are the existing shareholders and management of LHL. Further details of the management of LHL are set out in the paragraph headed "Information on the CMIL Group" below. Save for being the parties to the Acquisition Agreement, the GZSH Acquisition Agreement and the LHL Acquisition Agreement, the LHL Vendors and the LHL Warrantors are third parties independent of the Group and the connected persons of the Group.

3. Principal terms of the LHL Acquisition Agreement

Assets to be acquired

Pursuant to the LHL Acquisition Agreement, the LHL Purchaser has conditionally agreed to acquire from the LHL Vendors and the LHL Vendors have conditionally agreed to sell to the LHL Purchaser the LHL Sale Shares (on a pro rata basis to the LHL Vendors' respective shareholding in LHL, i.e. 11.0%, 7.0% and 2.0% shareholding in LHL held by Mr. Chen, Mr. Lin and Mr. Miao respectively), representing 20% of the total issued share capital of LHL.

Upon LHL Completion, the Group is not restricted from disposing of the LHL Sale Shares.

The LHL Consideration

The LHL Consideration is HK$48.0 million, to be satisfied as to (i) HK$31.2 million by cash payable at LHL Completion; and (ii) HK$16.8 million by the allotment and issue of 16.8 million LHL Consideration Shares at the Issue Price of HK$1.0 per LHL Consideration Share, credited as fully paid, to the LHL Vendors (or their respective nominees) at LHL Completion. Based on the closing price of HK$0.85 per Share on the Last Trading Day, the LHL Consideration Shares had a market value of HK$14.28 million. The Directors intend to finance the cash portion of the LHL Consideration by internal resources. The cash portion of the LHL Consideration of HK$31.2 million will be payable to Mr. Chen, Mr. Lin and Mr. Miao as to HK$17.16 million, HK$10.92 million and HK$3.12 million respectively. The Share portion of the LHL Consideration of 16.8 million LHL Consideration Shares will be allotted and issued to Mr. Chen, Mr. Lin and Mr. Miao (or their respective nominees) as to 9.24 million LHL Consideration Shares, 5.88 million LHL Consideration Shares and 1.68 million LHL Consideration Shares respectively.

(a) Basis of the LHL Consideration

The LHL Consideration was determined after arm's length negotiation between the LHL Purchaser and the LHL Vendors with reference to, among other things (i) the future growth prospects and earnings capability of the LHL Group; and (ii) the financial position of the LHL Group. The Directors consider that the LHL Consideration, including its payment terms, is fair and reasonable and the entering into of the LHL Acquisition Agreement is in the interest of the Company and the Shareholders as a whole.

(b) The LHL Consideration Shares and the Issue Price

The LHL Consideration Shares will be issued at the Issue Price of HK$1.0 per LHL Consideration Share, which was determined with reference to the prevailing market prices of the Shares at the Last Trading Day.

The LHL Consideration Shares represent:

(i) approximately 0.22% of the total issued share capital of the Company as at the Latest Practicable Date;

(ii) approximately 0.22% of the total issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares; and

(iii) approximately 0.22% of the total issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares and the LHL Consideration Shares.

The LHL Consideration Shares, when issued and credited as fully paid, will rank pari passu amongst themselves and in all respects with the existing Shares and the Consideration Shares in issue as at the date of LHL Completion. An ordinary resolution will be proposed at the SGM to seek, among other things, a specific mandate for the issue of the LHL Consideration Shares pursuant to the LHL Acquisition Agreement.

An application has been made by the Company to the Stock Exchange for granting the approval for the listing of, and permission to deal in, the LHL Consideration Shares.

Key conditions precedent

LHL Completion is conditional upon, among other things:

(i) completion of and satisfaction of the results of the due diligence exercise on the LHL Group by the LHL Purchaser;

(ii) the Shareholders approving the LHL Acquisition Agreement and the transactions contemplated thereunder at the SGM, including but not limited to the allotment and issue of the LHL Consideration Shares;

(iii) the listing committee of the Stock Exchange granting the approval for the listing of, and permission to deal in, the LHL Consideration Shares;

(iv) the Bermuda Monetary Authority granting the approval for the issue and allotment of the LHL Consideration Shares, if required;

(v) fulfillment or waiver (as the case may be) of all conditions precedent to the GZSH Acquisition Agreement to the satisfaction of the LHL Purchaser;

(vi) the entering into of the shareholders' agreement in respect of LHL in form and substance acceptable to the LHL Purchaser; and

(vii) completion of the share transfer under the Acquisition Agreement, as a result of which, UIL wholly owns CMIL which in turns owns 60% equity interests in LHL.

LHL Completion

LHL Completion shall take place on the seventh Business Days or such later date as the parties may agree in writing after the fulfillment and/or waiver of the conditions. The LHL Vendors shall use their best efforts to fulfill the conditions within six months after the date of the LHL Acquisition Agreement, or such later date as the parties to the LHL Acquisition Agreement may agree in writing. Payment of the LHL Consideration is made upon LHL Completion.

4. Shareholding structures of LHL immediately before and after LHL Completion

Set out below are the shareholding structures of LHL immediately before and after LHL Completion:

	Immediately before LHL Completion	**Immediately after LHL Completion**
CTL	60.0%	80.0%
LHL Vendors:		
Mr. Chen	22.0%	11.0%
Mr. Lin	14.0%	7.0%
Mr. Miao	4.0%	2.0%

INFORMATION ON THE CMIL GROUP

1. CMIL Group

CMIL was incorporated in the BVI with limited liability on 6 January 2006. The principal asset of CMIL is its 100% equity interests in CTL. CTL holds 60% equity interests in LHL and GZSH, respectively. The audited net asset (before minority interest) of the CMIL Group as at 30 June 2007 was approximately HK$58,880,000. Set out below is other audited consolidated financial information of the CMIL Group, which includes the results of GZSH and the LHL Group, prepared in accordance with the HKFRS:

	For the period from the date of incorporation (6 January 2006) to 31 December 2006 *HK$'000*	**For the six months ended 30 June 2007** *HK$'000*
Turnover	956	17,087
Net profit before tax (before minority interests)	782	46,066 *(Note)*
Net profit after tax (before minority interests)	647	44,987 *(Note)*

Note: The amounts included waiver of certain debts amounting to approximately HK$36,448,000 resulting from a restructuring.

2. GZSH

Currently, GZSH is one of the three largest suppliers in the PRC which specialise in the provision of lottery system and equipment to the provincial welfare lottery issuing authorities. In reviewing the ranking, the Board has considered (i) suppliers with permit issued by China Welfare Lottery Issuance Centre ("CWLC") to access the welfare lottery network (福彩入網許可證); (ii) the number of lottery terminals supplied by the suppliers; and (iii) the amount of traditional welfare lottery sales generated by the terminals supplied by the various suppliers in each of the provinces in the PRC. GZSH has supplied more than 7,000 lottery terminals to Guangdong Welfare Lottery Issuing Centre in the Guangdong Province, which is one of the most developed markets for lottery in the PRC. It is also entitled to a share of revenue derived from the lottery sales in the province. For the three years ended 31 December 2006, GZSH achieved an approximately 33.7% compounded average growth rate in terms of turnover. This is mainly attributable to the growth in computer lottery sales in the Guangdong Province.

The Company has conducted legal, financial and business due diligence on the CMIL Group (including GZSH) and will continue to perform further due diligence with respect of the business of the CMIL Group including the business background of GZSH.

Specifically, the due diligence on the background of GZSH encompasses:

(i) interview of key management team members of GZSH;

(ii) review of existing contracts with Guangdong Welfare Lottery Issuance Centre and Shenzhen Welfare Lottery Issuance Centre and other material contracts;

(iii) financial review of GZSH; and

(iv) review of historical business performance including quantity of terminals supplied and welfare lottery sales data.

The key management of GZSH, who all held the titles of engineer/senior engineer, have over 10 years of experience in the lottery business. Possessing extensive practical experiences and specialised skills, they were amongst the first technicians in entering into the lottery business in the PRC, working on the development of lottery systems and lottery-related equipment. This team had successfully developed a wide range of product types and models of lottery terminals and lottery ticket scanners, and had participated in the development of various online lottery systems. In the past five years, they have been the shareholders and core management of GZSH.

The audited net asset value of GZSH as at 31 December 2006 was approximately HK$13,801,000. Set out below is other audited financial information of GZSH prepared in accordance with the HKFRS:

	For the year ended 31 December 2005 *HK$'000*	For the year ended 31 December 2006 *HK$'000*
Turnover	23,605	27,740
Net (loss)/profit before tax	(1,300)	1,118
Net (loss)/profit after tax	(1,880)	1,299

3. LHL Group

The principal asset of LHL is its 100% equity interests in GZL. LHL is an investment holding company incorporated in Hong Kong with limited liability on 29 December 2000. It was owned as to 60.0%, 22.0%, 14.0% and 4.0% by CTL, Mr. Chen, Mr. Lin and Mr. Miao respectively as at the date of the LHL Acquisition Agreement.

GZL is a well-known corporation which is principally engaged in the research and development and manufacturing of lottery ticket scanners. Since its establishment, it has supplied more than 40,000 units of lottery ticket scanner to its customers in both the PRC and overseas. GZL is also involved in the business of supplying of lottery system and equipment to overseas market. GZL owns a number of important intellectual property rights relating to lottery ticket scanner. For the three years ended 31 December 2006, the LHL Group achieved an approximately 138.5% compounded average growth rate in terms of turnover. This is mainly attributable to the increasing demand of lottery ticket scanners in the PRC lottery market.

The key management of LHL, who all held the titles of engineer/senior engineer, have over 10 years of experience in the lottery business. Possessing extensive practical experiences and specialised skills, they were amongst the first technicians in entering into the lottery business in the PRC, working on the development of lottery systems and lottery-related equipment. This team had successfully developed a wide range of product types and models of lottery terminals and lottery ticket scanners, and had participated in the development of various online lottery systems. In the past five years, they have been the shareholders and core management of LHL.

The audited net asset value of the LHL Group as at 31 December 2006 was approximately HK$13,092,000. Set out below is other audited financial information of the LHL Group prepared in accordance with the HKFRS:

	For the year ended 31 December 2005 *HK$'000*	For the year ended 31 December 2006 *HK$'000*
Turnover	5,874	15,438
Net profit before tax	2,813	8,508
Net profit after tax	2,697	7,151

Immediately upon Completion, the CMIL Group (including each of CTL, GZSH, LHL and GZL) will become subsidiaries of the Company and their results and financial positions will be consolidated in the accounts of the Group.

SHAREHOLDING IN THE COMPANY

The shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately upon Completion; and (iii) immediately upon Completion, GZSH Completion and LHL Completion, are set out below:

Shareholders	As at the Latest Practicable Date		Immediately upon Completion		Immediately upon Completion, GZSH Completion and LHL Completion	
	Number of Shares	*%*	*Number of Shares*	*%*	*Number of Shares*	*%*
Parties acting in concert:						
Burwill	1,541,956,296	20.51	1,541,956,296	20.37	1,541,956,296	20.32
Chan Shing	337,407,092	4.49	337,407,092	4.45	337,407,092	4.45
Lau Ting	209,155,212	2.78	209,155,212	2.76	209,155,212	2.75
Hang Sing Overseas Limited	45,280,768	0.60	45,280,768	0.60	45,280,768	0.60
Strong Purpose Corporation	42,380,168	0.56	42,380,168	0.56	42,380,168	0.56
Sub-total	2,176,179,536	28.94	2,176,179,536	28.74	2,176,179,536	28.68
CIL	–	–	50,400,000	0.67	50,400,000	0.66
Mr. Chen	–	–	–	–	9,240,000	0.12
Mr. Lin	–	–	–	–	5,880,000	0.08
Mr. Miao	–	–	–	–	1,680,000	0.02
Other non-public Shareholders *(Note 1)*	70,836,000	0.94	70,836,000	0.94	70,836,000	0.94
Public Shareholders *(Note 2)*	5,273,312,464	70.12	5,273,312,464	69.65	5,273,312,464	69.50
Total	7,520,328,000	100.00	7,570,728,000	100.00	7,587,528,000	100.00

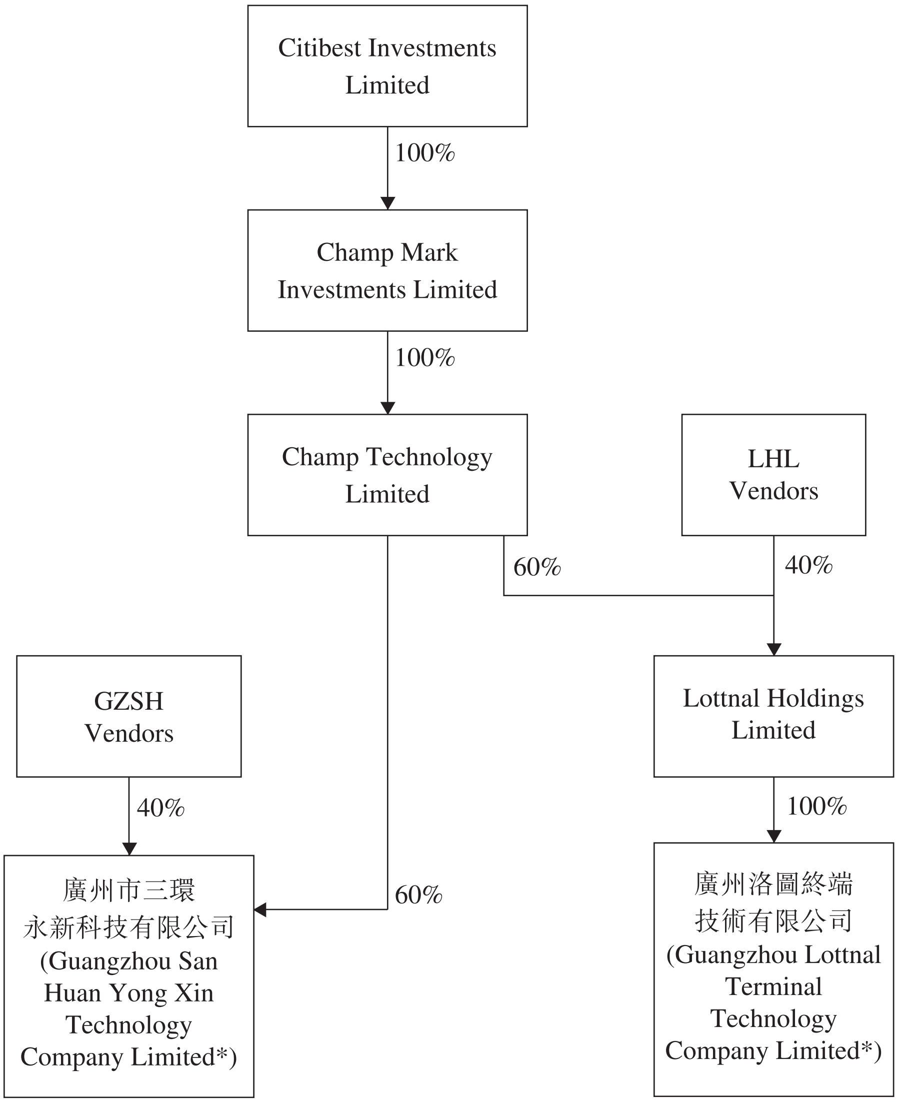
Notes:

1. The interests held by other non-public Shareholders in the share capital of the Company consist of the interests held by connected persons of the Company (other than Mr. Chan Shing and Ms. Lau Ting, both are the substantial Shareholders and the Directors).

2. As at the Latest Practicable Date, the interests held by public Shareholders in the share capital of the Company include the interests held by Atlantis Investment Management Limited, Legg Mason Inc, Lloyds TSB Group Plc, Lim Loong Keng, Yu Man Yiu, Park, Ward Ferry Management (BVI) Limited, JPMorgan Chase & Co., International Game Technology as to approximately 8.19%, 7.54%, 7.14%, 6.17%, 5.81%, 5.75%, 5.18% and 4.97% respectively.

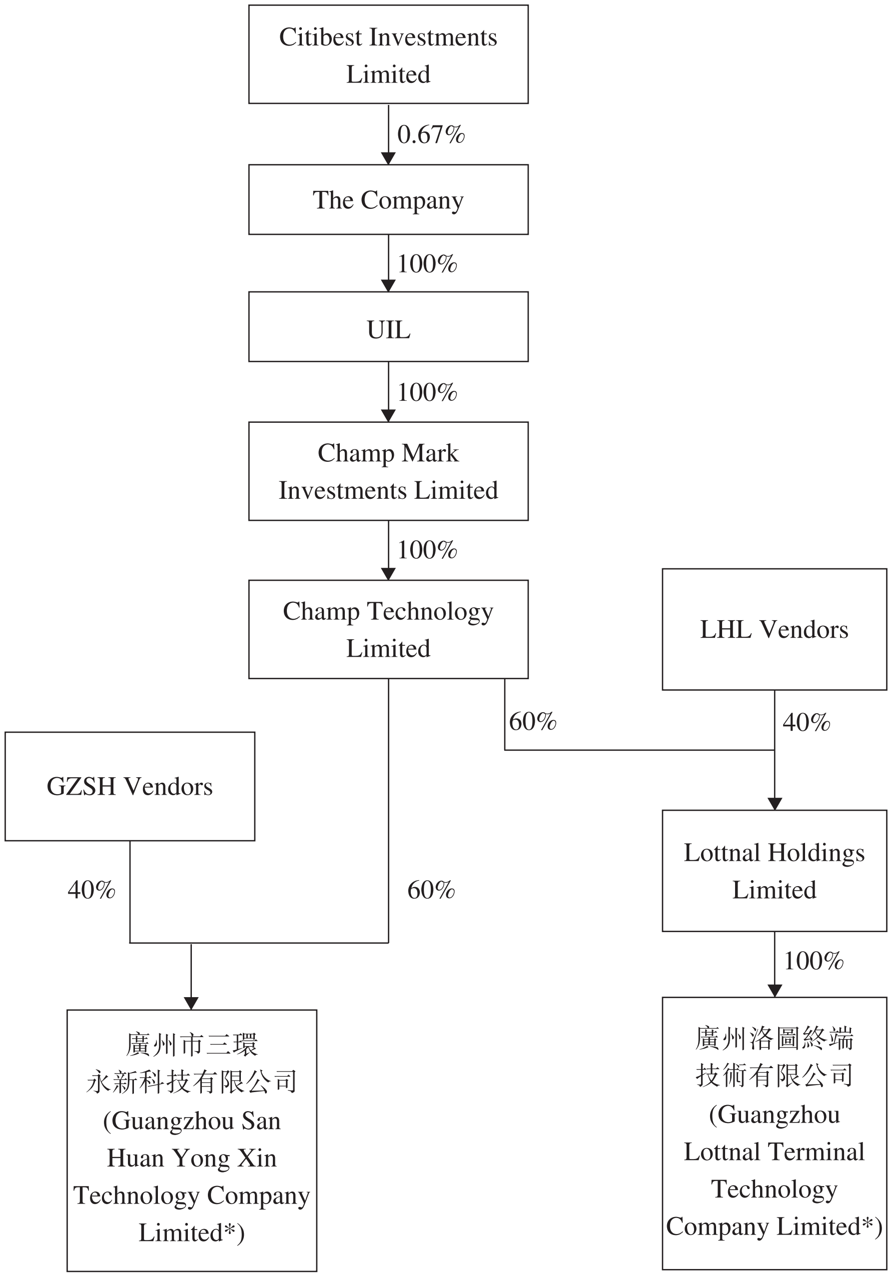
SHAREHOLDING STRUCTURE OF THE GROUP AND THE CMIL GROUP

Shareholding structure of the CMIL Group as at the Latest Practicable Date



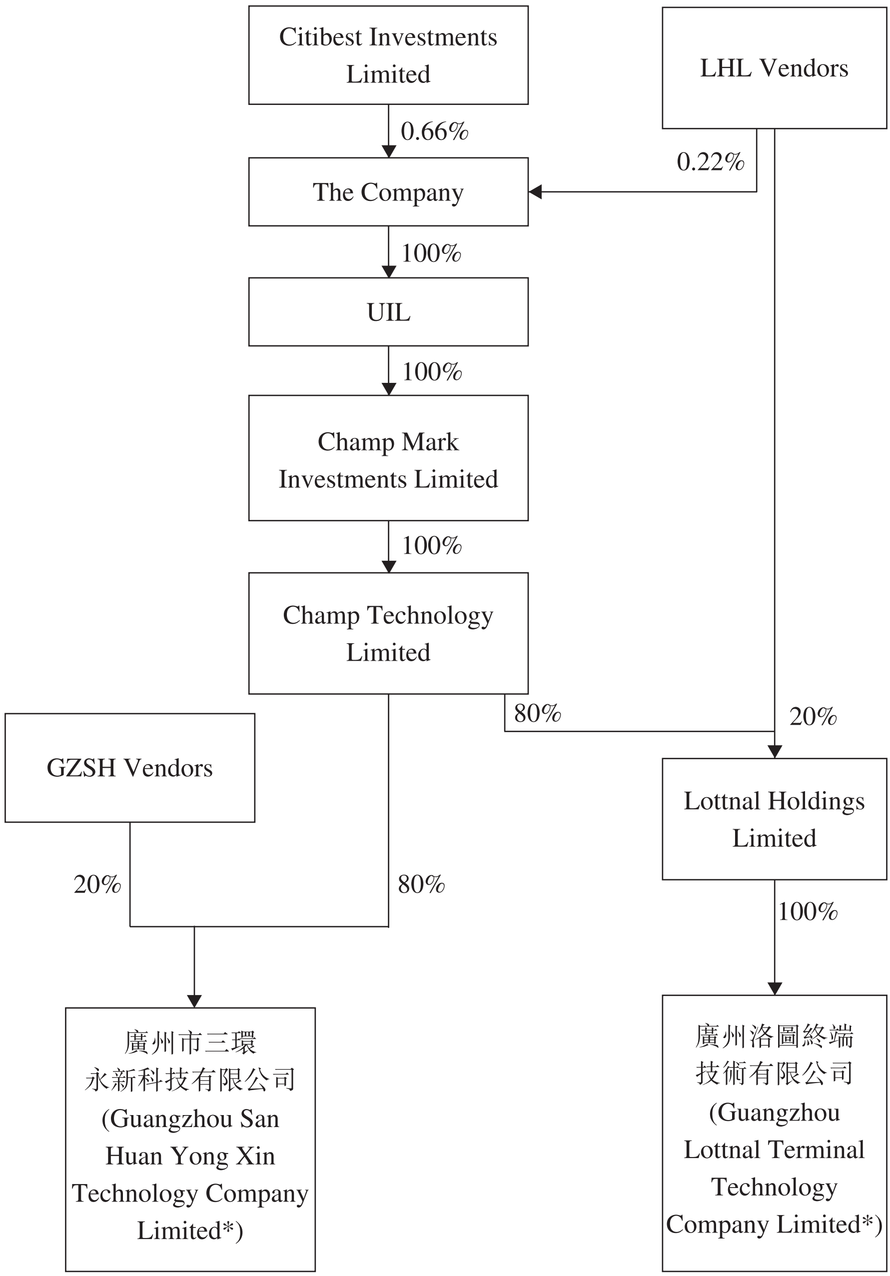
* *for identification purpose only*

Shareholding structure of the Group so far as is relevant to the CMIL Group immediately upon Completion



* *for identification purpose only*

Shareholding structure of the Group so far as is relevant to the CMIL Group immediately upon Completion, GZSH Completion and LHL Completion



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INFORMATION ON THE GROUP

The Group is principally engaged in investment, project development and the provision of technologies, equipment and consultancy services in public welfare lottery business and related sectors.

Currently, one of the principal businesses of the Group is in the research and development and manufacturing of VLTs, and provision of VLTs to Beijing Lottery Online Technology Co., Ltd. ("CLO"). As at the end of August 2007, there were approximately 18,000 connected VLTs operating in 750 CLO halls throughout China.

The Group's associated company, Tabcorp International Hong Kong Limited, is principally engaged in the business of supply of Keno system and terminals to China.

In May 2007, the Group and International Game Technology ("IGT") formed a strategic alliance whereby the Group will be able to obtain advanced international gaming technologies and systems, as well as operation and management expertise, to facilitate expansion of its business in the lottery market in China. The Group has recently formed a 50:50 joint venture with IGT.

REASONS FOR THE ACQUISITIONS

The Board believes that the acquisitions of the CMIL Group will enable the Group to build on its foundation to expand into the traditional computer lottery related businesses in the PRC.

CMIL, through its subsidiaries, GZSH and GZL, is principally engaged in the research and development, manufacturing and the supply of computer lottery system and equipment in the PRC. It is also involved in the provision of maintenance services. GZSH and GZL are technology corporations in the Guangdong Province and possess a number of important intellectual property rights relating to lottery equipment.

Currently, GZSH is one of the three largest suppliers in the PRC which specialise in the provision of lottery system and equipment to the provincial welfare lottery issuing authorities. In reviewing the ranking, the Board has considered (i) suppliers with permit issued by CWLC to access the welfare lottery network (福彩入網許可證); (ii) the number of lottery terminals supplied by the suppliers; and (iii) the amount of traditional welfare lottery sales generated by the terminals supplied by the various suppliers in each of the provinces in the PRC. GZSH has supplied more than 7,000 lottery terminals to Guangdong Welfare Lottery Issuing Centre in the Guangdong Province, which is one of the most developed markets for lottery in the PRC. It is also entitled to a share of revenue derived from the lottery sales in the province.

GZL is a well-known corporation which is principally engaged in the research and development and manufacturing of lottery ticket scanners. Since its establishment, it has supplied more than 40,000 units of lottery ticket scanners to its customers in both the PRC and overseas.

At present, the CMIL Group is actively developing business in overseas markets. It is also a supplier of lottery terminal to the Keno project carried out by an associated company of the Group.

The Board believes that the Acquisition, the GZSH Acquisition and the LHL Acquisition are consistent with the Group's long-term development strategy. The acquisitions will not only create synergistic benefits to the existing business of the Group, but will also allow the Group to expand into other related business areas. The Board believes that the acquisitions will strengthen the Group's overall capability and will position the Group well for its development in the industry.

FINANCIAL EFFECTS OF THE ACQUISITIONS

Set out in Appendix III to this circular is the unaudited pro forma financial information on the Enlarged Group which illustrates the financial impact of the Acquisition, the GZSH Acquisition and the LHL Acquisition on the assets and liabilities of the Group, assuming the Acquisition, the GZSH Acquisition and the LHL Acquisition had been completed as at 30 June 2007.

Immediately upon Completion, the Group will be interested in the entire issued share capital of CMIL and in turn, 60% equity interests in each of GZSH and the LHL Group. Accordingly, the Group's interests in CMIL will be consolidated into the accounts of the Group and the CMIL Group will become subsidiaries of the Group immediately upon Completion.

Upon GZSH Completion and LHL Completion, the Group will continue to be interested in the entire issued share capital of CMIL, but the equity interests in each of GZSH and the LHL Group will be further increased to 80%. The Group's interests in CMIL will also continue to be consolidated into the accounts of the Group and the CMIL Group will continue to be subsidiaries of the Group immediately upon GZSH Completion and LHL Completion.

As set out in the unaudited pro forma statement of assets and liabilities of the Enlarged Group in Appendix III to this circular, the unaudited pro forma consolidated total assets of the Group would increase from approximately HK$2,460 million as at 30 June 2007 to approximately HK$2,552 million (as the Enlarged Group) as at 30 June 2007. The increase would be primarily due to (i) the recognition of goodwill arising from the Acquisition, the GZSH Acquisition and the LHL Acquisition; and (ii) the consolidation of the assets of the CMIL Group, but it would be partially offset by the payment of the cash portion of the Consideration, the GZSH Consideration and the LHL Consideration. The unaudited pro forma consolidated total liabilities of the Group would increase from approximately HK$684 million as at 30 June 2007 to approximately HK$702 million (as the Enlarged Group) as at 30 June 2007 due to the consolidation of the liabilities of the CMIL Group.

Furthermore, an aggregate of goodwill of approximately HK$174 million would be generated as a result of the Acquisition, the GZSH Acquisition and the LHL Acquisition whereby the companies in the CMIL Group would become subsidiaries of the Company. The unaudited pro forma consolidated net assets of the Group would increase from approximately HK$1,776 million as at 30 June 2007 to approximately HK$1,850 million (as the Enlarged Group), taking into account, among other things, (i) the Acquisition, the GZSH Acquisition and the LHL Acquisition whereby the companies in the CMIL Group would become subsidiaries of the Company; and (ii) the allotment and issue of the Consideration Shares and the LHL Consideration Shares; and (iii) the payment of the cash portion of the Consideration, the GZSH Consideration and the LHL Consideration.

Shareholders should note that the goodwill arising from the Acquisition, the GZSH Acquisition and the LHL Acquisition represents the excess of the cost of the acquisitions over the Group's interests in the estimated fair value of the identifiable assets, liabilities and contingent liabilities of the CMIL Group. Such amount will be maintained as an intangible asset in the consolidated balance sheet of the Enlarged Group and subject to impairment test annually as stipulated under the HKFRS. The carrying amount of goodwill from time to time represents its cost less any accumulated impairment losses. In the event that any impairment loss on goodwill is identified, such loss will be recognised in the income statement in the period such loss is identified. Based on the historic performance of the CMIL Group, and taking into account the potential benefits of the future strategy of the Enlarged Group, the Directors are confident in the prospects of the CMIL Group.

In addition, the Directors believe that the Acquisition, the GZSH Acquisition and the LHL Acquisition will contribute to the earnings base of the Group but the quantification of such impact will depend on the future performance of the CMIL Group.

IMPLICATIONS OF THE GEM LISTING RULES

The Acquisition, the GZSH Acquisition and the LHL Acquisition constitute a major transaction for the Company under the GEM Listing Rules and are subject to the disclosure and Shareholders' approval requirements stipulated thereunder. The SGM will be convened to consider and, if thought fit, approve the Acquisition, the GZSH Acquisition and the LHL Acquisition and the allotment and issue of the Consideration Shares and the LHL Consideration Shares.

As none of the Vendor, its ultimate beneficial owners, the Warrantors, and their respective associates is a Shareholder, no Shareholder is required to abstain from voting on the ordinary resolution to be proposed at the SGM to approve the Acquisition, the GZSH Acquisition and the LHL Acquisition as well as the allotment and issue of the Consideration Shares and the LHL Consideration.

SGM

Notice of the SGM is set out on pages 188 to 190 of this circular for the purpose of considering and, if thought fit, approving the transactions contemplated under the Acquisition Agreement, the GZSH Acquisition Agreement, the LHL Acquisition Agreement, the allotment and issue of the Consideration Shares and the LHL Consideration Shares. A form of proxy for use at the SGM is accompanied with this circular. Information on your right to demand a poll on the resolution, where applicable, at the SGM is set out in Appendix V to this circular.

Whether or not you intend to be present at the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the principal place of business of the Company at Unit 3206, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof (as the case may be). Completion and return of the accompanying form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof (as the case may be) should you so wish.

RECOMMENDATION

The Directors are of the opinion that the Acquisition Agreement, the GZSH Acquisition Agreement, the LHL Acquisition Agreement, the allotment and issue of the Consideration Shares and the LHL Consideration Shares are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and accordingly recommend the Shareholders to vote in favour of the resolution set out in the notice of the SGM contained herein.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
For and on behalf of the Board
China LotSynergy Holdings Limited
CHAN Shing
Chairman

1. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date was, and as a result of the allotment and issue of the Consideration Shares and the LHL Consideration Shares will be, as follows:

Authorised:		*HK$*
16,000,000,000	Shares	40,000,000
Issued and fully paid:		*HK$*
7,520,328,000	Shares	18,800,820
50,400,000	Consideration Shares	126,000
16,800,000	LHL Consideration Shares	42,000
7,587,528,000		18,968,820

The nominal value of the Shares, the Consideration Shares and the LHL Consideration Shares is HK$0.0025 each. All the existing issued Shares rank pari passu in all respects including all rights as to dividends, voting and capital. The Consideration Shares and the LHL Consideration Shares to be issued following Completion and LHL Completion respectively will rank pari passu in all respects with each other including as regards to dividends, voting and return of capital.

2. SUMMARY OF FINANCIAL INFORMATION

Set out below is a summary of the financial information on the Group for the six-month periods ended 30 June 2007 and 30 June 2006, the year ended 31 December 2006, the nine-month period ended 31 December 2005 and the year ended 31 March 2005 and as at 30 June 2007, 31 December 2006, 31 December 2005 and 31 March 2005. No qualified opinions have been expressed on the financial statements for the year ended 31 December 2006, the nine-month period ended 31 December 2005 and the year ended 31 March 2005 and as at 31 December 2006, 31 December 2005 and 31 March 2005 containing the financial information set out below.

RESULTS

	Six-month period ended 30 June 2007	Six-month period ended 30 June 2006	Year ended 31 December 2006	Nine-month period ended 31 December 2005	Year ended 31 March 2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				As restated	As restated
Continuing operations:					
Turnover	102,723	13,066	71,345	–	–
Profit/(Loss) before income tax	51,129	(3,184)	12,035	(42,402)	(6,291)
Income tax	37	–	(186)	179	–
Profit/(Loss) for the year/period from continuing operations	51,166	(3,184)	11,849	(42,223)	(6,291)
Discontinued operations:					
Loss for the year/period from discontinued operations	–	(1,548)	(14,748)	(36)	(6,099)
Profit/(Loss) for the year/period	51,166	(4,732)	(2,899)	(42,259)	(12,390)
Attributable to:					
Equity holders of the Company	10,999	(9,034)	(29,188)	(42,146)	(11,680)
Minority interests	40,167	4,302	26,289	(113)	(710)
	51,166	(4,732)	(2,899)	(42,259)	(12,390)

ASSETS AND LIABILITIES

	As at 30 June 2007	As at 31 December 2006	As at 31 December 2005	As at 31 March 2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets	1,126,429	1,108,312	4,626	3,059
Current assets	1,333,272	388,292	308,416	44,135
Total assets	2,459,701	1,496,604	313,042	47,194
Current liabilities	(145,057)	(51,468)	(7,928)	(1,993)
Non-current liabilities	(538,962)	(9,400)	–	(179)
Net assets	1,775,682	1,435,736	305,114	45,022
Capital and reserves:				
Share capital	18,678	17,726	14,300	10,000
Reserves	1,612,235	1,414,346	332,757	35,024
Retained profit/(Accumulated losses)	11,364	(87,346)	(58,505)	(16,359)
Capital and reserves attributable to equity holders of the Company	1,642,277	1,344,726	288,552	28,665
Minority interests	133,405	91,010	16,562	16,357
Total equity	1,775,682	1,435,736	305,114	45,022

3. AUDITED FINANCIAL STATEMENTS

Set out below are the audited consolidated financial statements of the Group together with accompanying notes as extracted from the annual report of the Company for the year ended 31 December 2006. References to page numbers in the below extract are made to the page numbers of such annual report of the Company. The information on shares and share options of the Company sets out in the notes 11, 27 and 28 to consolidated financial statements below contained information which are before the share subdivision became effective on 7 August 2007. No qualified opinions have been expressed on the financial statements containing the financial information set out below.

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2006

	Note	Year ended 31 December 2006 *HK$'000*	Period ended 31 December 2005 *HK$'000* As restated
Continuing operations:			
Turnover	*5*	71,345	–
Cost of services		(11,026)	–
Gross profit		60,319	–
General and administrative expenses		(63,493)	(46,676)
Other income and gains	*6*	20,152	4,274
Operating profit/(loss) from continuing operations		16,978	(42,402)
Share of profit less loss of associates	*17*	(4,943)	–
Profit/(Loss) before income tax		12,035	(42,402)
Income tax	*9*	(186)	179
Profit/(Loss) for the year/period from continuing operations		11,849	(42,223)
Discontinued operations:			
Loss for the year/period from discontinued operations	*7*	(14,748)	(36)
Loss for the year/period		(2,899)	(42,259)
Attributable to:			
Equity holders of the Company		(29,188)	(42,146)
Minority interests		26,289	(113)
		(2,899)	(42,259)
Loss per share for loss from continuing operations attributable to the equity holders of the Company during the year/period			
– basic and diluted	*11*	0.84 HK cent	3.22 HK cent
Loss per share for loss from discontinued operations attributable to the equity holders of the Company during the year/period			
– basic and diluted	*11*	0.86 HK cent	Negligible

BALANCE SHEETS

As at 31 December 2006

		Group		Company	
		As at 31 December 2006	As at 31 December 2005	As at 31 December 2006	As at 31 December 2005
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets					
Intangible assets	*14*	990,805	1,754	–	–
Property, plant and equipment	*15*	63,491	2,480	825	284
Investments in subsidiaries	*16*	–	–	13,909	13,909
Investment in an associate	*17*	54,016	2	–	–
Available-for-sale financial assets	*18*	–	390	–	–
Total non-current assets		1,108,312	4,626	14,734	14,193
Current assets					
Accounts receivable	*19*	24,138	–	–	–
Prepayments, deposits and other receivables	*20*	16,109	34,253	8,401	3,282
Amounts due from subsidiaries	*16*	–	–	1,319,673	282,309
Amount due from an associate	*17*	–	10	–	–
Amounts due from related companies	*21*	21,250	16,111	–	–
Deposit with a financial institution	*22*	16,175	15,385	–	–
Cash and bank balances	*23*	310,620	242,657	94	1,621
Total current assets		388,292	308,416	1,328,168	287,212
Total assets		1,496,604	313,042	1,342,902	301,405
Current liabilities					
Accounts payable	*24*	2,680	–	–	–
Accruals and other payables	*25*	9,042	7,235	163	6,907
Amount due to an associate	*17*	29,637	–	–	–
Amounts due to related companies	*26*	9,080	197	–	–
Amount due to a director	*26*	347	–	–	–
Income tax payable		682	496	–	–
Total current liabilities		51,468	7,928	163	6,907
Net current assets		336,824	300,488	1,328,005	280,305
Total assets less current liabilities		1,445,136	305,114	1,342,739	294,498
Non-current liabilities					
Deferred income tax liabilities	*31*	9,400	–	–	–
Net assets		1,435,736	305,114	1,342,739	294,498

		Group		Company	
		As at 31 December 2006	As at 31 December 2005	As at 31 December 2006	As at 31 December 2005
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Capital and reserves					
Share capital	*27*	17,726	14,300	17,726	14,300
Reserves	*29*	1,414,346	332,757	1,412,359	333,807
Accumulated losses	*30*	(87,346)	(58,505)	(87,346)	(53,609)
Capital and reserves attributable to equity holders of the Company		1,344,726	288,552	1,342,739	294,498
Minority interests		91,010	16,562	–	–
Total equity		1,435,736	305,114	1,342,739	294,498

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2006

	Attributable to equity holders of the Company				
	Share capital	**Reserves**	**Accumulated losses**	**Minority interests**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 27)	*(Note 29)*			
Balance as at 1 April 2005	10,000	35,024	(16,359)	16,357	45,022
Currency translation differences	–	–	–	318	318
Net income recognised directly in equity	–	–	–	318	318
Loss for the period	–	–	(42,146)	(113)	(42,259)
Total recognised income/ (expense) for the period	–	–	(42,146)	205	(41,941)
Share option scheme:					
– value of employee services	–	22,820	–	–	22,820
– value of other participants' services	–	3,459	–	–	3,459
Issue of shares	4,300	297,600	–	–	301,900
Share issue expenses	–	(26,146)	–	–	(26,146)
	4,300	297,733	–	–	302,033
Balance as at 31 December 2005	14,300	332,757	(58,505)	16,562	305,114

	Attributable to equity holders of the Company				
	Share capital	Reserves	Accumulated losses	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 27)	*(Note 29)*			
Balance as at 1 January 2006	14,300	332,757	(58,505)	16,562	305,114
Currency translation differences	–	3,037	–	2,071	5,108
Net income recognised directly in equity	–	3,037	–	2,071	5,108
Profit/(Loss) for the year	–	–	(29,188)	26,289	(2,899)
Total recognised income/(expense) for the year	–	3,037	(29,188)	28,360	2,209
Repurchase of shares	(375)	(53,273)	–	–	(53,648)
Share option scheme:					
– value of employee services	–	19,600	–	–	19,600
– value of other participants' services	–	4,223	–	–	4,223
– issue of shares under share option scheme	1	234	–	–	235
– vested share options lapsed	–	(347)	347	–	–
Issue of shares under subscription agreements	1,800	659,700	–	–	661,500
Issue of shares arising on business combination	2,000	478,000	–	–	480,000
Share issue expenses	–	(29,585)	–	–	(29,585)
Minority interests arising on business combination	–	–	–	46,088	46,088
	3,426	1,078,552	347	46,088	1,128,413
Balance as at 31 December 2006	17,726	1,414,346	(87,346)	91,010	1,435,736

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2006

	Note	Year ended 31 December 2006 HK$'000	Period ended 31 December 2005 HK$'000
Cash flows from operating activities			
Net cash generated from/(used in) operating activities	32	14,573	(32,601)
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	35	1,839	–
Purchase of property, plant and equipment		(28,792)	(2,052)
Purchase of financial assets at fair value through profit or loss		(28,087)	–
Proceeds from sale of domain names and trademarks		100	–
Proceeds from sale of property, plant and equipment		–	144
Proceeds from sale of available-for-sale financial assets		390	–
Proceeds from sale of financial assets at fair value through profit or loss		32,960	–
Payments in connection with subscription of interest in Corich International Limited ("Corich")	35	(490,000)	(10,000)
Capital contributed to an associate		(29,710)	(2)
Advance to an associate		(41)	(10)
Interest income from bank deposits		15,279	4,274
Net cash used in investing activities		(526,062)	(7,646)
Cash flows from financing activities			
Repurchase of shares		(53,648)	–
Proceeds from issue of shares		661,735	301,900
Share issue expenses		(29,585)	(26,146)
Net cash generated from financing activities		578,502	275,754
Net increase in cash and cash equivalents		67,013	235,507
Cash and cash equivalents at beginning of the year/period		242,657	7,122
Effect of foreign exchange rate changes		950	28
Cash and cash equivalents at end of the year/period		310,620	242,657
Analysis of balances of cash and cash equivalents			
Cash and bank balances		310,620	242,657

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

China LotSynergy Holdings Limited (the "Company") was incorporated in Bermuda on 13 September 2000 as an exempted company with limited liability under the Companies Act of Bermuda.

The Company's shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company and its subsidiaries (together the "Group") is principally engaged in investment, project development and the provision of technologies and equipment and consultancy services in public welfare lottery business and related sectors.

On 18 November 2005, the Company announced that the financial year end date of the Company was changed from 31 March to 31 December commencing from the financial year 2005. Accordingly, the financial statements for the current period cover the 12-month period from 1 January 2006 to 31 December 2006. The corresponding amounts shown for the consolidated income statement, consolidated statement of changes in equity, consolidated cash flow statement and related notes cover the 9-month period from 1 April 2005 to 31 December 2005 and therefore may not be comparable with the amounts shown for the current period.

These consolidated financial statements are presented in Hong Kong dollars (HK$) unless otherwise stated. These consolidated financial statements were approved and authorised for issue by the board of directors on 26 March 2007.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

(a) *Standards, amendments and interpretations effective in 2006 but not relevant for the Group's operations*

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's operations:

- HKAS 19 (Amendment) – Actuarial Gains and Losses, Group Plans and Disclosures;
- HKAS 21 (Amendment) – Net Investment in a Foreign Operation;

- HKAS 39 (Amendment) – Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- HKAS 39 (Amendment) – The Fair Value Option;
- HKAS 39 and HKFRS 4 (Amendments) – Financial Guarantee Contracts;
- HKFRS 6, Exploration for and Evaluation of Mineral Resources;
- HKFRS-Int 4, Determining whether an Arrangement contains a Lease;
- HKFRS-Int 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and
- HK(IFRIC)-Int 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment (effective for annual periods beginning on or after 1 December 2005).

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 May 2006 or later periods but that the Group has not early adopted:

- HKFRS 7, Financial Instruments: Disclosures and HKAS 1 (Amendment), Presentation of Financial Statements – Capital Disclosures (effective for annual periods beginning on or after 1 January 2007). HKFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. The amendment to HKAS 1 requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. The Group will apply HKFRS 7 and the amendment to HKAS 1 from 1 January 2007;
- HK(IFRIC)-Int 8, Scope of HKFRS 2 (effective for annual periods beginning on or after 1 May 2006). HK(IFRIC)-Int 8 requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of HKFRS 2. The Group will apply HK (IFRIC)-Int 8 from 1 January 2007, but it is not expected to have a significant impact on the Group's financial statements;
- HK(IFRIC)-Int 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). HK(IFRIC)-Int 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply HK (IFRIC)-Int 10 from 1 January 2007, but it is not expected to have a significant impact on the Group's financial statements; and

- HK(IFRIC)-Int 11, HKFRS 2, Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007). HK(IFRIC)-Int 11 provides guidance on classifying share-based payment transactions involving an entity's own equity instruments or the equity instruments of the parent. The Group will apply HK(IFRIC)-Int 11 from 1 January 2007, but it is not expected to have a significant impact on the Group's financial statements.

(c) Interpretations to existing standards that are not yet effective and not relevant to the Group's operations

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 May 2006 or later periods but are not relevant to the Group's operations:

- HK(IFRIC)-Int 7, Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies (effective for annual periods beginning on or after 1 March 2006). HK(IFRIC)-Int 7 provides guidance on how to apply the requirements of HKAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflationary in the prior period. As none of the group entities have a currency of a hyperinflationary economy as its functional currency, HK(IFRIC)-Int 7 is not relevant to the Group's operations; and

- HK(IFRIC)-Int 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006). HK(IFRIC)-Int 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. As none of the group entities have changed the terms of their contracts, HK(IFRIC)-Int 9 is not relevant to the Group's operations.

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December.

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by the Company on the basis of dividends received and receivable.

(b) *Transactions and minority interests*

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the consolidated income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

(c) *Associates*

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associate's post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses in associates are recognised in the consolidated income statement.

In the Company's balance sheet, the investments in associates are stated at cost less provision for impairment losses. The results of associates are accounted for by the Company on the basis of dividend received and receivable.

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation difference on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the available-for-sale reserve in equity.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.5 Intangible assets

(a) CLO Contract

The acquired CLO Contract (Notes 14 and 35) has a finite useful life and is carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of the CLO Contract over the period of the contract.

(b) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates and is tested annually for impairment as part of the overall balance. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(c) Domain names and trademarks

Acquisition costs of domain names and legal costs related to the registration of trademarks are capitalised and amortised on a straight-line basis over their estimated useful lives of twenty years.

(d) Portal development costs

Costs directly associated with the development of internal-use portals, which include the external direct cost of materials and services consumed in developing or obtaining portals, are capitalised. The capitalisation of such costs ceases no later than the point at which the portals are substantially completed and ready for their intended purpose. Portal development costs are amortised on a straight-line basis over a period of three years, which represents the estimated useful lives of the portals.

Research and other portal maintenance costs are expensed as incurred.

2.6 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated, using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Video lottery terminals ("VLT") leased to third parties under operating leases	20%
Leasehold improvements	10% – 50% (over the period of leases)
Plant and equipment	10% – 20%
Computer equipment and software	20% – 25%
Office equipment and furniture	10% – 25%
Motor vehicles	10%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

2.7 Impairment of investments in subsidiaries, associates and non-financial assets

Assets that have an indefinite useful life or have not yet available for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity financial assets, and available-for-sale financial assets. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheet.

(c) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available for sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the balance sheet date; these are classified as current assets.

(d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of financial assets are recognised on the trade-date (the date on which the Group commits to purchase or sell the asset). Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the income statement within other gains, in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss; translation differences on non-monetary securities are recognised in equity. Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in equity.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement) is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

2.9 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited to the income statement.

2.10 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and financial institutions, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheets.

2.11 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.12 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.13 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.14 Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(b) Bonus plans

The expected cost of bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(c) Retirement benefits

The Group operates a number of defined contribution plans. The Group's contributions to the defined contribution retirement schemes are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The assets of the scheme are held separately from those of the Group in independently administered funds.

(d) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the Company revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(e) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

2.15 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.16 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown, net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

(a) Income from provision of VLT is accounted for in accordance with the terms of the CLO Contract (Note 35).

The CLO Contract is an agreement whereby the Group (as the lessor) conveys to the lessee in return for payments the right to use the VLT for an agreed period of time. As the significant portion of the risks and rewards of ownership are retained by the Group, the CLO Contract is accounted for as an operating lease. As the CLO Contract does not specify minimum lease payments, the income from provision of VLT has been accounted for in accordance with the terms of the CLO Contract and recognised as contingent-based rentals receivable under operating lease. There were no future minimum lease payments receivable under non-cancellable operating leases as at 31 December 2006.

(b) Income from provision of consultancy services is recognised when services are rendered.

(c) Income from sale of merchandise is recognised when a group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(d) Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(e) Dividend income is recognised when the right to receive payment is established.

2.17 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk, credit risk, and liquidity risk. Management of the Group periodically reviews financial risk management policies to minimise the Group's exposure to financial risks.

(a) Market risk

Majority of the Group's transactions take place in the PRC and denominated in RMB, which is not a freely convertible currency. The Group manages the foreign exchange exposure arising from its normal course of business activities and investments in foreign operations by funding its local operations and investments through cash flow generated from business transactions locally.

The Group is not exposed to significant price risk.

As the Group has no significant interest-bearing assets and liabilities, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

(b) Credit risk

As at 31 December 2006, the Group has significant concentration of credit risk as a result of few number of counterparties. If the relationship with these parties changes, it could materially and adversely affect the Group's results.

The Group reviews the recoverability of its assets periodically to ensure that potential credit risk of the counterparty is managed at an early stage and sufficient provision is made for possible defaults.

(c) Liquidity risk

Majority of the Group's operational and capital transactions are self-funded with minimal external borrowings. Accordingly, the Group considers its exposure to interest rate risk is minimal.

Management of the Group adheres to a policy of financial prudence in relation to the treasury management function and regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

3.2 Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The carrying values less impairment provision of trade and other receivables and payables are a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) The Group tests whether intangible assets have suffered any impairment in accordance with the accounting policy stated in Note 2.7. Determining whether intangible assets are impaired requires an estimate of the value-in-use of the asset. Estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from the assets and also choose a suitable discount rate in order to calculate the present value of those cash flows. Where the actual future cash flows are less than expected, a material impairment loss may arise.

(b) The Group's management determines the impairment of accounts receivable on a regular basis. This estimate is based on the credit history of its customers and current market conditions. Management reassesses the impairment of accounts receivable at the balance sheet date.

5. TURNOVER AND SEGMENT INFORMATION

The Group is principally engaged in investment, project development and the provision of technologies and equipment and consultancy services in public welfare lottery business and related sectors. An analysis of the Group's turnover for the year from continuing operations is as follows:

	Year ended 31 December 2006 *HK$'000*	**Period ended 31 December 2005** *HK$'000* As restated
Turnover		
Income from provision of VLT	71,295	–
Income from provision of consultancy services	50	–
	71,345	–

Segment information

Segment information is presented by way of the Group's primary segment reporting by business segment. In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

(a) Primary reporting format – business segments

For the year ended 31 December 2006, over 90% of the Group's revenues were derived from the Group's continuing operations representing investment, project development and the provision of technologies and equipment and consultancy services in public welfare lottery business and related sectors. For the period ended 31 December 2005, over 90% of the Group's revenues were derived from the Group's discontinued operations representing the operations of metal exchange portals for metal trading and ancillary value-chain services, metal trading, provision of consultancy and logistics services and application software development services, which were ceased on 1 June 2006. Further details of the discontinued operations are disclosed in Note 7. Accordingly, no further business segment information is presented.

(b) Secondary reporting format – geographical segments

For the year ended 31 December 2006 and the period ended 31 December 2005, over 90% of the Group's revenues were derived from customers based in the People's Republic of China ("PRC"). An analysis of the Group's assets and capital expenditure by geographical segments is as follows:

Carrying amounts of segment assets

	As at 31 December 2006 *HK$'000*	**As at 31 December 2005** *HK$'000*
PRC	1,143,421	19,463
Hong Kong	294,374	288,744
Korea	4,793	4,833
	1,442,588	313,040
Investment in an associate	54,016	2
	1,496,604	313,042

Capital expenditure

	Year ended 31 December 2006 *HK$'000*	**Period ended 31 December 2005** *HK$'000*
PRC	1,060,890	–
Hong Kong	720	2,052
	1,061,610	2,052

6. OTHER INCOME AND GAINS

	Year ended 31 December 2006 *HK$'000*	**Period ended 31 December 2005** *HK$'000*
Interest income from bank deposits	15,279	4,274
Fair value gains on financial assets at fair value through profit or loss	4,873	–
	20,152	4,274

7. DISCONTINUED OPERATIONS

The Group ceased the operations of metal exchange portals for metal trading and ancillary value-chain services, metal trading, provision of consultancy and logistics services and application software development services on 1 June 2006. An analysis of the results of the discontinued operations is as follows:

	Year ended 31 December 2006 *HK$'000*	Period ended 31 December 2005 *HK$'000*
Revenue	7,335	12,040
Expenses	(22,083)	(12,076)
Loss before income tax from discontinued operations	(14,748)	(36)
Income tax	–	–
Loss for the year/period from discontinued operations	(14,748)	(36)

The net cash flows attributable to the discontinued operations are as follows:

	Year ended 31 December 2006 *HK$'000*	Period ended 31 December 2005 *HK$'000*
Operating activities	(13,094)	134
Investing activities	–	–
Financing activities	–	–
Total cash flows	(13,094)	134

8. EXPENSES BY NATURE

	Year ended 31 December 2006 *HK$'000*	Period ended 31 December 2005 *HK$'000*
Loss on disposal of property, plant and equipment	–	81
Loss on disposal of domain names and trademarks	1,576	–
Operating lease rentals in respect of land and buildings	2,481	693
Auditors' remuneration	350	250
Amortisation of intangible assets		
– CLO Contract *(Note 14)*	4,896	–
– Domain names and trademarks *(Note 14)*	78	88
Foreign exchange differences, net	(1,103)	(17)

9. INCOME TAX

The amount of income tax charged/(credited) to the consolidated income statement represents:

	Year ended 31 December 2006 *HK$'000*	**Period ended 31 December 2005** *HK$'000*
Current income tax		
– Hong Kong profits tax	186	–
Deferred income tax *(Note 31)*	–	(179)
	186	(179)

The tax on the Group's profit/(loss) before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities of 17.5% (Period ended 31 December 2005: 17.5%) as follows:

	Year ended 31 December 2006 *HK$'000*	**Period ended 31 December 2005** *HK$'000*
Profit/(Loss) before income tax		
From continuing operations	12,035	(42,402)
From discontinued operations	(14,748)	(36)
	(2,713)	(42,438)
Tax calculated at Hong Kong profits tax rate of 17.5%	(475)	(7,427)
Income not subject to tax	(15,806)	(2,794)
Expenses not deductible for tax purposes	16,467	10,221
Others	–	(179)
Tax charge/(credit)	186	(179)

Overseas income tax

The Company was incorporated in Bermuda as an exempted company with limited liability under the Companies Act of Bermuda and accordingly is exempted from income tax in Bermuda until 2016. The Company's subsidiaries established in the British Virgin Islands were incorporated under the International Business Companies Act of the British Virgin Islands and accordingly are exempted from the payment of British Virgin Islands income taxes.

SteelnMetal.com Limited, an equity joint venture established and operating in Korea, is subject to Korean corporation income tax at a rate of 15% on the first 100 million Korean WON taxable income and 27% on the remaining amount. No Korean corporation income tax has been provided as SteelnMetal.com Limited incurred taxation loss for the year ended 31 December 2006 and the period ended 31 December 2005.

Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 17.5% (Period ended 31 December 2005: 17.5%) on the estimated assessable profit arising in Hong Kong for the year. No provision for Hong Kong profits tax has been made for the period ended 31 December 2005 as the Group had no assessable profits arising in or derived from Hong Kong for that period.

PRC enterprise income tax

北京威銘商網資訊技術有限公司 ("北京威銘"), a Sino-foreign equity joint venture established and operating in the PRC, is subject to PRC enterprise income tax. As 北京威銘 is qualified as a "high technology enterprise" in the PRC, it is allowed to apply for exemption from PRC enterprise income tax for three years starting from the first year of profitable operations after offsetting prior year losses, followed by a 50% reduction for the next three years. No PRC enterprise income tax has been provided as 北京威銘 incurred a taxation loss for the year ended 31 December 2006 and the period ended 31 December 2005.

上海漢絡馬口鐵貿易有限公司 ("上海漢絡"), a wholly foreign owned enterprise established and operating in the PRC, is subject to PRC enterprise income tax at a rate of 15%. No PRC enterprise income tax has been provided as 上海漢絡 incurred a taxation loss for the year ended 31 December 2006 and the period ended 31 December 2005.

東莞天意電子有限公司 ("東莞天意"), a wholly foreign owned enterprise established and operating in the PRC, is subject to PRC enterprise income tax at a rate of 24%. No PRC enterprise income tax has been provided as 東莞天意 is exempted from PRC enterprise income tax for two years starting from 2006, followed by a 50% reduction for the next three years.

海南天意日盛電子設備租賃有限公司 ("海南天意"), a wholly foreign owned enterprise established and operating in the PRC, is subject to PRC enterprise income tax at a rate of 15%. No PRC enterprise income tax has been provided as 海南天意 incurred a taxation loss for the year ended 31 December 2006.

10. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of approximately HK$34,084,000 (Period ended 31 December 2005: HK$36,700,000).

11. LOSS PER SHARE

(a) Basic loss per share

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

	Year ended 31 December 2006	**Period ended 31 December 2005**
Loss from continuing operations attributable to equity holders of the Company *(HK$'000)*	14,440	42,110
Loss from discontinued operations attributable to equity holders of the Company *(HK$'000)*	14,748	36
Loss attributable to equity holders of the Company *(HK$'000)*	29,188	42,146
Weighted average number of ordinary shares in issue for the purpose of calculating basic loss per share	1,720,905,452	1,307,818,182
Basic loss per share		
– Continuing operations	0.84 HK cents	3.22 HK cents
– Discontinued operations	0.86 HK cents	Negligible
	1.70 HK cents	3.22 HK cents

(b) Diluted loss per share

The computation of diluted loss per share has not assumed the exercise of options outstanding during the periods because their exercise would reduce the loss per share.

12. STAFF COSTS

Staff costs (including directors' emoluments) comprise:

	Year ended 31 December 2006 *HK$'000*	**Period ended 31 December 2005** *HK$'000*
Wages and salaries	31,232	10,174
Employee share option benefits	19,600	22,820
Social security costs	27	20
Pension costs – defined contribution plans	716	140
Other staff welfare	249	9
	51,824	33,163

13. COMPENSATION TO KEY MANAGEMENT PERSONNEL

	Year ended 31 December 2006 *HK$'000*	Period ended 31 December 2005 *HK$'000*
Short-term employee benefits	24,499	8,354
Post-employment benefits	299	90
Employee share option benefits	16,273	21,778
	41,071	30,222

(a) Directors' emoluments

The remuneration of every director of the Company for the year ended 31 December 2006 is set out below:

Name of director	Fees *HK$'000*	Salaries, allowance and benefits in kind *HK$'000*	Discretionary bonuses *HK$'000*	Employee share option benefits *HK$'000*	Employer's contributions to pension scheme *HK$'000*	Total *HK$'000*
Executive directors						
Ms. Lau Ting	–	2,080	7,020	529	90	9,719
Mr. Sun Ho	–	4,515	7,664	6,126	181	18,486
Mr. Hoong Cheong Thard *(Note i)*	–	1,285	–	2,979	4	4,268
Mr. Wang Taoguang *(Note ii)*	–	122	–	–	–	122
Mr. Chen Aizheng	–	788	32	5,450	12	6,282
Mr. Ng Man Fai, Matthew	–	420	29	158	12	619
Independent non-executive directors						
Mr. Huang Shenglan	240	–	–	529	–	769
Mr. Chan Ming Fai *(Note iii)*	146	–	–	158	–	304
Mr. Li Xiaojun	120	–	–	344	–	464
Mr. Roger King *(Note iv)*	38	–	–	–	–	38
	544	9,210	14,745	16,273	299	41,071

The remuneration of every director of the Company for the period ended 31 December 2005 is set out below:

Name of director	Fees	Salaries, allowance and benefits in kind	Discretionary bonuses	Employee share option benefits	Employer's contributions to pension scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors						
Ms. Lau Ting	–	–	3,000	844	–	3,844
Mr. Sun Ho *(Note v)*	–	1,440	3,000	11,649	72	16,161
Mr. Chen Aizheng	–	365	–	7,597	9	7,971
Mr. Ng Man Fai, Matthew	–	259	–	–	9	268
Mr. Yu Wing Keung, Dicky *(Note vi)*	–	–	–	–	–	–
Independent non-executive directors						
Mr. Roger King	90	–	–	422	–	512
Mr. Huang Shenglan	110	–	–	844	–	954
Mr. Li Xiaojun	90	–	–	422	–	512
	290	2,064	6,000	21,778	90	30,222

Notes:

(i) Appointed on 12 September 2006

(ii) Appointed on 28 June 2006

(iii) Appointed on 12 May 2006

(iv) Retired on 24 April 2006

(v) Appointed on 3 October 2005

(vi) Resigned on 11 April 2005

During the year ended 31 December 2006, 32,400,000 share options were granted to certain directors of the Company under the Company's share option scheme (Period ended 31 December 2005: 25,800,000).

None of the directors of the Company waived or agreed to waive any emoluments during the year ended 31 December 2006 (Period ended 31 December 2005: Nil).

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group during the year ended 31 December 2006 included four (Period ended 31 December 2005: five) directors of the Company, whose emoluments are set out above. The emoluments payable to the remaining one non-director, highest paid individual for the year ended 31 December 2006 are as follows:

	Year ended 31 December 2006	Period ended 31 December 2005
	HK$'000	*HK$'000*
Basic salaries, other allowances and benefits in kind	1,074	–
Discretionary bonuses	4	–
Employee share option benefits	1,197	–
Employer's contributions to pension schemes	12	–
	2,287	–

(c) During the year ended 31 December 2006, no emoluments were paid by the Group to the directors of the Company and the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office (Period ended 31 December 2005: Nil).

14. INTANGIBLE ASSETS

	Group				
	Goodwill	CLO Contract	Domain names and trademarks	Portal development costs	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 1 April 2005					
Cost	–	–	2,347	5,422	7,769
Accumulated amortisation	–	–	(505)	(5,422)	(5,927)
Net book amount	–	–	1,842	–	1,842
Period ended 31 December 2005					
Opening net book amount	–	–	1,842	–	1,842
Amortisation charge	–	–	(88)	–	(88)
Closing net book amount	–	–	1,754	–	1,754
As at 31 December 2005					
Cost	–	–	2,347	5,422	7,769
Accumulated amortisation	–	–	(593)	(5,422)	(6,015)
Net book amount	–	–	1,754	–	1,754
Year ended 31 December 2006					
Opening net book amount	–	–	1,754	–	1,754
Acquisition of subsidiaries *(Note 35)*	935,319	60,382	–	–	995,701
Amortisation charge	–	(4,896)	(78)	–	(4,974)
Disposals	–	–	(1,676)	–	(1,676)
Closing net book amount	935,319	55,486	–	–	990,805
As at 31 December 2006					
Cost	935,319	60,382	–	5,422	1,001,123
Accumulated amortisation	–	(4,896)	–	(5,422)	(10,318)
Net book amount	935,319	55,486	–	–	990,805

Notes:

(i) Amortisation of the CLO Contract of approximately HK$4,896,000 for the year ended 31 December 2006 is included in general and administrative expenses (Period ended 31 December 2005: Nil).

(ii) Goodwill acquired through business combinations was allocated to the cash-generating unit (the "CGU") representing an operating entity within the business segment identified by the Group. The acquired subsidiaries are principally engaged in the provision of VLT. The recoverable amounts of the CGU are determined based on a value-in-use calculation. The calculation uses cash flow projections based on financial forecasts approved by management covering the remaining term of the CLO Contract of 9 years from the balance sheet date. The key assumptions used for the cash flow projections include the average number of VLT connected and the daily turnover of each VLT during each of the forecasting periods, which are determined by management based on past performance and its expectation of market development. All cash flows are discounted at a discount rate of 15.36%, which reflects the specific risks relating to the CGU.

No impairment loss has been recognised in respect of goodwill for the year ended 31 December 2006 as its value-in-use exceeded the carrying amount.

15. PROPERTY, PLANT AND EQUIPMENT

	Group							
	VLT leased to third parties under operating leases	VLT under construction	Leasehold improvements	Plant and equipment	Computer equipment and software	Office equipment and furniture	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 1 April 2005								
Cost	–	–	46	–	6,044	866	296	7,252
Accumulated depreciation	–	–	(40)	–	(5,772)	(397)	(216)	(6,425)
Net book amount	–	–	6	–	272	469	80	827
Period ended 31 December 2005								
Opening net book amount	–	–	6	–	272	469	80	827
Exchange differences	–	–	–	–	5	–	1	6
Additions	–	–	1,301	–	176	575	–	2,052
Disposals	–	–	–	–	–	(225)	–	(225)
Depreciation	–	–	(5)	–	(59)	(75)	(41)	(180)
Closing net book amount	–	–	1,302	–	394	744	40	2,480
As at 31 December 2005								
Cost	–	–	1,347	–	6,225	1,033	297	8,902
Accumulated depreciation	–	–	(45)	–	(5,831)	(289)	(257)	(6,422)
Net book amount	–	–	1,302	–	394	744	40	2,480
Year ended 31 December 2006								
Opening net book amount	–	–	1,302	–	394	744	40	2,480
Exchange differences	1,180	171	(1)	24	10	–	–	1,384
Acquisition of subsidiaries *(Note 35)*	32,212	4,268	–	586	43	8	–	37,117
Additions	–	26,001	635	872	172	682	430	28,792
Transfers	24,619	(24,619)	–	–	–	–	–	–
Depreciation	(5,431)	–	(258)	(147)	(113)	(260)	(73)	(6,282)
Closing net book amount	52,580	5,821	1,678	1,335	506	1,174	397	63,491
As at 31 December 2006								
Cost	61,521	5,821	1,986	1,689	6,482	1,727	739	79,965
Accumulated depreciation	(8,941)	–	(308)	(354)	(5,976)	(553)	(342)	(16,474)
Net book amount	52,580	5,821	1,678	1,335	506	1,174	397	63,491

Note: Depreciation of VLT leased to third parties under operating leases of approximately HK$5,431,000 (Period ended 31 December 2005: Nil) has been charged in cost of services and depreciation of plant and equipment of approximately HK$147,000 has been capitalised in VLT under construction (Period ended 31 December 2005: Nil). Depreciation of other items of property, plant and equipment of approximately HK$704,000 (Period ended 31 December 2005: HK$180,000) has been charged in general and administrative expenses.

	Company			
	Leasehold improvements	Computer equipment and software	Office equipment and furniture	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
As at 1 April 2005				
Cost	–	–	–	–
Accumulated depreciation	–	–	–	–
Net book amount	–	–	–	–
Period ended 31 December 2005				
Opening net book amount	–	–	–	–
Additions	174	–	110	284
Closing net book amount	174	–	110	284
As at 31 December 2005				
Cost	174	–	110	284
Accumulated depreciation	–	–	–	–
Net book amount	174	–	110	284
Year ended 31 December 2006				
Opening net book amount	174	–	110	284
Additions	102	110	437	649
Depreciation	(14)	(16)	(78)	(108)
Closing net book amount	262	94	469	825
As at 31 December 2006				
Cost	276	110	547	933
Accumulated depreciation	(14)	(16)	(78)	(108)
Net book amount	262	94	469	825

16. INVESTMENTS IN AND AMOUNTS DUE FROM SUBSIDIARIES

	As at 31 December 2006	As at 31 December 2005
	HK$'000	*HK$'000*
Unlisted shares, at cost	23,909	23,909
Provision for impairment	(10,000)	(10,000)
	13,909	13,909

The amounts due from subsidiaries as shown on the Company's balance sheet are unsecured, interest-free and repayable on demand. The carrying amounts of the amounts due approximate their fair values.

The following is a list of the subsidiaries as at 31 December 2006:

Name	Place of incorporation/ establishment and kind of legal entity *(Note (vi))*	Particulars of issued share capital/ registered capital	Interest held	Principal activities
Held directly:				
Harrogate Group Limited	British Virgin Islands, Limited liability company	US$2,500,000	100%	Investment holding
Profit Talent Investments Limited	British Virgin Islands, Limited liability company	US$1	100%	Investment holding
Onwealth Holdings Limited	British Virgin Islands, Limited liability company	US$1	100%	Investment holding
Willstrong Investments Limited	British Virgin Islands, Limited liability company	US$1	100%	Investment holding
Held indirectly:				
Flynn Technology Limited	British Virgin Islands, Limited liability company	US$1,000	100%	Investment holding
China LotSynergy Limited (formerly known as WorldMetal.com Limited)	Hong Kong, Limited liability company	US$500,000	100%	Investment holding
WorldMetal Logistics Limited	Hong Kong, Limited liability company	HK$2	100%	Inactive
China LotSynergy Asset Management Limited (formerly known as Rusmet.com Limited)	Hong Kong, Limited liability company	US$2	100%	Treasury management
SteelnMetal.com Limited *(Note (i))*	Korea, Limited liability company	WON1,000,000,000	50% *(Note (vii))*	Inactive
北京威銘商網資訊技術有限公司 (“北京威銘”) *(Note (ii))*	PRC, Sino-foreign equity joint venture	US$4,080,000	50% *(Note (vii))*	Inactive
上海漢絡馬口鐵貿易有限公司 (“上海漢絡”) *(Note (iii))*	PRC, Wholly foreign owned enterprise	US$200,000	100%	Inactive
China LotSynergy Limited	British Virgin Islands, Limited liability company	US$100	100%	Investment holding
China LotSynergy Development Limited (formerly know as China LotSynergy Limited)	Hong Kong, Limited liability company	HK$1	100%	Investment holding
China LotSynergy Group Limited (“CLG”)	Hong Kong Limited liability company,	HK$1	100%	Investment holding

Name	Place of incorporation/ establishment and kind of legal entity *(Note (vi))*	Particulars of issued share capital/ registered capital	Interest held	Principal activities
Corich International Limited ("Corich")	British Virgin Islands, Limited liability company	US$2,000,000	50% *(Note (vii))*	Investment holding
East Grand Enterprises Limited	Hong Kong, Limited liability company	HK$1	50% *(Note (vii))*	Investment holding
Dongguan Corich Electronics Co., Ltd. ("東莞天意") *(Note (iv))*	PRC, Wholly foreign owned enterprise	HK$8,000,000	50% *(Note (vii))*	Provision of VLT
海南天意日盛電子設備租賃有限公司 ("海南天意") *(Note (v))*	PRC Wholly foreign owned enterprise	HK$14,000,000	50% *(Note (vii))*	Provision of VLT
China LotSynergy Investment Limited	Hong Kong, Limited liability company	HK$1	100%	Investment holding
Aceteam Investment Limited	Hong Kong, Limited liability company	HK$1	100% *(Note (viii))*	Not yet commenced business

Notes:

(i) SteelnMetal.com Limited is an equity joint venture established in Korea.

(ii) 北京威銘 is a Sino-foreign equity joint venture established in the PRC to be operated for a period of 30 years up to 2030.

(iii) 上海漢絡 is a wholly foreign owned enterprise established in the PRC to be operated for a period of 50 years up to 2052.

(iv) 東莞天意 is a wholly foreign owned enterprise established in the PRC to be operated for a period of 15 years up to 2018.

(v) 海南天意 is a wholly foreign owned enterprise established in the PRC to be operated for a period of 30 years up to 2035.

(vi) The subsidiaries operate principally in their respective places of incorporation/establishment.

(vii) The Company has the power to control the composition of the respective boards of directors and govern the financial and operating policies of these companies. Accordingly, these companies are considered as subsidiaries.

(viii) On 29 June 2006, China LotSynergy Investment Limited ("CLS" — a wholly-owned subsidiary of the Company), Octavian International Limited ("Octavian") and Aceteam Investment Limited entered into a joint venture agreement ("JV Agreement") with a view to jointly develop lottery related businesses in the PRC and internationally. Pursuant to the JV Agreement, CLS and Octavian agreed to establish a joint venture company namely Aceteam Investment Limited, which would be held as to 60% by CLS and as to 40% by Octavian, and the total paid up capital committed by both parties amounts to HK$46,800,000. As at 31 December 2006, the Group was committed to contribute to the capital of Aceteam Investment Limited in the amount of approximately HK$28,080,000.

17. INVESTMENT IN AND AMOUNTS DUE FROM/TO AN ASSOCIATE

	Group	
	2006	**2005**
	HK$'000	*HK$'000*
Beginning of the year/period	2	–
Capital contribution to TIHK	59,398	2
Acquisition of interest in associate *(Note 35)*	500,000	–
Share of profit less loss	(4,943)	–
Exchange difference *(Note 29)*	967	–
Acquisition of subsidiaries *(Note 35)*	(501,408)	–
End of the year/period	54,016	2

Particulars of the unlisted associate of the Group as at 31 December 2006 are as follows:

Name of company	Particulars of issued shares held by the Group	Place of incorporation	Interest held	Principal activities
Tabcorp International Hong Kong Limited ("TIHK")	9,900,000 ordinary shares of A$1 each	British Virgin Islands	33%	Development of nationwide unified platform for lottery operation in the PRC

The amounts due from/to the associate are unsecured, interest-free and repayable on demand. The carrying amounts of the amounts due approximate their fair values.

The following table illustrates the summarised financial information of the associate of the Group as extracted from its unaudited management accounts:

	2006	**2005**
	HK$'000	*HK$'000*
Total assets	171,790	28
Total liabilities	(8,104)	(22)
Revenue	468	–
Loss	19,554	–

18. AVAILABLE-FOR SALE FINANCIAL ASSETS

	Group	
	As at 31 December 2006	**As at 31 December 2005**
	HK$'000	*HK$'000*
Unlisted guarantee fund, at fair value	–	390

19. ACCOUNTS RECEIVABLE

Income from provision of VLT is billed on a monthly basis and is due 15 days after month-end. As at 31 December 2006, the ageing analysis of the accounts receivable is as follows:

	Group	
	As at 31 December 2006	**As at 31 December 2005**
	HK$'000	*HK$'000*
0 – 30 days	14,893	–
31 – 60 days	9,245	–
	24,138	–

The carrying amounts of the Group's accounts receivable are denominated in RMB. The carrying amounts of the Group's accounts receivable approximate their fair values.

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Included in the balance of prepayments, deposits and other receivables of the Group as at 31 December 2005 was an initial deposit of HK$10 million paid by the Group upon entering into a heads of agreement on 20 December 2005 in connection with the subscription of interest in Corich (Note 35).

The carrying amounts of the Group's and the Company's prepayments, deposits and other receivables approximate their fair values.

21. AMOUNTS DUE FROM RELATED COMPANIES

The balance represents amounts due from subsidiaries of Burwill Holdings Limited, a substantial shareholder of the Company. The amounts due are unsecured, interest-free and repayable on demand. The maximum amount outstanding during the year was approximately HK$21,250,000.

The carrying amounts of the amounts due approximate their fair values.

22. DEPOSIT WITH A FINANCIAL INSTITUTION

The balance represents a deposit (denominated in RMB) placed with Minmetals Finance Company Limited (五礦集團財務有限責任公司) ("Minmetals Finance"), a registered financial institution in the PRC. Minmetals Finance is a fellow subsidiary of a minority shareholder of a non-wholly owned subsidiary of the Company. This deposit is kept as a saving deposit with the financial institution and bears interest at a rate at the prevailing interest rate of the People's Bank of China as at 31 December 2006 (As at 31 December 2005: 2.25% per annum). The remittance of these funds out of the PRC is subject to the exchange control restrictions imposed by the PRC government. For the year ended 31 December 2006, total interest income from Minmetals Finance in respect of the aforesaid deposit amounted to approximately HK$172,000 (Period ended 31 December 2005: HK$346,000).

The carrying amount of the Group's deposit with a financial institution approximates its fair value.

23. CASH AND BANK BALANCES

As at 31 December 2006, the Group had cash and bank balances of approximately HK$42,259,000 (As at 31 December 2005: HK$257,000) which are denominated in RMB. The remittance of these funds out of the PRC is subject to the exchange control restrictions imposed by the PRC government.

The carrying amounts of the Group's and the Company's cash and bank balances approximate their fair values.

24. ACCOUNTS PAYABLE

As at 31 December 2006, the ageing analysis of the accounts payable is as follows:

	Group	
	As at 31 December 2006	**As at 31 December 2005**
	HK$'000	*HK$'000*
0 – 30 days	646	–
31 – 60 days	631	–
Over 60 days	1,403	–
	2,680	–

The carrying amounts of the Group's accounts payable are denominated in RMB. The carrying amounts of the Group's accounts payable approximate their fair values.

25. ACCRUALS AND OTHER PAYABLES

The carrying amounts of the Group's and the Company's accruals and other payables approximate their fair values.

26. AMOUNTS DUE TO RELATED COMPANIES/A DIRECTOR

The amounts due are unsecured, interest-free and repayable on demand. The carrying amounts of the amounts due approximate their fair values.

27. SHARE CAPITAL

	Authorised Ordinary shares of HK$0.01 each	
	Number of shares	*HK$'000*
As at 1 April 2005, 31 December 2005 and 1 January 2006	2,000,000,000	20,000
Increase in authorised share capital *(Note (i))*	2,000,000,000	20,000
As at 31 December 2006	4,000,000,000	40,000

	Issued and fully paid ordinary shares of HK$0.01 each	
	Number of shares	*HK$'000*
As at 1 April 2005	1,000,000,000	10,000
New issue of shares *(Note (ii))*	200,000,000	2,000
New issue of shares *(Note (iii))*	230,000,000	2,300
As at 31 December 2005 and 1 January 2006	1,430,000,000	14,300
Shares options exercised *(Note (iv))*	120,000	1
New issue of shares *(Note (v))*	180,000,000	1,800
New issue of shares *(Note (vi))*	200,000,000	2,000
Repurchase of shares *(Note (vii))*	(37,538,000)	(375)
As at 31 December 2006	1,772,582,000	17,726

Notes:

(i) Pursuant to the ordinary resolution passed by the Company's shareholders at the special general meeting held on 21 March 2006, the authorised share capital of the Company was increased from HK$20,000,000 to HK$40,000,000 by the creation of an additional 2,000,000,000 shares of HK$0.01 each in the capital of the Company (the "Shares").

(ii) Pursuant to the placing agreements dated 7 March 2005, the Company allotted and issued a total of 200,000,000 new Shares to the placees on 8 April 2005 upon completion thereof. Total net proceeds from the placing of approximately HK$5 million were used as the Group's general working capital.

(iii) Pursuant to the subscription agreements dated 9 August 2005, the Company allotted and issued a total of 230,000,000 new Shares to the subscribers on 19 August 2005, following the completion of the placing agreement for the placing of a total of 400,000,000 existing Shares (the "2005 Top-up Placing") to more than six placees. The Company raised a sum of approximately HK$271 million through the 2005 Top-up Placing and the fund was intended to be used as to approximately HK$59 million to pay up the capital commitment of TIHK and the remaining balance for investing in other relevant business opportunities that may arise in the future and for the Group's general working capital.

(iv) Share options were exercised by optionholders in January 2006 to subscribe for a total of 120,000 Shares by payment of subscription monies of approximately HK$235,000, of which HK$1,000 was credited to share capital and the balance of HK$234,000 was credited to the share premium account.

(v) Pursuant to the subscription agreements dated 17 January 2006, the Company allotted and issued a total of 180,000,000 new Shares at a subscription price of HK$3.675 each to the subscribers on 27 January 2006, following the completion of the placing agreements for the placing of 180,000,000 existing Shares to more than six placees at a placing price of HK$3.675 each (the "2006 Top-up Placing"). The Company raised a sum of approximately HK$631.9 million through the 2006 Top-up Placing and the fund was partly used to settle the balance of the cash consideration of HK$470 million for the subscription of interest in Corich and as the Group's general working capital.

(vi) Pursuant to the Corich Subscription Agreement (Note 35), the Company allotted and issued a total of 200,000,000 Corich Consideration Shares at HK$2.40 each to Toward Plan Investments Limited and Win Key Development Limited on 28 April 2006 as payment of part of the consideration for the subscription of interest in Corich.

(vii) The Company repurchased 37,538,000 of its own Shares on the Stock Exchange in February and May 2006. The highest and lowest price paid per Share were HK$2.95 and HK$0.87 respectively. The total amount paid for the repurchase of Shares was approximately HK$53,648,000 and has been deducted from shareholders' equity. The Shares repurchased were subsequently cancelled.

28. SHARE OPTION SCHEME

At the annual general meeting of the Company held on 30 July 2002, the shareholders of the Company approved the adoption of a share option scheme (the "Option Scheme") in compliance with the amended Chapter 23 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules").

Under the Option Scheme, the Company may grant options to employees (including executive directors) of the Group and other participants to subscribe for shares in the Company, subject to a maximum of 30% of the issued share capital of the Company from time to time excluding for this purpose shares issued on exercise of options. The subscription price will be determined by the Company's board of directors and will not be less than the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheets on the date of the grant of the option, which must be a business day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of the grant of the option; and (iii) the nominal value of the shares. A nominal consideration at HK$1 is payable for each of the options granted. Share options can be exercised within a period of not exceeding 10 years commencing on the date of grant or such later date as the board of directors may determine and expiring on the last day of the period.

Details of the movements of share options under the Option Scheme during the year ended 31 December 2006 and the period ended 31 December 2005 are as follows:

Year ended 31 December 2006

			Number of options				
Date of grant	Exercise price *HK$*	Exercisable period	As at 1 January 2006	Granted	Lapsed	Exercised	As at 31 December 2006
1 September 2005	1.96	31 October 2005 to 30 October 2007	15,550,000	–	(250,000)	(120,000)	15,180,000
1 September 2005	1.96	31 October 2006 to 30 October 2007	15,550,000	–	(250,000)	–	15,300,000
15 December 2005	2.70	15 December 2006 to 14 December 2008	1,500,000	–	–	–	1,500,000
8 June 2006	1.22	8 June 2007 to 7 June 2011	–	6,700,000	–	–	6,700,000
8 June 2006	1.22	8 June 2008 to 7 June 2011	–	6,700,000	–	–	6,700,000
8 June 2006	1.22	8 June 2009 to 7 June 2011	–	6,700,000	–	–	6,700,000
8 June 2006	1.22	8 June 2010 to 7 June 2011	–	6,700,000	–	–	6,700,000
30 June 2006	1.14	16 August 2007 to 29 June 2016	–	4,400,000	–	–	4,400,000
30 June 2006	1.14	16 August 2008 to 29 June 2016	–	4,400,000	–	–	4,400,000
30 June 2006	1.14	16 August 2009 to 29 June 2016	–	4,400,000	–	–	4,400,000
30 June 2006	1.14	16 August 2010 to 29 June 2016	–	4,400,000	–	–	4,400,000
			32,600,000	44,400,000	(500,000)	(120,000)	76,380,000

Period ended 31 December 2005

			Number of options				
Date of grant	Exercise price HK$	Exercisable period	As at 1 April 2005	Granted	Lapsed	Exercised	As at 31 December 2005
1 September 2005	1.96	31 October 2005 to 30 October 2007	–	15,550,000	–	–	15,550,000
1 September 2005	1.96	31 October 2006 to 30 October 2007	–	15,550,000	–	–	15,550,000
15 December 2005	2.70	15 December 2006 to 14 December 2008	–	1,500,000	–	–	1,500,000
			–	32,600,000	–	–	32,600,000

The vesting period of the options is from the date of the grant until the commencement of the exercisable period. No options under the Option Scheme were expired during the year ended 31 December 2006 and the period ended 31 December 2005.

The fair value of the options granted during the year ended 31 December 2006 was estimated as at the date of grant using the Black-Scholes options pricing model with the following assumptions:

(i) Risk-free interest rate – the yield of three years Exchange Fund Notes;

(ii) Expected volatility of share price – annualised volatility for one year immediately preceding the date of grant. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome;

(iii) Expected life of share options – one to nine years; and

(iv) No other feature of the options granted was incorporated into the measurement of fair value.

According to Black-Scholes options pricing model, the fair value of the options granted during the year ended 31 December 2006 was approximately HK$39,654,000 (Period ended 31 December 2005: HK$38,837,000) of which the Group recognised a share option expense of HK$11,526,000 (Period ended 31 December 2005: HK$26,279,000) for the year ended 31 December 2006.

The 120,000 options exercised during the year resulted in the issue of 120,000 ordinary shares of the Company and new share capital of HK$1,200 and share premium of HK$400,800 (before issue expenses), as further detailed in Note 27 to the financial statements. The related weighted average share price at the date of exercise was HK$3.575.

As at 31 December 2006, the Company had 76,380,000 options outstanding under the Option Scheme. The exercise in full of the remaining options would, under the present capital structure of the Company, result in the issue of 76,380,000 additional ordinary shares of the Company and additional share capital of HK$763,800 and share premium of approximately HK$165,375,000 (before issue expenses).

Subsequent to the balance sheet date, (i) a total of 2,000,000 options were granted to an employee of the Company with an exercise price of HK$1.78 per share and the share price of the Company at the date of grant was HK$1.78. (ii) a total of 300,000 options lapsed of which 150,000 options were exercisable from 31 October 2005 to 30 October 2007 with an exercise price of HK$1.96 per share and 150,000 options were exercisable from 31 October 2006 to 30 October 2007 with an exercise price of HK1.96 per share.

29. RESERVES

Group

	Share premium HK$'000	Capital reserve HK$'000 (Note (b))	Currency translation reserve HK$'000	Share-based compensation reserve HK$'000	Total HK$'000
Balance as at 1 April 2005	19,865	15,158	1	–	35,024
Share option scheme					
– value of employee services	–	–	–	22,820	22,820
– value of other participants' services	–	–	–	3,459	3,459
Issue of shares	271,454	–	–	–	271,454
Balance as at 31 December 2005 and 1 January 2006	291,319	15,158	1	26,279	332,757
Repurchase of shares	(53,273)	–	–	–	(53,273)
Share option scheme:					
– value of employee services	–	–	–	19,600	19,600
– value of other participants' services	–	–	–	4,223	4,223
– issue of shares under share option scheme	401	–	–	(167)	234
– vested share options lapsed	–	–	–	(347)	(347)
Issue of shares	1,137,700	–	–	–	1,137,700
Share issue expenses	(29,585)	–	–	–	(29,585)
Currency translation differences					
– overseas subsidiaries	–	–	2,070	–	2,070
– overseas associate	–	–	967	–	967
Balance as at 31 December 2006	1,346,562	15,158	3,038	49,588	1,414,346

Company

	Share premium HK$'000	Contributed surplus HK$'000 (Note (c))	Share-based compensation reserve HK$'000	Total HK$'000
Balance as at 1 April 2005	19,865	16,209	–	36,074
Share option scheme				
– value of employee services	–	–	22,820	22,820
– value of other participants' services	–	–	3,459	3,459
Issue of shares	271,454	–	–	271,454
Balance as at 31 December 2005 and 1 January 2006	291,319	16,209	26,279	333,807
Repurchase of shares	(53,273)	–	–	(53,273)
Share option scheme:				
– value of employee services	–	–	19,600	19,600
– value of other participants' services	–	–	4,223	4,223
– issue of shares under share option scheme	401	–	(167)	234
– vested share options lapsed	–	–	(347)	(347)
Issue of shares	1,137,700	–	–	1,137,700
Share issue expenses	(29,585)	–	–	(29,585)
Balance as at 31 December 2006	1,346,562	16,209	49,588	1,412,359

Notes:

(a) On 6 September 2001, the Company became the holding company of the other companies comprising the Group pursuant to a group reorganisation (the "Reorganisation") at the time of listing of the Company's shares on GEM.

(b) Capital reserve represents the difference between the nominal value of the ordinary shares issued by the Company and the share capital of a subsidiary acquired through an exchange of shares pursuant to the Reorganisation.

(c) Contributed surplus represents the difference between the nominal value of the ordinary shares issued by the Company and the net asset value of a subsidiary acquired through an exchange of shares pursuant to the Reorganisation.

30. ACCUMULATED LOSSES

	Company	
	2006	**2005**
	HK$'000	*HK$'000*
Balance as at 1 January 2006/1 April 2005	(53,609)	(16,909)
Vested share options lapsed	347	–
Loss for the year/period	(34,084)	(36,700)
Balance as at 31 December 2006/2005	(87,346)	(53,609)

31. DEFERRED INCOME TAX LIABILITIES

	Group	
	2006	**2005**
	HK$'000	*HK$'000*
Beginning of the year/period	–	179
Deferred taxation credit to the income statement	–	(179)
Acquisition of subsidiaries *(Note 35)*	9,400	–
End of the year/period	9,400	–

The balance of deferred income tax liabilities as at 31 December 2006 is attributable to the intangible assets (CLO Contract) recognised arising from acquisition of subsidiaries.

As at 31 December 2006, the Group had unused tax losses of approximately HK$87,000 (2005: HK$1,232,000) that can be carried forward to offset against future taxable profit. The Group did not recognise a deferred income tax asset in respect of such tax losses as it was not probable that future taxable profit will be available to utilise the unused tax losses.

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of profit/(loss) before income tax to net cash generated from/(used in) operations

	Year ended 31 December 2006 *HK$'000*	Period ended 31 December 2005 *HK$'000*
Cash flows from operating activities		
Profit/(Loss) before income tax:		
From continuing operations	12,035	(42,402)
From discontinued operations	(14,748)	(36)
Adjustments for:		
Depreciation	6,282	180
Amortisation of intangible assets	4,974	88
Loss on disposal of domain names and trademarks	1,576	–
Loss on disposal of property, plant and equipment	–	81
Share-based compensation expenses	23,823	26,279
Reversal of impairment of accounts receivable	(9)	–
Interest income from bank deposits	(15,279)	(4,274)
Share of profit less loss of associates	4,943	–
Fair value gains on financial assets at fair value through profit or loss	(4,873)	–
Operating cash flows before changes in working capital	18,724	(20,084)
– Accounts receivable	1,852	4,175
– Prepayments, deposits and other receivables	13,324	(22,591)
– Amounts due from related companies	(4,908)	–
– Accounts payable	(6,392)	–
– Accruals and other payables	(7,763)	5,899
– Amounts due to related companies	(196)	–
– Amount due to a director	(68)	–
Net cash generated from/(used in) operating activities	14,573	(32,601)

33. OPERATING LEASE COMMITMENTS

As at 31 December 2006, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of rented premises as follows:

	As at 31 December 2006 *HK$'000*	As at 31 December 2005 *HK$'000*
No later than one year	2,606	2,349
Later than one year and no later than five years	1,608	2,957
	4,214	5,306

The Company did not have significant operating lease commitments as at 31 December 2006 (As at 31 December 2005: Nil).

34. EMPLOYEE RETIREMENT BENEFITS

The Group has arranged for its Hong Kong employees to participate in a defined contribution retirement scheme (the "Original Scheme"), which is managed by independently administered funds. The Group's monthly contributions are based on 5% of employees' monthly salaries. The employees are entitled to receive 100% of the Group's contribution and the accrued interest thereon upon retirement or leaving the Group after completing ten years of service or at a reduced scale of 30% to 90% after completing three to nine years of services.

For the Group's Hong Kong employees employed after 1 December 2000, the Group has arranged for these employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, each of the Group and its employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation, subject to a maximum of HK$1,000 per month per employee.

As stipulated by rules and regulations in the PRC, the Group contributes to state-sponsored retirement plans for its employees in the PRC. The Group contributes to the retirement plans at rates ranging from approximately 8% to 19% of the basic salaries of its employees, and has no further obligations for the actual payment of pensions or post-retirement benefits. The state-sponsored retirement plans are responsible for the entire pension obligations payable to retired employees.

As stipulated by Korean labour law, employees with more than one year of service are entitled to receive a lump sum payment upon voluntary or involuntary termination of their employment. The amount of the benefit is based on the terminated employee's length of employment and rate of pay prior to termination. The Group records the vested benefit obligation assuming all employees were to terminate their employment at the balance sheet date.

During the year, the aggregate amount of the Group's contributions to the aforementioned schemes was approximately HK$716,000 (Period ended 31 December 2005: HK$140,000), with no (Period ended 31 December 2005: HK$7,000) deduction of forfeited contributions. As at 31 December 2006, there was no material forfeited contribution available to reduce the Group's employer contribution payable in future periods.

The Group did not have contribution payable as at 31 December 2006 (As at 31 December 2005: Nil).

35. BUSINESS COMBINATIONS

On 9 January 2006, the Company entered into a subscription agreement ("Corich Subscription Agreement") with China LotSynergy Group Limited ("CLG" – a wholly-owned subsidiary of the Company), Toward Plan Investments Limited and Win Key Development Limited (Toward Plan Investments Limited and Win Key Development Limited are collectively referred to as the "Warrantors") and Corich. Pursuant to the Corich Subscription Agreement, the Group would subscribe for 1,000,000 ordinary shares of US$1.00 each in the share capital of Corich ("Corich Shares") representing either approximately 33.3% or 50% (depending on whether the redemption rights under the Corich Subscription Agreement would be exercised) in the issued share capital of Corich as a result of the subscription, for a consideration of HK$980 million, to be satisfied as to HK$500 million by cash and as to HK$480 million by the allotment and issue of 200,000,000 shares of HK$0.01 each in the capital of the Company ("Corich Consideration Shares") at an issue price of HK$2.40 each. An initial deposit of HK$10 million was paid on 20 December 2005 and a further deposit of HK$20 million was paid on 12 January 2006 in accordance with the Corich Subscription Agreement. The subscription constituted a major transaction for the Company under the GEM Listing Rules and was approved at the Company's special general meeting held on 21 March 2006. On 4 April 2006, the Group completed the subscription for 1,000,000 Corich Shares by payment of the remaining cash consideration of HK$470 million and as a result CLG held 33.3% of the then total issued share capital of Corich, which was accounted for as an associate of the Group as from that date.

Pursuant to the Corich Subscription Agreement, CLG has the right ("Subscriber's Redemption Right") within a period of three months from completion to request Corich to redeem all (but not part) of the 1,000,000 redeemable convertible preference shares of US$1.00 each in the share capital of Corich ("Corich Preference Shares") held by the Warrantors. In the event that this right is exercised by CLG, Corich shall pay to the Warrantors HK$500 million in cash, and instruct the Company to issue the Corich Consideration Shares to the Warrantors on a pro rata basis as referred to in the Corich Subscription Agreement.

On 28 April 2006, CLG exercised the Subscriber's Redemption Right to request Corich to redeem all of the Corich Preference Shares held by the Warrantors, where the Company allotted and issued the Corich Consideration Shares to the Warrantors on a pro rata basis. Upon the exercise of the Subscriber's Redemption Right, CLG holds 50% of the total issued share capital of Corich, which is accounted for as a subsidiary of the Group as from that date.

The Corich Group through its wholly-owned subsidiary, 東莞天意 is principally engaged in the provision of VLT. On 29 June 2005, 東莞天意 entered into a contract ("CLO Contract") with Beijing Lottery Online Technology Co., Ltd. ("CLO"), pursuant to which 東莞天意 provides CLO with VLT on an exclusive basis in the PRC. In consideration for the provision of VLT by 東莞天意, CLO has agreed to pay to 東莞天意 a service fee of 2% (inclusive of a maintenance fee of 0.4%) of the total revenue generated from the VLT sales system of CLO in the PRC. The CLO Contract shall operate for a period of 10 years.

Details of net assets acquired and goodwill are as follows:

	HK$'000
Purchase consideration:	
Fair value of Corich Consideration Shares *(Note 27(vi))*	480,000
Fair value of net assets acquired — shown as below	(15,393)
Goodwill	464,607
Goodwill transferred from investment in an associate	470,712
Total goodwill *(Note 14)*	935,319

The assets and liabilities as of 28 April 2006 arising from the acquisition are as follows:

	Fair value *HK$'000*	**Acquiree's carrying amount** *HK$'000*
Cash and bank balances	1,839	1,839
Intangible assets — CLO Contract *(Note 14)*	60,382	–
Property, plant and equipment *(Note 15)*	37,117	37,117
Accounts receivable	25,027	25,027
Deposits, prepayments and other receivables	4,429	4,429
Accounts payables	(8,846)	(8,846)
Accruals and other payables	(9,245)	(9,245)
Amount due to director of Corich	(400)	(400)
Amounts due to related parties	(8,726)	(8,726)
Deferred income tax liabilities *(Note 31)*	(9,400)	–
Net assets	92,177	41,195
Minority interests	76,784	
Net assets acquired	15,393	
Purchase consideration settled in cash		–
Cash and cash equivalents in subsidiaries acquired		1,839
Cash inflow on acquisition		1,839

The fair value of the CLO Contract was arrived at on the basis of a valuation carried out by independent, professionally qualified valuers not connected with the Group. The valuation was determined by reference to discounted cash flow projections.

The adoption of HK$2.40 each as the fair value of the Corich Consideration Shares issued at the date of exchange was based on a fair value assessment made by the directors of the Company, taking into consideration all aspects of the combination and significant factors influencing the negotiations. The Group did not adopt the closing price of HK$1.60 per Share as quoted on the Stock Exchange as at the date of issue of the Corich Consideration Shares as the directors considered that the published price was not a reliable indicator of the fair value of the Corich Consideration Shares issued in view of the thinness of the market.

Goodwill arising from acquisition of the Corich Group is attributable to the anticipated profitability and future development of the Corich Group in public welfare lottery business in the PRC and the anticipated future operating synergy from the combinations.

The Corich Group contributed revenues of approximately HK$71,295,000 and net profit of approximately HK$57,600,000 to the Group for the period from the date of acquisition to 31 December 2006. If the acquisition had occurred on 1 January 2006, Group revenue would have been approximately HK$88,747,000 and profit before allocations would have been approximately HK$65,476,000. This pro forma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of the Group that actually would have been achieved had the acquisition occurred on 1 January 2006, nor is it intended to be a projection of future results.

There were no acquisitions in the period ended 31 December 2005.

36. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in these financial statements, the Group had the following material related party transactions for the year ended 31 December 2006:

Nature of transactions

	Year ended 31 December 2006 *HK$'000*	**Period ended 31 December 2005** *HK$'000*
Sale of domain names, trademarks and software applications to a subsidiary of a substantial shareholder of the Company	100	–
Income from provision of consultancy services to an associate	50	–

37. POST BALANCE SHEET EVENTS

On 26 March 2007, the Company announced that the board of directors of the Company intends to put forward a proposal to the Company's shareholders at the forthcoming annual general meeting for a reduction of the share premium account of the Company pursuant to section 46 of the Companies Act of Bermuda ("Share Premium Reduction"). As at 31 December 2006, the amount standing to the credit of the share premium account of the Company was approximately HK$1,346,562,000 and the amount of accumulated losses was approximately HK$87,346,000. Pursuant to the Share Premium Reduction, it is proposed that the share premium account of the Company be reduced by an amount of approximately HK$87,346,000 from approximately HK$1,346,562,000 to approximately HK$1,259,216,000 and that this sum be applied to eliminate the accumulated losses of the Company of approximately HK$87,346,000 as at 31 December 2006.

4. UNAUDITED FINANCIAL STATEMENTS

Set out below are the unaudited condensed consolidated financial statements of the Group together with accompanying notes as extracted from the interim report of the Company for the three months and six months ended 30 June 2007. The information on share, share options and convertible note of the Company sets out in the notes 8, 14, 15 and 16 to the condensed financial statements contained information which are before the share subdivision became effective on 7 August 2007. References to page numbers in the below extract are made to the page numbers of such interim report of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited			
		Three months ended 30 June		Six months ended 30 June	
		2007	2006	2007	2006
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
			As restated		As restated
Continuing operations:					
Turnover	*3*	58,995	13,066	102,723	13,066
Cost of services	*4*	(7,715)	(2,388)	(13,984)	(2,388)
Gross profit		51,280	10,678	88,739	10,678
General and administrative expenses		(14,110)	(8,299)	(26,291)	(16,016)
Other income and gains		5,611	3,712	8,069	9,835
Finance costs	*5*	(2,047)	–	(2,047)	–
Share options value		(5,265)	(4,865)	(10,832)	(8,593)
Operating profit/(loss) from continuing operations	*6*	35,469	1,226	57,638	(4,096)
Share of profit less loss of associates		(4,006)	912	(6,509)	912
Profit/(Loss) before income tax		31,463	2,138	51,129	(3,184)
Income tax	*7*	37	–	37	–
Profit/(Loss) for the period from continuing operations		31,500	2,138	51,166	(3,184)
Discontinued operations:					
Loss for the period from discontinued operations		–	(1,573)	–	(1,548)
Profit/(Loss) for the period		31,500	565	51,166	(4,732)
Attributable to:					
Equity holders of the Company		8,193	(3,756)	10,999	(9,034)
Minority interests		23,307	4,321	40,167	4,302
		31,500	565	51,166	(4,732)
Earnings/(Loss) per share for profit/(loss) from continuing operations attributable to the equity holders of the Company during the period					
– basic and diluted	*8*	0.45 HK Cent	(0.12) HK Cent	0.62 HK Cent	(0.45) HK Cent
Loss per share for loss from discontinued operations attributable to the equity holders of the Company during the period					
– basic and diluted	*8*	N/A	(0.09) HK Cent	N/A	(0.09) HK Cent

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	Unaudited As at 30 June 2007 HK$'000	Audited As at 31 December 2006 HK$'000
Non-current assets			
Intangible assets		987,542	990,805
Property, plant and equipment		86,784	63,491
Investment in an associate	9	52,103	54,016
Total non-current assets		1,126,429	1,108,312
Current assets			
Financial assets at fair value through profit and loss	10	123,998	–
Accounts receivable	11	41,879	24,138
Prepayments, deposits and other receivable		14,995	16,109
Amounts due from related companies		20,231	21,250
Deposit with a financial institution		16,175	16,175
Cash and bank balances		1,115,994	310,620
Total current assets		1,333,272	388,292
Total assets		2,459,701	1,496,604
Current liabilities			
Financial liability at fair value through profit and loss	12	75,930	–
Accounts payable	13	8,711	2,680
Accruals and other payables		19,286	9,042
Amount due to an associate		29,605	29,637
Amounts due to related companies		10,498	9,080
Amount due to a director		345	347
Income tax payable		682	682
Total current liabilities		145,057	51,468
Net current assets		1,188,215	336,824
Total assets less current liabilities		2,314,644	1,445,136
Non-current liabilities			
Deferred income tax liabilities		14,125	9,400
Convertible note	14	524,837	–
		538,962	9,400
Net assets		1,775,682	1,435,736
Capital and reserves			
Share capital	15	18,678	17,726
Reserves	17	1,612,235	1,414,346
Retained profit/(Accumulated losses)		11,364	(87,346)
Capital and reserves attributable to equity holders of the Company		1,642,277	1,344,726
Minority interests		133,405	91,010
Total equity		1,775,682	1,435,736

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited six months ended 30 June 2006				
	Attributable to equity holders of the Company				
	Share Capital	**Reserves**	**Accumulated losses**	**Minority interest**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance as at 1 January 2006	14,300	332,757	(58,505)	16,562	305,114
Currency translation differences	–	(1,883)	–	–	(1,883)
Net income recognised directly in equity	–	(1,883)	–	–	(1,883)
Loss for the period	–	–	(9,034)	4,302	(4,732)
Total recognised income/ (expenses) for the period	–	(1,883)	(9,034)	4,302	(6,615)
Repurchase of shares	(375)	(53,273)	–	–	(53,648)
Share option scheme:					
– value of employee services	–	7,484	–	–	7,484
– value of other participants services	–	1,109	–	–	1,109
– issue of shares under share option scheme	1	234	–	–	235
Issue of shares under subscription agreements	1,800	659,700	–	–	661,500
Issue of shares arising on business combination	2,000	478,000	–	–	480,000
Share issue expenses	–	(29,585)	–	–	(29,585)
Minority interests arising on business combination	–	–	–	20,102	20,102
	3,426	1,063,669	–	20,102	1,087,197
Balance as at 30 June 2006	17,726	1,394,543	(67,539)	40,966	1,385,696

	Unaudited six months ended 30 June 2007				
	Attributable to equity holders of the Company				
	Share Capital	**Reserves**	**Retained profit/ (Accumulated losses)**	**Minority interest**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance as at 1 January 2007	17,726	1,414,346	(87,346)	91,010	1,435,736
Currency translation difference	–	6,878	–	2,228	9,106
Net income recognised directly in equity	–	6,878	–	2,228	9,106
Profit for the period	–	–	10,999	40,167	51,166
Total recognised income for the period	–	6,878	10,999	42,395	60,272
Share option scheme:					
– value of employee services	–	9,887	–	–	9,887
– value of other participants services	–	945	–	–	945
– issue of shares under share option scheme	18	2,918	–	–	2,936
– vested share options lapsed	–	(365)	365	–	–
Issue of shares under subscription agreement	934	251,246	–	–	252,180
Share issue expenses	–	(6,354)	–	–	(6,354)
Equity component arising on issue of convertible note	–	24,842	–	–	24,842
Deferred tax arising on issue of convertible note	–	(4,762)	–	–	(4,762)
Reduction of share premium to offset against accumulated loss	–	(87,346)	87,346	–	–
	952	191,011	87,711	–	279,674
Balance as at 30 June 2007	18,678	1,612,235	11,364	133,405	1,775,682

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited Six months ended 30 June	
	2007	**2006**
	HK$'000	*HK$'000*
Net cash generated from/(used in) operating activities	64,223	(12,724)
Net cash used in investing activities	(63,834)	(525,085)
Net cash generated from financing activities	803,686	578,502
Net increase in cash and cash equivalents	804,075	40,693
Effect of foreign exchange rate changes	1,299	–
Cash and cash equivalents, beginning of period	310,620	242,657
Cash and cash equivalents, end of period	1,115,994	283,350
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	1,115,994	283,350

NOTES TO CONDENSED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements has been prepared in accordance with Hong Kong Accounting Standards ("HKAS") 34, "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants, and Chapter 18 of the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (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 2006.

The Group has adopted the following standards, amendment and interpretations that have been issued and effective for the accounting periods beginning on or after 1 January 2007. The adoption of such standards, amendment and interpretations did not have material effect on these financial statements.

HKAS 1 (Amendment)	Capital disclosure
HKFRS 7	Financial instruments: Disclosures
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment
HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions

The Group has not early adopted the following standards and interpretations that have been issued but not yet effective. The adoption of such standards and interpretations will not result in substantial changes to the Group's accounting policies.

HKFRS 8	Operating segments
HK(IFRIC) – Int 12	Service Concession Arrangements

2. SEGMENT INFORMATION

For the six months ended 30 June 2007 and 2006, over 90% of the Group's revenue were derived from the Group's continuing operations representing investment, project development and the provision of technologies, equipment and consultancy services in public welfare lottery business and related sectors. Accordingly, no business segment information is presented.

For the six months ended 30 June 2007 and 2006, over 90% of the Group's revenue were derived from customers based in the People's Republic of China. Accordingly, no geographical segment information is presented.

3. TURNOVER FROM CONTINUING OPERATIONS

The Group is principally engaged in investment, project development and the provision of technologies, equipment and consultancy services in public welfare lottery business and related sectors. An analysis of the Group's turnover from continuing operations for the periods are as follows:

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
		As restated		As restated
Turnover				
Income from provision of lottery terminals	58,981	13,056	102,690	13,056
Income from provision of consultancy services	14	10	33	10
	58,995	13,066	102,723	13,066

4. COST OF SERVICES

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Depreciation of lottery terminals	3,544	926	6,525	926
Business tax	3,060	653	5,289	653
Other cost of services	1,111	809	2,170	809
	7,715	2,388	13,984	2,388

5. FINANCE COSTS

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Interest on convertible note	2,047	–	2,047	–

Interest on the convertible note is calculated using effective interest method by applying the effective interest rate of 4.7% per annum.

6. OPERATING PROFIT/(LOSS) FROM CONTINUING OPERATIONS

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000* As restated	*HK$'000*	*HK$'000* As restated
Operating profit/(loss) from continuing operations is stated after charging:				
Staff costs (excluding share options value)	6,134	3,788	12,277	8,647
Amortisation of intangible assets	1,632	–	3,264	–
Depreciation of property, plant and equipment	249	171	467	241
Operating lease rentals in respect of land and buildings	935	638	1,487	1,112

7. INCOME TAX

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Deferred income tax	(37)	–	(37)	–

No provision for Hong Kong and overseas profits tax has been made as the Group had no assessable profit during the three months and six months ended 30 June 2007 (2006: Nil and Nil).

8. EARNINGS/(LOSS) PER SHARE

The calculation of the basic and diluted earnings/(loss) per share is based on the following data:

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Profit/(Loss) for the period from continuing operations attributable to the equity holders of the Company for the purpose of calculating basic earnings/(loss) per share	8,193	(2,183)	10,999	(7,486)
After tax effect of effective interest on liability component of convertible note	2,010	–	2,010	–
Profit/(Loss) for the period from continuing operations attributable to the equity holders of the Company for the purpose of calculating diluted earnings/(loss) per share	10,203	(2,183)	13,009	(7,486)
Loss for the period from discontinued operations attributable to the equity holders of the Company for the purpose of calculating basic loss per share	–	(1,573)	–	(1,548)
Number of shares:				
Weighted average number of ordinary shares in issue for the purpose of calculating basic earnings/(loss) per share	1,804,164,778	1,784,452,756	1,788,373,389	1,668,534,652
Effect of dilutive potential ordinary shares:				
– Convertible note	47,993,000	–	23,996,500	–
– Share options	37,381,512	7,267,746	30,445,029	1,416,052
Weighted average number of ordinary shares for the purpose of calculating diluted earnings/(loss) per share	1,889,539,290	1,791,720,502	1,842,814,918	1,669,950,704

The computation of diluted earnings/(loss) per share for the three months and six months ended 30 June 2007 and 2006 has not assumed the conversion of convertible note and exercise of share options during the periods because their conversion and exercise would either increase the earnings per share or reduce the loss per share.

9. INVESTMENT IN AN ASSOCIATE

	Unaudited As at 30 June 2007 *HK$'000*	Audited As at 31 December 2006 *HK$'000*
Share of net assets	52,103	54,016

Particulars of the associate of the Group are as follows:

Name of company	Particular of issued shares held by the Group	Place of incorporation	Interest held	Principal activities
Tabcorp International Hong Kong Limited	9,900,000 ordinary shares of A$1 each	British Virgin Islands	33%	Development of nationwide unified platform for lottery operation in the PRC

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Unaudited As at 30 June 2007 *HK$'000*	Audited As at 31 December 2006 *HK$'000*
Listed equity securities at fair value issued by corporate entities		
– Hong Kong	35,880	–
– Overseas	–	–
Market value of listed equity securities	35,880	–
Early redemption option embedded in convertible note at fair value	82,286	–
Unlisted derivative financial assets at fair value	5,832	–
	123,998	–

11. ACCOUNTS RECEIVABLE

Ageing analysis of accounts receivable is as follows:

	Unaudited As at 30 June 2007 *HK$'000*	Audited As at 31 December 2006 *HK$'000*
0 – 30 days	20,999	14,893
31 – 60 days	20,880	9,245
	41,879	24,138

12. FINANCIAL LIABILITY AT FAIR VALUE THROUGH PROFIT OR LOSS

	Unaudited As at 30 June 2007 *HK$'000*	Audited As at 31 December 2006 *HK$'000*
Redemption option held by a noteholder embedded in convertible note at fair value	75,930	–

13. ACCOUNTS PAYABLE

Ageing analysis of accounts payable is as follows:

	Unaudited As at 30 June 2007 *HK$'000*	Audited As at 31 December 2006 *HK$'000*
0 – 30 days	4,775	646
31 – 60 days	771	631
Over 60 days	3,165	1,403
	8,711	2,680

14. CONVERTIBLE NOTE

	Unaudited As at 30 June 2007 *HK$'000*	Audited As at 31 December 2006 *HK$'000*
Principal amount of convertible note issued (net of issue costs)	541,276	–
Early redemption option held by the Company (net of issue costs)	82,286	–
Redemption option held by a noteholder (net of issue costs)	(75,930)	–
Equity component (net of issue costs)	(24,842)	–
Liability component on initial recognition (net of issue costs)	522,790	–
Accrued interest capitalised during the period	2,047	–
Liability component	524,837	–

The unsecured 8-year maturity zero coupon convertible note was issued on 31 May 2007 by the Company, at a principal amount of HK$550,000,000. The note is convertible into ordinary shares of HK$0.01 each of the Company at an initial conversion price of HK$3.82 per ordinary share (subject to adjustment) on any business day during the period on and after 31 May 2010 up to 16 May 2015. The note is redeemable by the Company on or at any time after 31 May 2012 and prior to 31 May 2015 at gross yield of 4% per annum to the noteholder, calculated on a semi-annual basis. Moreover, the noteholder has the right to redeem all or some of the note held by her on 31 May 2012 at 121.89944% of the principal amount. Unless previously redeemed and converted, the note will be redeemed on the maturity date on 31 May 2015 at 137.27857% of the principal amount.

The convertible note contains four components comprising an early redemption option held by the Company, redemption option held by the noteholder, financial liability and equity conversion option elements. The fair value of the four components at initial recognition was based on independent professional valuation. The financial liability is unsecured and stated at amortised cost with an effective interest rate of 4.7% per annum. The equity element of the convertible note is included in reserves as "convertible note equity reserve".

15. SHARE CAPITAL

	Unaudited authorised ordinary shares of HK$0.01 each	
	Number of shares	*HK$'000*
As at 1 January 2006	2,000,000,000	20,000
Increase of authorised share capital *(Note (i))*	2,000,000,000	20,000
As at 30 June 2006, 1 January 2007 and 30 June 2007	4,000,000,000	40,000

	Unaudited issued and fully paid ordinary shares of HK$0.01 each	
	Number of shares	*HK$'000*
As at 1 January 2006	1,430,000,000	14,300
Share options exercised *(Note(ii))*	120,000	1
New issue of Shares *(Note (iii))*	180,000,000	1,800
New issue of consideration Shares *(Note (iv))*	200,000,000	2,000
Repurchase of Shares *(Note (v))*	(37,538,000)	(375)
As at 30 June 2006	1,772,582,000	17,726
As at 1 January 2007	1,772,582,000	17,726
Share options exercised *(Note(vi))*	1,800,000	18
New issue of Shares *(Note (vii))*	93,400,000	934
As at 30 June 2007	1,867,782,000	18,678

Notes:

(i) Pursuant to the ordinary resolution passed by the Company's shareholders at the special general meeting held on 21 March 2006, the authorised share capital of the Company was increased from HK$20,000,000 to HK$40,000,000 by the creation of an additional 2,000,000,000 shares of HK$0.01 each in the capital of the Company (the "Shares").

(ii) Share options were exercised by optionholders in January 2006 to subscribe for a total of 120,000 Shares by payment of subscription monies of approximately HK$235,000, of which approximately HK$1,000 was credited to share capital and the balance of approximately HK$234,000 was credited to the share premium account.

(iii) Pursuant to the subscription agreements dated 17 January 2006, the Company allotted and issued a total of 180,000,000 new Shares at a subscription price of HK$3.675 each to the subscribers on 27 January 2006, following the completion of the placing agreements for the placing of 180,000,000 existing Shares to more than six placees at a placing price of HK$3.675 each (the "2006 Top-up Placing"). The Company raised a sum of approximately HK$631.9 million through the 2006 Top-up Placing and the fund was partly used to settle the balance of the cash consideration of HK$470 million for the subscription of interest in Corich International Limited, and the remaining amount was used as the Group's general working capital.

(iv) Pursuant to the subscription agreement dated 9 January 2006, the Company issued and allotted a total of 200,000,000 new consideration Shares at an issue price of HK$2.40 per Share to Toward Plan Investments Limited and Win Key Development Limited on 28 April 2006 as payment of part of the consideration for the subscription of interest in Corich International Limited.

(v) The Company purchased 37,538,000 of its own Shares on the Stock Exchange in February and May 2006. The highest price and lowest price paid per Share were HK$2.95 and HK$0.87 respectively. The total amount paid for the repurchase of Shares was approximately HK$53,648,000 and has been deducted from shareholders' equity. The Shares repurchased were cancelled subsequently.

(vi) Share options were exercised by optionholders in April and June 2007 to subscribe for a total of 1,800,000 Shares by payment of subscription monies of approximately HK$2,936,000, of which approximately HK$18,000 was credited to share capital and the balance of approximately HK$2,918,000 was credited to the share premium account.

(vii) Pursuant to the subscription agreement dated 1 May 2007, the Company issued and allotted a total of 93,400,000 new Shares at an issue price of HK$2.70 per Share to International Game Technology on 31 May 2007.

16. SHARE OPTION SCHEME

Details of the share options granted under the share option scheme of the Company and the share options outstanding as at 30 June 2007 were as follows:

Date of grant	Exercise price *HK$*	Exercisable period	Number of Shares under the options As at 01/01/2007	Granted	Lapsed	Exercised	As at 30/06/2007
01/09/2005	1.96	31/10/2005 – 30/10/2007	15,180,000	–	(150,000)	(500,000)	14,530,000
01/09/2005	1.96	31/10/2006 – 30/10/2007	15,300,000	–	(150,000)	(500,000)	14,650,000
15/12/2005	2.70	15/12/2006 – 14/12/2008	1,500,000	–	–	–	1,500,000
08/06/2006	1.22	08/06/2007 – 07/06/2011	6,700,000	–	–	(800,000)	5,900,000
08/06/2006	1.22	08/06/2008 – 07/06/2011	6,700,000	–	(100,000)	–	6,600,000
08/06/2006	1.22	08/06/2009 – 07/06/2011	6,700,000	–	(100,000)	–	6,600,000
08/06/2006	1.22	08/06/2010 – 07/06/2011	6,700,000	–	(100,000)	–	6,600,000
30/06/2006	1.14	16/08/2007 – 29/06/2016	4,400,000	–	–	–	4,400,000
30/06/2006	1.14	16/08/2008 – 29/06/2016	4,400,000	–	–	–	4,400,000
30/06/2006	1.14	16/08/2009 – 29/06/2016	4,400,000	–	–	–	4,400,000
30/06/2006	1.14	16/08/2010 – 29/06/2016	4,400,000	–	–	–	4,400,000
11/01/2007	1.78	01/01/2008 – 31/12/2011	–	500,000	–	–	500,000
11/01/2007	1.78	01/01/2009 – 31/12/2011	–	500,000	–	–	500,000
11/01/2007	1.78	01/01/2010 – 31/12/2011	–	500,000	–	–	500,000
11/01/2007	1.78	01/01/2011 – 31/12/2011	–	500,000	–	–	500,000
11/05/2007	3.10	02/05/2008 – 01/05/2014	–	450,000	–	–	450,000
11/05/2007	3.10	02/05/2009 – 01/05/2014	–	450,000	–	–	450,000
11/05/2007	3.10	02/05/2010 – 01/05/2014	–	450,000	–	–	450,000
11/05/2007	3.10	02/05/2011 – 01/05/2014	–	450,000	–	–	450,000
11/05/2007	3.10	02/05/2012 – 01/05/2014	–	450,000	–	–	450,000
11/05/2007	3.10	02/05/2013 – 01/05/2014	–	750,000	–	–	750,000
			76,380,000	5,000,000	(600,000)	(1,800,000)	78,980,000

The vesting period of the options is from the date of the grant until the commencement of the exercisable period. The fair value of the options granted as at the date of grant was estimated using the Black-Scholes options pricing model with the following assumptions:

(i) Risk-free interest rate – the yield of three years Exchange Fund Notes;

(ii) Expected volatility of share price – annualised volatility for one year immediately preceding the date of grant. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome;

(iii) Expected life of share options – one to nine years; and

(iv) No other feature of the options granted was incorporated into the measurement of fair value.

According to Black-Scholes options pricing model, the fair value of the options granted during the six months ended 30 June 2007 was approximately HK$8,067,000 (2006: HK$39,654,000), of which the Group recognised a share option expense of HK$947,000 (2006: HK$1,008,000) for the six months ended 30 June 2007.

As at 30 June 2007, the Company had outstanding options for 78,980,000 Shares granted under the share option scheme of the Company. The exercise in full of the remaining options would, under the capital structure of the Company as at 30 June 2007, result in the issue of 78,980,000 additional Shares of the Company and additional share capital of HK$789,800 and share premium of approximately HK$210,807,000 (before issue expenses).

Subsequent to the balance sheet date, options for a total of 3,200,000 Shares were granted to employees of the Company with an exercise price of HK$3.90 per Share and the share price of the Company at the date of grant was HK$3.90.

17. RESERVES

	Unaudited six months ended 30 June 2006				
	Share premium	Capital reserve	Currency translation reserve	Share-based compensation reserve	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance as at 1 January 2006	291,319	15,158	1	26,279	332,757
Currency translation differences of an overseas associate	–	–	(1,883)	–	(1,883)
Repurchase of Shares	(53,273)	–	–	–	(53,273)
Share option scheme:					
– value of employee services	–	–	–	7,484	7,484
– value of other participants' services	–	–	–	1,109	1,109
– issue of Shares under share option scheme	401	–	–	(167)	234
Issue of Shares under subscription agreements	659,700	–	–	–	659,700
Issue of consideration Shares under a subscription agreement	478,000	–	–	–	478,000
Share issue expenses	(29,585)	–	–	–	(29,585)
Balance as at 30 June 2006	1,346,562	15,158	(1,882)	34,705	1,394,543

	Unaudited six months ended 30 June 2007					
	Share premium	Capital reserve	Currency translation reserve	Share-based compensation reserve	Convertible note equity reserve	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance as at 1 January 2007	1,346,562	15,158	3,038	49,588	–	1,414,346
Currency translation differences of overseas subsidiaries	–	–	6,878	–	–	6,878
Share option scheme:						
– value of employee services	–	–	–	9,887	–	9,887
– value of other participants' services	–	–	–	945	–	945
– issue of Shares under share option scheme	4,909	–	–	(1,991)	–	2,918
– vested share options lapsed	–	–	–	(365)	–	(365)
Issue of Shares under subscription agreement	251,246	–	–	–	–	251,246
Share issue expenses	(6,354)	–	–	–	–	(6,354)
Equity component arising on issue of convertible note	–	–	–	–	24,842	24,842
Deferred tax arising on issue of convertible note	–	–	–	–	(4,762)	(4,762)
Reduction of share premium to offset against accumulated loss	(87,346)	–	–	–	–	(87,346)
Balance as at 30 June 2007	1,509,017	15,158	9,916	58,064	20,080	1,612,235

18. DISCONTINUED OPERATIONS

The Group ceased the operations of metal exchange portals for metal trading and ancillary value-chain services, metal trading, provision of consultancy and logistics services in 2006. An analysis of the results of the discontinued operations is as follows:

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	–	3,736	–	7,335
Expenses	–	(5,309)	–	(8,883)
Loss before income tax after discontinued operations	–	(1,573)	–	(1,548)
Income tax	–	–	–	–
Loss for the period from discontinued operations	–	(1,573)	–	(1,548)

The net cash flows attributable to the discontinued operations are as follow:

	Unaudited Six months ended 30 June 2007 HK$'000	2006 HK$'000
Net cash generated from operating activities	–	106
	–	106

19. OPERATING LEASE COMMITMENTS

As at 30 June 2007, the Group had future aggregate minimum lease payments under non-cancellable operating lease in respect of rented premises as follows:

	Unaudited As at 30 June 2007 HK$'000	Audited As at 31 December 2006 HK$'000
Not later than one year	544	4
Later than one year and not later than five years	2,153	5,318
	2,697	5,322

20. RELATED PARTY TRANSACTIONS

Nature of transactions	Unaudited Six months ended 30 June 2007 HK$'000	2006 HK$'000
Sale of domain names, trademarks and software applications to a subsidiary of a substantial shareholder of the Company	–	100
Income from provision of consultancy services to an associate	33	10

21. POST BALANCE SHEET EVENT

Pursuant to the ordinary resolution passed by the Company's shareholders at the special general meeting held on 6 August 2007, each of the existing issued and unissued shares of HK$0.01 each in the share capital of the Company is subdivided into 4 subdivided shares of HK$0.0025 each. The share subdivision became effective on 7 August 2007 and with effect from 21 August 2007, the subdivided shares will be traded in board lots of 4,000 subdivided shares.

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the reporting accountants, HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, Hong Kong. As described in the paragraph headed "Documents available for inspection" in Appendix V, a copy of the following accountants' report is available for inspection.

HLB 國衛會計師事務所
Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

4 October 2007

The Directors
China LotSynergy Holdings Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding Champ Mark Investments Limited ("CMIL") and its subsidiaries (collectively referred to as the "CMIL Group") for the period from 6 January 2006 (date of incorporation of CMIL) to 31 December 2006 and the six months ended 30 June 2007 (the "Relevant Periods"), Lottnal Holdings Limited ("LHL") and its subsidiary, 廣州洛圖終端技術有限公司 (Guangzhou Lottnal Terminal Technology Company Limited) ("GZL") (collectively referred to as the "LHL Group") for the years ended 31 December 2004, 2005 and 2006 and the six months ended 30 June 2007 and 廣州市三環永新科技有限公司 (Guangzhou San Huan Yong Xin Technology Company Limited) ("GZSH") for the years ended 31 December 2004, 2005 and 2006 and the six months ended 30 June 2007 (the "Periods"), for inclusion in the circular (the "Circular") dated 4 October 2007 issued by China LotSynergy Holdings Limited (the "Company").

The Financial Information comprises (i) a summary of significant accounting policies of the CMIL Group, the LHL Group and GZSH; (ii) the consolidated balance sheets of the CMIL Group and the balance sheets of CMIL as at 31 December 2006 and 30 June 2007, the consolidated income statements, the consolidated statements of changes in equity and the consolidated cash flow statements of the CMIL Group for the period ended 31 December 2006 and the six months ended 30 June 2007 and other explanatory notes; (iii) the consolidated balance sheets of the LHL Group and the balance sheets of LHL as at 31 December 2004, 2005 and 2006 and 30 June 2007, the consolidated income statements, the consolidated statements of changes in equity and the consolidated cash flow statements of the LHL Group for the years ended 31 December 2004, 2005 and 2006 and the six months ended 30 June 2007 and other explanatory notes; and (iv) the balance sheets of GZSH as at 31 December 2004, 2005 and 2006 and 30 June 2007, the income statements, the statements of changes in equity and the cash flow statements of GZSH for the years ended 31 December 2004, 2005 and 2006 and the six months ended 30 June 2007 and other explanatory notes.

CMIL is an investment holding company incorporated in the British Virgin Islands (the "BVI") with limited liability on 6 January 2006. As at the date of this report, CMIL had interests in the following subsidiaries:

Name of company	Place of incorporation/ establishment and kind of legal entity	Date of incorporation/ establishment	Paid up/ registered capital as at 30 June 2007	Interest held	Principal activities and principal place of operation
Held directly:					
Champ Technology Limited ("CTL")	Hong Kong, private company with limited liability	18 March 2006	Paid up capital of HK$1	100%	Investment holding
Held indirectly:					
Lottnal Holdings Limited ("LHL")	Hong Kong, private company with limited liability	29 December 2000	Paid up capital of US$350,000	60%	Investment holding
廣州洛圖終端技術有限公司 (Guangzhou Lottnal Terminal Technology Company Limited) ("GZL")	PRC, wholly foreign owned enterprise	3 July 2000	Registered capital of US$350,000	60%	Research and development and manufacturing of lottery ticket scanners and terminal equipment in the People's Republic of China (the "PRC") and overseas
廣州市三環永新科技有限公司 (Guangzhou San Huan Yong Xin Technology Company Limited) ("GZSH")	PRC, Sino-foreign equity joint venture enterprise	31 August 2001	Registered capital of RMB10,000,000	60%	Provision of lottery system and equipment in the PRC

The financial statements of CMIL for the period from 6 January 2006 (date of incorporation) to 31 December 2006, the statutory financial statements of CTL for the period from 18 March 2006 (date of incorporation) to 31 December 2006 and the statutory financial statements of LHL for the years ended 31 December 2004, 2005 and 2006 were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the Hong Kong Companies Ordinance, and were audited by S.Y. Yang & Company, Certified Public Accountants in Hong Kong.

The PRC statutory financial statements of GZL and GZSH for the years ended 31 December 2004, 2005 and 2006 were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC. The PRC statutory financial statements of GZL for the year ended 31 December 2004 were audited by 廣州市恆信會計師事務所有限公司, certified public accountants registered in the PRC. The PRC statutory financial statements of GZL for the years ended 31 December 2005 and 2006 were audited by 廣東金五羊會計師事務所有限公司, certified public accountants registered in the PRC. The PRC statutory financial statements of GZSH for the years ended 31 December 2004, 2005 and 2006 were audited by 廣州富揚健達會計師事務所有限公司, certified public accountants registered in the PRC.

As a basis for forming an opinion on the Financial Information for the purpose of this report, the directors of CMIL (the "CMIL Directors") have prepared consolidated management accounts of the CMIL Group for the Relevant Periods, consolidated management accounts of the LHL Group for the Periods and management accounts of GZSH for the Periods in accordance with HKFRS issued by the HKICPA (the "Underlying Financial Statements"). We have audited the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA. We have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

The Financial Information of the CMIL Group for the Relevant Periods, and of the LHL Group and GZSH for the Periods set out in this report have been prepared based on the Underlying Financial Statements.

The Underlying Financial Statements are the responsibility of the CMIL Directors. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information together with the notes thereto gives, for the purpose of this report, a true and fair view of the state of affairs of CMIL and the CMIL Group as at 31 December 2006 and 30 June 2007, of LHL and the LHL Group as at 31 December 2004, 2005 and 2006 and 30 June 2007, and of GZSH as at 31 December 2004, 2005 and 2006 and 30 June 2007, and of the results and cash flows of the CMIL Group for the Relevant Periods, of the LHL Group for the Periods and of GZSH for the Periods.

The comparative consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement of the LHL Group for the six months ended 30 June 2006 together with the notes thereon and the comparative income statement, statement of changes in equity and cash flow statement of GZSH for the six months ended 30 June 2006 together with the notes thereon (collectively referred to as the "30 June 2006 Financial Information") have been extracted from the financial information of the LHL Group and GZSH for the same period which were prepared by the CMIL Directors solely for the purpose of this report. We have reviewed the 30 June 2006 Financial Information in accordance with the Statement of Auditing Standard 700 "Engagements to review interim financial reports" issued by the HKICPA. Our review consisted principally of making enquires of CMIL's management and applying analytical procedures to the 30 June 2006 Financial Information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the 30 June 2006 Financial Information.

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the 30 June 2006 Financial Information.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES OF THE CMIL GROUP, THE LHL GROUP AND GZSH

1.1 Basis of preparation

The Financial Information has been prepared in accordance with HKFRS issued by the HKICPA. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The Financial Information has been prepared under the historical cost convention. The Financial Information is presented in Hong Kong Dollars (HK$) unless otherwise stated.

The preparation of Financial Information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying these accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information, are disclosed in Section II Note 3.

The following revision and interpretations to existing standards have been published that are mandatory for accounting periods beginning on or after 1 March 2007 or later periods but have no significant impact to the operations of the group/company:

HKAS 23 (Revised) – Borrowing Costs (effective for annual period beginning on or after 1 January 2009) removes the option of immediate recognition as an expense of borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. As the group/company did not have any borrowings as at 30 June 2007, the revision has no impact to the group/company.

HKFRS 8 – Operating Segments (effective for annual period beginning on or after 1 January 2009) introduces the management approach to segment reporting and emphasis the disclosures of the measures used to manage the business in place of the rigidly defined disclosures required by HKAS 14 Segment Reporting. A single set of operating segments replaces the primary and secondary segments. The group/company will apply HKFRS 8 from 1 January 2009, but it is not expected to have significant impact on the financial statements of the group/company.

HK(IFRIC) – Int 11, HKFRS 2 – Group and Treasury Share Transactions (effective for annual period beginning on or after 1 March 2007) address equity settled awards and group scheme. There are no group treasury share transactions in the group/company, and hence this new interpretation will have no impact to the group/company.

HK(IFRIC) – Int 12, Service Concession Arrangements (effective for annual period beginning on or after 1 January 2008), specifies the accounting treatment an operator applies to recognise the rights received under a service concession arrangement. The group/company has not entered into any service concession arrangements and hence this new interpretation will have no impact to the group/company.

1.2 Basis of consolidation

(a) Subsidiaries

The consolidated financial statements of the CMIL Group include the financial statements of CMIL and all its subsidiaries for the Relevant Periods. The consolidated financial statements of the LHL Group include the financial statements of LHL and its subsidiary for the Periods.

For the period from 6 January 2006 (date of incorporation of CMIL) to 31 December 2006

On 11 July 2006, the CMIL Group acquired the entire issued share capital of CTL and accordingly, the results, assets and liabilities of CTL as at and for the period from 11 July 2006 to 31 December 2006 have been consolidated into the consolidated financial statements of the CMIL Group for the period ended 31 December 2006.

On 19 October 2006, the CMIL Group acquired 60% of the issued share capital of LHL and accordingly, the consolidated results, assets and liabilities of LHL and its wholly owned subsidiary (namely, GZL) as at and for the period from 19 October 2006 to 31 December 2006 have been consolidated into the consolidated financial statements of the CMIL Group for the period ended 31 December 2006.

For the six months ended 30 June 2007

On 22 January 2007, the CMIL Group acquired 60% of the equity interests in GZSH and accordingly, the results, assets and liabilities of GZSH as at and for the period from 22 January 2007 to 30 June 2007 have been consolidated into the consolidated financial statements of the CMIL Group for the period ended 30 June 2007.

Subsidiaries are all entities (including special purpose entities) over which the group have the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

In the company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted the company on the basis of dividends received and receivable.

(b) Transactions and minority interests

The group applies a policy of treating transactions with minority interests as transactions with parties external to the group. Disposals to minority interests result in gains and losses for the group that are recorded in the consolidated income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

1.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

1.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of CMIL, CTL and LHL is Hong Kong Dollars and the functional currency of GZL and GZSH is Renminbi ("RMB"). The financial statements are presented in Hong Kong Dollars which is CMIL's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year/period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation difference on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the available-for-sale reserve in equity.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

1.5 Intangible assets

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

1.6 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group/company, and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated, using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Lottery terminals leased to third party under operating lease	20% – 30% (over the period of the lease)
Office equipment and furniture	20% – 50%
Motor vehicles	10% – 20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

1.7 Impairment of investments in subsidiaries and non-financial assets

Assets that have an indefinite useful life or are not yet available for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

1.8 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

1.9 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the group/company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited to the income statement.

1.10 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and financial institutions, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

1.11 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

1.12 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

1.13 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

1.14 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

1.15 Retirement benefits

Employees in the company/group's subsidiaries established in the PRC are required to participate in defined contribution retirement schemes operated by local municipal government. The PRC subsidiaries are required to contribute certain percentages of the employee payroll to the schemes in accordance with the relevant regulations in the PRC and such contributions are charged to the income statement as incurred.

1.16 Provisions

Provisions are recognised when the group/company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

1.17 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the activities of the group/company. Revenue is shown, net of returns, rebates and discounts and after eliminating sales within the group. Revenue is recognised as follows:

(a) Income from provision of lottery terminals is accounted for in accordance with the terms of the contract entered into between GZSH and Guangdong Welfare Lottery Issuing Centre (the "GWLC Contract"). The GWLC Contract is an agreement whereby the group/company (as the lessor) conveys to the lessee in return for payments the right to use the lottery terminals for an agreed period of time. As the significant portion of the risks and rewards of ownership are retained by the group/company, the GWLC Contract is accounted for as an operating lease. As the GWLC Contract does not specify minimum lease payments, the income from provision of lottery terminals has been accounted for in accordance with the terms of the GWLC Contract and recognised as contingent-based rentals receivable under operating lease. There were no future minimum lease payments receivable under non-cancellable operating leases as at the end of each of the Relevant Periods and Periods.

(b) Income from provision of maintenance services is recognised when services are rendered.

(c) Income from sale of lottery terminals and related components is recognised when the group/company has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(d) Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the group/company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

1.18 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

II. FINANCIAL INFORMATION OF THE CMIL GROUP FOR THE RELEVANT PERIODS

Consolidated Income Statements of the CMIL Group

	Section II Note	**Period from 6 January 2006 (date of incorporation) to 31 December 2006** *HK$'000*	**Six months ended 30 June 2007** *HK$'000*
Turnover	*4*	956	17,087
Cost of sales and services	*6*	(392)	(7,622)
Gross profit		564	9,465
General and administrative expenses		(729)	(3,102)
Other income and gains	*5*	947	2,666
Waiver of amounts due to a shareholder of CMIL and minority shareholders	*22*	–	36,448
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost	*27(b)*	–	589
Profit before income tax		782	46,066
Income tax expense	*7*	(135)	(1,079)
Profit for the period		647	44,987
Attributable to:			
Equity holders of CMIL	*8*	357	41,807
Minority interests		290	3,180
		647	44,987

Balance Sheets of the CMIL Group

		The CMIL Group		CMIL	
	Section II Note	As at 31 December 2006 HK$'000	As at 30 June 2007 HK$'000	As at 31 December 2006 HK$'000	As at 30 June 2007 HK$'000
Non-current assets					
Intangible assets	11	22,712	22,712	–	–
Property, plant and equipment	12	61	13,845	–	–
Investments in subsidiaries	13	–	–	1	1
Deferred income tax assets	25	–	695	–	–
Total non-current assets		22,773	37,252	1	1
Current assets					
Inventories	14	3,218	24,840	–	–
Accounts receivable	15	–	2,402	–	–
Prepayments, deposits and other receivables	16	5,338	3,297	–	–
Amount due from a subsidiary	13	–	–	3,576	10,018
Amounts due from related companies	17	6,610	–	–	–
Amount due from a minority shareholder	18	20	–	–	–
Cash and bank balances	19	8,543	8,955	1	1
Total current assets		23,729	39,494	3,577	10,019
Total assets		46,502	76,746	3,578	10,020
Current liabilities					
Accounts payable	20	190	4,018	–	–
Accruals and other payables	21	8,665	12,328	48	48
Amount due to a related company	22	123	127	–	–
Amount due to a shareholder of CMIL	22	1,905	–	1,905	–
Amounts due to minority shareholders	22	28,142	–	–	–
Income tax payable		133	1,393	–	–
Total current liabilities		39,158	17,866	1,953	48
Net current assets/(liabilities)		(15,429)	21,628	1,624	9,971
Total assets less current liabilities		7,344	58,880	1,625	9,972
Net assets		7,344	58,880	1,625	9,972
Capital and reserves					
Share capital	23	1,685	1,685	1,685	1,685
Currency translation reserve		66	559	–	–
Accumulated profits/(losses)		357	42,164	(60)	8,287
Capital and reserves attributable to the equity holders of CMIL		2,108	44,408	1,625	9,972
Minority interests		5,236	14,472	–	–
Total equity		7,344	58,880	1,625	9,972

Consolidated Statements of Changes in Equity of the CMIL Group

	Attributable to the equity holders of CMIL				
	Share capital	Currency translation reserve	Accumulated profits	Minority interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Issue of shares upon incorporation	1,685	–	–	–	1,685
Currency translation difference	–	66	–	44	110
Net income recognised directly in equity	–	66	–	44	110
Profit for the period	–	–	357	290	647
Total recognised income for the period	–	66	357	334	757
Acquisition of subsidiaries – the LHL Group *(Section II Note 27(a))*	–	–	–	4,902	4,902
Balance as at 31 December 2006	1,685	66	357	5,236	7,344
Currency translation difference	–	493	–	329	822
Net income recognised directly in equity	–	493	–	329	822
Profit for the period	–	–	41,807	3,180	44,987
Total recognised income for the period	–	493	41,807	3,509	45,809
Acquisition of a subsidiary – GZSH *(Section II Note 27(b))*	–	–	–	5,727	5,727
Balance as at 30 June 2007	1,685	559	42,164	14,472	58,880

Consolidated Cash Flow Statements of the CMIL Group

	Section II Note	**Period from 6 January 2006 (date of incorporation) to 31 December 2006** *HK$'000*	**Six months ended 30 June 2007** *HK$'000*
Cash flows from operating activities			
Profit before income tax		782	46,066
Adjustments for:			
Depreciation of property, plant and equipment		8	3,088
Interest income from bank deposits		(16)	(51)
Waiver of amounts due to a shareholder of CMIL and minority shareholders		–	(36,448)
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost		–	(589)
Operating cash flows before changes in working capital		774	12,066
– Inventories		(1,217)	(15,106)
– Accounts receivable		94	1,714
– Prepayments, deposits and other receivables		(4,160)	2,316
– Accounts payable		56	(2,036)
– Accruals and other payables		8,153	2,476
– Amounts due from related companies		1,173	6,610
– Amounts due to related companies		1	(6,840)
– Amounts due from a shareholder of CMIL		1,905	6,443
– Amounts due from a minority shareholder		(20)	20
– Amounts due to minority shareholders		(227)	(42)
Cash generated from operations		6,532	7,621
Interest received		16	51
PRC enterprise income tax paid		(7)	(611)
Net cash generated from operating activities		6,541	7,061

	Section II Note	Period from 6 January 2006 (date of incorporation) to 31 December 2006 HK$'000	Six months ended 30 June 2007 HK$'000
Cash flows from investing activities			
Acquisition of subsidiaries – the LHL Group, net of cash acquired	*27(a)*	212	–
Acquisition of a subsidiary – GZSH, net of cash acquired	*27(b)*	–	(6,573)
Purchases of property, plant and equipment		(5)	(573)
Net cash generated from/(used in) investing activities		207	(7,146)
Cash flows from financing activities			
Proceeds from issue of shares		1,685	–
Net cash generated from financing activities		1,685	–
Net increase/(decrease) in cash and cash equivalents		8,433	(85)
Cash and cash equivalents at beginning of the period		–	8,543
Effect of foreign exchange rate changes		110	497
Cash and cash equivalents at end of the period		8,543	8,955
Analysis of balances of cash and cash equivalents			
Cash and bank balances		8,543	8,955

Notes to the Financial Information of the CMIL Group

1. GENERAL INFORMATION

CMIL was incorporated in the BVI with limited liability on 6 January 2006. Its registered office is situated at P.O. Box 3321, Drake Chambers, Road Town, Tortola, the BVI.

The Financial Information of the CMIL Group is presented Hong Kong Dollars (HK$) unless otherwise stated.

2. FINANCIAL RISK MANAGEMENT

2.1 Financial risk factors

The CMIL Group's activities expose it to a variety of financial risks: market risk, credit risk, and liquidity risk. Management of the CMIL Group periodically reviews financial risk management policies to minimise the CMIL Group's exposure to financial risks.

(a) Market risk

Majority of the CMIL Group's transactions take place in the PRC and denominated in RMB, which is not a freely convertible currency. The CMIL Group manages the foreign exchange exposure arising from its normal course of business activities and investments in foreign operations by funding its local operations and investments through cash flow generated from business transactions locally.

The CMIL Group is not exposed to significant price risk.

As the CMIL Group has no significant interest-bearing assets and liabilities, the CMIL Group's income and operating cash flows are substantially independent of changes in market interest rates.

(b) Credit risk

As at the end of each of the Relevant Periods, the CMIL Group has significant concentration of credit risk as a result of few number of counterparties. If the relationship with these parties changes, it could materially and adversely affect the CMIL Group's results.

The CMIL Group reviews the recoverability of its assets periodically to ensure that potential credit risk of the counterparty is managed at an early stage and sufficient provision is made for possible defaults.

(c) Liquidity risk

Majority of the CMIL Group's operational and capital transactions are self-funded with minimal external borrowings. Accordingly, the CMIL Group considers its exposure to interest rate risk is minimal.

Management of the CMIL Group adheres to a policy of financial prudence in relation to the treasury management function and regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

2.2 Capital risk management

The primary objective of the CMIL Group's capital management is to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The CMIL Group sets the amount of capital in proportion to risk. The CMIL Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the CMIL Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

2.3 Fair value estimation

The carrying values less impairment provision of trade and other receivables and payables are a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the CMIL Group for similar financial instruments.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The CMIL Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) The CMIL Group tests whether intangible assets have suffered any impairment in accordance with the accounting policy stated in Section I Note 1.7. Determining whether intangible assets are impaired requires an estimate of the value-in-use of the asset. Estimating the value-in-use requires the CMIL Group to make an estimate of the expected future cash flows from the assets and also choose a suitable discount rate in order to calculate the present value of those cash flows. Where the actual future cash flows are less than expected, a material impairment loss may arise.

(b) The CMIL Group's management determines the impairment of accounts receivable on a regular basis. This estimate is based on the credit history of its customers and current market conditions. Management reassesses the impairment of accounts receivable at the balance sheet dates.

4. TURNOVER AND SEGMENT INFORMATION

	Period from 6 January 2006 (date of incorporation) to 31 December 2006	**Six months ended 30 June 2007**
	HK$'000	*HK$'000*
Turnover		
Income from sales of lottery equipment	937	6,351
Income from provision of maintenance services	19	598
Income from provision of lottery terminals	–	10,138
	956	17,087

Segment information

Segment information is presented by way of the CMIL Group's primary segment reporting by business segment. In determining the CMIL Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

(a) Primary reporting format – business segments

The segment results for the period ended 31 December 2006 are as follows:

	Sales of lottery equipment *HK$'000*	**Provision of lottery terminals** *HK$'000*	**Unallocated** *HK$'000*	**The CMIL Group** *HK$'000*
Total segment turnover	956	–	–	956
Segment results	1,226	–	(460)	766
Interest income				16
Profit before income tax				782
Income tax expense				(135)
Profit for the period				647

Other segment items included in the consolidated income statement for the period ended 31 December 2006 are as follows:

	Sales of lottery equipment *HK$'000*	**Provision of lottery terminals** *HK$'000*	**Unallocated** *HK$'000*	**The CMIL Group** *HK$'000*
Depreciation (included in general and administrative expenses)	–	–	8	8

The segment results for the period ended 30 June 2007 are as follows:

	Sales of lottery equipment *HK$'000*	**Provision of lottery terminals** *HK$'000*	**Unallocated** *HK$'000*	**The CMIL Group** *HK$'000*
Total segment turnover	6,949	10,138	–	17,087
Segment results	5,827	4,997	35,191	46,015
Interest income				51
Profit before income tax				46,066
Income tax expense				(1,079)
Profit for the period				44,987

Other segment items included in the consolidated income statement for the period ended 30 June 2007 are as follows:

	Sales of lottery equipment HK$'000	Provision of lottery terminals HK$'000	Unallocated HK$'000	The CMIL Group HK$'000
Depreciation (included in cost of sales and services)	–	3,032	–	3,032
Depreciation (included in general and administrative expenses)	–	–	56	56
Reversal of impairment of accounts receivable	(2,227)	–	–	(2,227)
Waiver of amounts due to a shareholder of CMIL and minority shareholders	–	–	(36,448)	(36,448)
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost	–	(589)	–	(589)

Segment assets consist primarily of intangible assets, property, plant and equipment, inventories, trade and other receivables and cash and bank balances. Unallocated assets comprise deferred income tax assets, amounts due from related companies and a minority shareholder, and cash and bank balances.

Segment liabilities comprise operating liabilities. Unallocated liabilities comprise items such as income tax payable.

Capital expenditure comprises additions to intangible assets (Section II Note 11) and property, plant and equipment (Section II Note 12), including additions resulting from acquisitions through business combinations (Section II Note 27).

The segment assets and liabilities as at 31 December 2006 and capital expenditure for the period then ended are as follows:

	Sales of lottery equipment HK$'000	Provision of lottery terminals HK$'000	Unallocated HK$'000	The CMIL Group HK$'000
Assets	42,251	–	4,251	46,502
Liabilities	6,319	–	32,839	39,158
Capital expenditure	22,712	–	69	22,781

The segment assets and liabilities as at 30 June 2007 and capital expenditure for the period then ended are as follows:

	Sales of lottery equipment *HK$'000*	Provision of lottery terminals *HK$'000*	Unallocated *HK$'000*	The CMIL Group *HK$'000*
Assets	47,961	22,989	5,796	76,746
Liabilities	11,833	3,506	2,527	17,866
Capital expenditure	–	15,667	880	16,547

(b) Secondary reporting format – geographical segments

During the Relevant Periods, over 90% of the CMIL Group's revenues were derived from customers based in the PRC and over 90% of the CMIL Group's assets were located in the PRC. Accordingly, no further geographical segment information is presented.

5. OTHER INCOME AND GAINS

	Period from 6 January 2006 (date of incorporation) to 31 December 2006 *HK$'000*	Six months ended 30 June 2007 *HK$'000*
Interest income from bank deposits	16	51
Value added tax refundable	931	388
Reversal of impairment of accounts receivable	–	2,227
	947	2,666

6. EXPENSES BY NATURE

	Period from 6 January 2006 (date of incorporation) to 31 December 2006	Six months ended 30 June 2007
	HK$'000	*HK$'000*
Cost of sales and services		
– Depreciation of lottery terminals	–	3,032
– Business tax	1	545
– Cost of inventories expensed	391	2,552
– Other cost of services	–	1,493
	392	7,622
Operating lease rentals in respect of rented premises	42	145
Auditors' remuneration	18	32
Depreciation (included in general and administrative expenses)	8	56
Foreign exchange losses, net	1	–

7. INCOME TAX

The amount of income tax charged/(credited) to the consolidated income statements represents:

	Period from 6 January 2006 (date of incorporation) to 31 December 2006	Six months ended 30 June 2007
	HK$'000	*HK$'000*
Current income tax		
– PRC enterprise income tax	135	1,540
Deferred income tax	–	(461)
	135	1,079

The tax on the CMIL Group's profit before income tax differs from the theoretical amount that would arise using PRC enterprise income tax rate of 15% (applied for advanced technology enterprise) as follows:

	Period from 6 January 2006 (date of incorporation) to 31 December 2006	Six months ended 30 June 2007
	HK$'000	*HK$'000*
Profit before income tax	782	46,066
Tax calculated at PRC enterprise income tax rate of 15%	117	6,910
Income not subject to tax	(2)	(7,333)
Expenses not deductible for tax purposes	20	1,502
Income tax expense	135	1,079

BVI income taxes

CMIL was incorporated in the BVI and is exempted from the payment of BVI income taxes.

Hong Kong profits tax

Hong Kong profits tax is calculated at the rate of 17.5% on the estimated assessable profit arising in Hong Kong for the Relevant Periods. No provision for Hong Kong profits tax has been made for the Relevant Periods as the CMIL Group had no assessable profits arising in or derived from Hong Kong for the Relevant Periods.

PRC enterprise income tax

GZL, a wholly foreign owned enterprise established and operating in the PRC, is subject to PRC enterprise income tax at a rate of 15% (applied for advanced technology enterprise).

GZSH, a Sino-foreign equity joint venture enterprise established and operating in the PRC, is subject to PRC enterprise income tax at a rate of 15% (applied for advanced technology enterprise).

8. (LOSS)/PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF CMIL

The (loss)/profit attributable to equity holders of CMIL is dealt with in the financial statements of CMIL to the extent of loss of approximately HK$60,000 and profit of approximately HK$8,347,000 for the period ended 31 December 2006 and the six months ended 30 June 2007 respectively.

9. EMPLOYEE BENEFITS EXPENSE

	Period from 6 January 2006 (date of incorporation) to 31 December 2006	Six months ended 30 June 2007
	HK$'000	*HK$'000*
Wages and salaries	164	1,179
Discretionary bonuses	–	107
Social security costs	30	188
Retirement scheme contributions	10	88
Other staff welfare	3	69
	207	1,631

10. COMPENSATION TO KEY MANAGEMENT PERSONNEL

	Period from 6 January 2006 (date of incorporation) to 31 December 2006	Six months ended 30 June 2007
	HK$'000	*HK$'000*
Short-term employee benefits	58	288
Post-employment benefits	2	16
	60	304

(a) Directors' emoluments

No emoluments were paid to the CMIL Directors by the CMIL Group during the Relevant Periods.

During the Relevant Periods, no emoluments were paid by the CMIL Group to any of the CMIL Directors as an inducement to join or upon joining the CMIL Group or as compensation for loss of office. None of the CMIL Directors waived or agreed to waive any emoluments during the Relevant Periods.

(b) Five highest paid individuals

The emoluments payable to the five individuals whose emoluments were the highest in the CMIL Group during the Relevant Periods were as follows:

	Period from 6 January 2006 (date of incorporation) to 31 December 2006	Six months ended 30 June 2007
	HK$'000	*HK$'000*
Basic salaries, other allowances and benefits in kinds	95	470
Discretionary bonuses	–	44
Retirement scheme contributions	3	26
	98	540

During the Relevant Periods, no emoluments were paid by the CMIL Group to any of the five highest paid individuals as an inducement to join or upon joining the CMIL Group, or as compensation for loss of office.

11. INTANGIBLE ASSETS

	Goodwill
	HK$'000
As at 6 January 2006	
Cost	–
Accumulated impairment	–
Net book amount	–
Period ended 31 December 2006	
Opening net book amount	–
Acquisition of subsidiaries – the LHL Group *(Section II Note 27(a))*	22,712
Closing net book amount	22,712
As at 31 December 2006	
Cost	22,712
Accumulated impairment	–
Net book amount	22,712
Period ended 30 June 2007	
Opening and closing net book amount	22,712
As at 30 June 2007	
Cost	22,712
Accumulated impairment	–
Net book amount	22,712

Note:

Goodwill acquired through business combinations was allocated to the cash-generating unit (the "CGU") representing an operating entity within the business segment identified by the CMIL Group. The acquired subsidiaries are principally engaged in the research and development and manufacturing of lottery ticket scanners and terminal equipment in the PRC and overseas. The recoverable amounts of the CGU are determined based on a value-in-use calculation. The calculation uses cash flow projections based on financial forecasts approved by management covering a 5-year period. The key assumptions used for the cash flow projections include the expected growth rate for turnover and expenses during each of the forecasting periods, which are determined by management based on past performance and its expectation of market development. All cash flows are discounted at a discount rate of 18.56%, which reflects the specific risks relating to the CGU.

No impairment loss has been recognised in respect of goodwill for the Relevant Periods as its value-in-use exceeded the carrying amount.

12. PROPERTY, PLANT AND EQUIPMENT

	The CMIL Group			
	Lottery terminals leased to third parties under operating leases	**Office equipment and furniture**	**Motor vehicles**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
As at 6 January 2006				
Cost	–	–	–	–
Accumulated depreciation	–	–	–	–
Net book amount	–	–	–	–
Period ended 31 December 2006				
Opening net book amount	–	–	–	–
Acquisition of subsidiaries – the LHL Group *(Section II Note 27(a))*	–	32	32	64
Additions	–	5	–	5
Depreciation	–	(1)	(7)	(8)
Closing net book amount	–	36	25	61
As at 31 December 2006				
Cost	–	37	32	69
Accumulated depreciation	–	(1)	(7)	(8)
Net book amount	–	36	25	61
Period ended 30 June 2007				
Opening net book amount	–	36	25	61
Acquisition of a subsidiary – GZSH *(Section II Note 27(b))*	15,667	138	169	15,974
Exchange differences	299	13	13	325
Additions	–	23	550	573
Depreciation	(3,032)	(26)	(30)	(3,088)
Closing net book amount	12,934	184	727	13,845
As at 30 June 2007				
Cost	15,966	211	764	16,941
Accumulated depreciation	(3,032)	(27)	(37)	(3,096)
Net book amount	12,934	184	727	13,845

13. INVESTMENTS IN SUBSIDIARIES AND AMOUNT DUE FROM A SUBSIDIARY

	As at 31 December 2006 *HK$'000*	As at 30 June 2007 *HK$'000*
Unlisted share, at cost	1	1

The amount due from a subsidiary as shown on CMIL's balance sheets is unsecured, interest-free and repayable on demand. The carrying amount of the amount due approximates its fair value.

14. INVENTORIES

Inventories consist of electronic parts and components of lottery equipment.

15. ACCOUNTS RECEIVABLE

Income from sales of lottery equipment is billed upon the delivery of products and with credit periods ranging from 30 to 180 days. Income from provision of lottery terminals is billed on a monthly basis and is due 30 days after month-end. Income from provision of maintenance services is billed on a monthly or yearly basis and is due 30 days after the invoice date. Aging analyses of accounts receivable as at the end of each of the Relevant Periods were as follows:

	As at 31 December 2006 *HK$'000*	As at 30 June 2007 *HK$'000*
0 – 30 days	–	1,944
31 – 60 days	–	92
61 – 90 days	–	92
91 – 180 days	–	274
	–	2,402

The carrying amounts of the CMIL Group's accounts receivable are denominated in RMB. The carrying amounts of the CMIL Group's accounts receivable approximate their fair values.

16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

The carrying amounts of prepayments, deposits and other receivables approximate their fair values.

17. AMOUNTS DUE FROM RELATED COMPANIES

Name of related party	As at 31 December 2006 *HK$'000*	As at 30 June 2007 *HK$'000*
廣州太極三環科技有限公司	653	673
GZSH	6,610	–
	7,263	673
Provision for impairment	(653)	(673)
	6,610	–
Maximum amount outstanding during the periods:		
廣州太極三環科技有限公司	653	673
GZSH	8,056	–

GZSH (prior to its acquisition by the CMIL Group on 22 January 2007) and 廣州太極三環科技有限公司 were controlled by certain key management personnel of the CMIL Group.

The amounts due are denominated in RMB, unsecured, interest-free and repayable on demand. The carrying amounts of the amounts due approximate their fair values.

18. AMOUNT DUE FROM A MINORITY SHAREHOLDER

The balance represents amount due from a shareholder of LHL. The maximum amount outstanding during the period ended 31 December 2006 was approximately HK$20,000.

The amount due was denominated in RMB, unsecured, interest-free and repayable on demand. The carrying amount of the amount due approximates its fair value.

19. CASH AND BANK BALANCES

As at 31 December 2006 and 30 June 2007, the CMIL Group had cash and bank balances denominated in RMB of approximately HK$4,353,000 and HK$6,325,000 respectively. The remittance of these funds out of the PRC is subject to the exchange control restrictions imposed by the PRC government.

The carrying amounts of the CMIL Group's and CMIL's cash and bank balances approximate their fair values.

20. ACCOUNTS PAYABLE

Aging analyses of accounts payable as at the end of each of the Relevant Periods were as follows:

	As at 31 December 2006 *HK$'000*	**As at 30 June 2007** *HK$'000*
0 – 30 days	–	512
31 – 60 days	–	–
61 – 90 days	190	–
91 – 180 days	–	–
Over 180 days	–	3,506
	190	4,018

The carrying amounts of the CMIL Group's accounts payable are denominated in RMB. The carrying amounts of the CMIL Group's accounts payable approximate their fair values.

21. ACCRUALS AND OTHER PAYABLES

The carrying amounts of accruals and other payables approximate their fair values.

22. AMOUNTS DUE TO A RELATED COMPANY/A SHAREHOLDER OF CMIL/MINORITY SHAREHOLDERS

The amounts due are unsecured, interest-free and repayable on demand. The carrying amounts of the amounts due approximate their fair values. During the six months ended 30 June 2007, the amounts due to a shareholder of CMIL and minority shareholders of approximately HK$8,348,000 and HK$28,100,000 respectively were waived and the credit arising was taken to the income statement for the six months ended 30 June 2007.

23. SHARE CAPITAL

	As at 31 December 2006 HK$'000	As at 30 June 2007 HK$'000
Issued and fully paid:		
3,600 issued shares of no par value	1,685	1,685

The Company was incorporated on 6 January 2006 and is authorised to issue 50,000 shares of no par value of a single class. Upon incorporation, CMIL issued 3,600 shares of no par value for cash to provide the initial capital of CMIL.

24. ACCUMULATED PROFITS/(LOSSES)

	CMIL	
	As at 31 December 2006 HK$'000	As at 30 June 2007 HK$'000
Beginning of the period	–	(60)
(Loss)/Profit for the period	(60)	8,347
End of the period	(60)	8,287

25. DEFERRED INCOME TAX ASSETS

	As at 31 December 2006 HK$'000	As at 30 June 2007 HK$'000
Beginning of the period	–	–
Acquisition of a subsidiary – GZSH *(Section II Note 27(b))*	–	234
Deferred income tax credited to the income statement	–	461
End of the period	–	695

The balance of deferred income tax assets as at 30 June 2007 is attributable to the accelerated tax depreciation on property, plant and equipment.

As at the end of each of the Relevant Periods, the CMIL Group had no other material unprovided deferred income tax assets and liabilities.

26. OPERATING LEASE COMMITMENTS

As at the end of each of the Relevant Periods, the CMIL Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises as follows:

	As at 31 December 2006	As at 30 June 2007
	HK$'000	*HK$'000*
No later than one year	123	339
Later than one year and no later than five years	75	20
	198	359

CMIL did not have significant operating lease commitments as at the end of each of the Relevant Periods.

27. BUSINESS COMBINATIONS

(a) Acquisition of the LHL Group

On 19 October 2006, the CMIL Group acquired 60% of the issued share capital of LHL. The LHL Group is principally engaged in the research and development and manufacturing of lottery ticket scanners and terminal equipment in the PRC and overseas. The acquired business contributed revenues of approximately HK$956,000 and net profit of HK$726,000 to the CMIL Group for the period from 19 October 2006 to 31 December 2006. If the acquisition had occurred on 6 January 2006 (date of incorporation of CMIL), the CMIL Group's revenue would have been approximately HK$15,438,000; profit would have been approximately HK$7,151,000.

Details of net assets acquired and goodwill are as follows:

	HK$'000
Purchase consideration:	
– Cash consideration paid	1,900
– Cash consideration payable	28,100
– Direct costs relating to the acquisition	66
Total purchase consideration	30,066
Fair value of net assets acquired – shown as below	(7,354)
Goodwill *(Section II Note 11)*	22,712

The assets and liabilities as of 19 October 2006 arising from the acquisition are as follows:

	Fair value	**Acquiree's carrying amount**
	HK$'000	*HK$'000*
Cash and bank balances	2,178	2,178
Property, plant and equipment *(Section II Note 12)*	64	64
Inventories	2,001	2,001
Accounts receivable	94	94
Prepayments, deposits and other receivables	1,178	1,178
Amounts due from related companies	7,783	7,783
Accounts payable	(134)	(134)
Accruals and other payables	(512)	(512)
Amount due to a shareholder of LHL	(269)	(269)
Amount due to a related company	(122)	(122)
Income tax payable	(5)	(5)
Net assets	12,256	12,256
Minority interests (40%)	4,902	
Net assets acquired	7,354	
Cash paid		(1,966)
Cash and cash equivalents in subsidiaries acquired		2,178
Cash inflow on acquisition		212

(b) Acquisition of GZSH

On 22 January 2007, the CMIL Group acquired 60% of the equity interests in GZSH. GZSH is principally engaged in the provision of lottery system and equipment in the PRC. The acquired business contributed revenues of approximately HK$10,138,000 and net profit of approximately HK$6,284,000 to the CMIL Group for the period from 22 January 2007 to 30 June 2007. If the acquisition had occurred on 1 January 2007, the CMIL Group's revenue would have been approximately HK$18,819,000; profit would have been approximately HK$44,833,000.

Details of net assets acquired are as follows:

	HK$'000
Purchase consideration:	
– Cash consideration paid	8,000
Total purchase consideration	8,000
Fair value of net assets acquired – shown as below	(8,589)
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost	(589)

The assets and liabilities as of 22 January 2007 arising from the acquisition are as follows:

	Fair value	Acquiree's carrying amount
	HK$'000	*HK$'000*
Cash and bank balances	1,427	1,427
Property, plant and equipment *(Section II Note 12)*	15,974	15,974
Deferred income tax assets	234	234
Inventories	6,516	6,516
Accounts receivable	4,116	4,116
Prepayments, deposits and other receivables	275	275
Accounts payable	(5,864)	(5,864)
Accruals and other payables	(1,187)	(1,187)
Amounts due to related companies	(6,844)	(6,844)
Income tax payable	(331)	(331)
Net assets	14,316	14,316
Minority interests (40%)	5,727	
Net assets acquired	8,589	
Cash paid		(8,000)
Cash and cash equivalents in subsidiary acquired		1,427
Cash outflow on acquisition		(6,573)

28. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the Financial Information, the CMIL Group did not enter into other significant related party transactions during the Relevant Periods.

III. FINANCIAL INFORMATION OF THE LHL GROUP FOR THE PERIODS

Consolidated Income Statements of the LHL Group

	Section III Note	Year ended 31 December 2004 HK$'000	Year ended 31 December 2005 HK$'000	Year ended 31 December 2006 HK$'000	Period ended 30 June 2006 HK$'000 (Unaudited)	Period ended 30 June 2007 HK$'000
Turnover	*1*	2,714	5,874	15,438	4,399	6,949
Cost of sales and services	*3*	(949)	(825)	(5,434)	(1,710)	(2,581)
Gross profit		1,765	5,049	10,004	2,689	4,368
General and administrative expenses		(5,308)	(2,830)	(2,659)	(1,186)	(1,829)
Other income and gains	*2*	123	594	1,163	319	427
Profit/(Loss) before income tax		(3,420)	2,813	8,508	1,822	2,966
Income tax expense	*4*	–	(116)	(1,357)	(321)	(710)
Profit/(Loss) for the year/period		(3,420)	2,697	7,151	1,501	2,256
Attributable to:						
Equity holders of LHL	*5*	(3,420)	2,697	7,151	1,501	2,256

Consolidated Balance Sheets of the LHL Group

	Section III Note	As at 31 December 2004 *HK$'000*	As at 31 December 2005 *HK$'000*	As at 31 December 2006 *HK$'000*	As at 30 June 2007 *HK$'000*
Non-current assets					
Property, plant and equipment	*8*	228	117	61	613
Current assets					
Inventories	*10*	1,137	1,198	3,218	16,803
Accounts receivable	*11*	2	–	–	550
Prepayments, deposits and other receivables	*12*	506	931	5,338	3,072
Amounts due from related companies	*13*	917	4,883	6,610	–
Amount due from a fellow subsidiary	*14*	–	–	–	4,240
Amount due from a shareholder of LHL	*15*	–	–	20	–
Cash and bank balances	*16*	516	152	6,941	3,211
Total current assets		3,078	7,164	22,127	27,876
Total assets		3,306	7,281	22,188	28,489
Current liabilities					
Accounts payable	*17*	28	20	190	512
Accruals and other payables	*18*	252	282	8,608	11,311
Amount due to a related company	*19*	221	192	123	127
Amount due to a shareholder of LHL	*19*	29	1,105	42	–
Amount due to immediate holding company	*19*	–	–	–	42
Income tax payable		–	117	133	719
Total current liabilities		530	1,716	9,096	12,711
Net current assets		2,548	5,448	13,031	15,165
Total assets less current liabilities		2,776	5,565	13,092	15,778
Net assets		2,776	5,565	13,092	15,778
Capital and reserves					
Share capital	*20*	2,730	2,730	2,730	2,730
Statutory reserve		432	432	432	432
Currency translation reserve		6	98	474	904
Accumulated profits/(losses)		(392)	2,305	9,456	11,712
Capital and reserves attributable to the equity holders of LHL		2,776	5,565	13,092	15,778
Total equity		2,776	5,565	13,092	15,778

Balance Sheets of LHL

	Section III Note	**As at 31 December 2004** *HK$'000*	**As at 31 December 2005** *HK$'000*	**As at 31 December 2006** *HK$'000*	**As at 30 June 2007** *HK$'000*
Non-current assets					
Investment in a subsidiary	*9*	2,730	2,730	2,730	2,730
Current assets					
Cash and bank balances	*16*	36	19	2,587	2,628
Total assets		2,766	2,749	5,317	5,358
Current liabilities					
Accruals and other payables	*18*	38	25	2,601	2,610
Amount due to a shareholder of LHL	*19*	29	41	42	–
Amount due to immediate holding company	*19*	–	–	–	42
Total current liabilities		67	66	2,643	2,652
Net current liabilities		(31)	(47)	(56)	(24)
Total assets less current liabilities		2,699	2,683	2,674	2,706
Net assets		2,699	2,683	2,674	2,706
Capital and reserves					
Share capital	*20*	2,730	2,730	2,730	2,730
Accumulated losses	*21*	(31)	(47)	(56)	(24)
Total equity		2,699	2,683	2,674	2,706

Consolidated Statements of Changes in Equity of the LHL Group

	Attributable to equity holders of LHL				
	Share capital	Statutory reserve	Currency translation reserve	Accumulated profits/ (losses)	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance as at 1 January 2004	2,730	432	(9)	3,028	6,181
Currency translation difference	–	–	15	–	15
Net income recognised directly in equity	–	–	15	–	15
Loss for the year	–	–	–	(3,420)	(3,420)
Total recognised income/(expense) for the year	–	–	15	(3,420)	(3,405)
Balance as at 31 December 2004	2,730	432	6	(392)	2,776
Currency translation difference	–	–	92	–	92
Net income recognised directly in equity	–	–	92	–	92
Profit for the year	–	–	–	2,697	2,697
Total recognised income for the year	–	–	92	2,697	2,789
Balance as at 31 December 2005	2,730	432	98	2,305	5,565
Currency translation difference	–	–	376	–	376
Net income recognised directly in equity	–	–	376	–	376
Profit for the year	–	–	–	7,151	7,151
Total recognised income for the year	–	–	376	7,151	7,527
Balance as at 31 December 2006	2,730	432	474	9,456	13,092
Currency translation difference	–	–	430	–	430
Net income recognised directly in equity	–	–	430	–	430
Profit for the period	–	–	–	2,256	2,256
Total recognised income for the period	–	–	430	2,256	2,686
Balance as at 30 June 2007	2,730	432	904	11,712	15,778
(Unaudited)					
Balance as at 1 January 2006	2,730	432	98	2,305	5,565
Currency translation difference	–	–	76	–	76
Net income recognised directly in equity	–	–	76	–	76
Profit for the period	–	–	–	1,501	1,501
Total recognised income for the period	–	–	76	1,501	1,577
Balance as at 30 June 2006	2,730	432	174	3,806	7,142

Consolidated Cash Flow Statements of the LHL Group

	Year ended 31 December 2004 HK$'000	Year ended 31 December 2005 HK$'000	Year ended 31 December 2006 HK$'000	Period ended 30 June 2006 HK$'000 (Unaudited)	Period ended 30 June 2007 HK$'000
Cash flows from operating activities					
Profit/(Loss) before income tax	(3,420)	2,813	8,508	1,822	2,966
Adjustments for:					
Depreciation of property, plant and equipment	113	115	67	40	18
Impairment of accounts receivable	2,787	–	–	–	–
Interest income from bank deposits	–	(2)	(24)	(5)	(39)
Impairment of amounts due from related companies	–	623	–	–	–
Write-down of inventories to net realisable value	–	171	–	–	–
Operating cash flows before changes in working capital	(520)	3,720	8,551	1,857	2,945
– Inventories	484	(232)	(2,020)	(1,846)	(13,585)
– Accounts receivable	(2,789)	2	–	(99)	(550)
– Prepayments, deposits and other receivables	75	(425)	(4,407)	269	2,266
– Accounts payable	(236)	(8)	170	394	322
– Accruals and other payables	185	30	8,326	4,376	2,703
– Amount due from a fellow subsidiary	–	–	–	–	(4,240)
– Amount due to immediate holding company	–	–	–	–	42
– Amounts due from related companies	2,800	(4,589)	(1,727)	(728)	6,610
– Amount due to a related company	221	(29)	(69)	38	4
– Amount due from a shareholder of LHL	–	–	(20)	–	20
– Amount due to a shareholder of LHL	29	1,076	(1,063)	318	(42)
Cash generated from/(used in) operations	249	(455)	7,741	4,579	(3,505)
Interest received	–	2	24	5	39
PRC enterprise income tax paid	–	–	(1,346)	(118)	(137)
Net cash generated from/(used in) operating activities	249	(453)	6,419	4,466	(3,603)
Cash flows from investing activities					
Purchases of property, plant and equipment	–	–	(8)	–	(560)
Net cash used in investing activities	–	–	(8)	–	(560)
Net increase/(decrease) in cash and cash equivalents	249	(453)	6,411	4,466	(4,163)
Cash and cash equivalents at beginning of the year/period	253	516	152	152	6,941
Effect of foreign exchange rate changes	14	89	378	77	433
Cash and cash equivalents at end of the year/period	516	152	6,941	4,695	3,211
Analysis of balances of cash and cash equivalents					
Cash and bank balances	516	152	6,941	4,695	3,211

1. TURNOVER AND SEGMENT INFORMATION

	Year ended 31 December 2004 *HK$'000*	Year ended 31 December 2005 *HK$'000*	Year ended 31 December 2006 *HK$'000*	Period ended 30 June 2006 *HK$'000* (Unaudited)	Period ended 30 June 2007 *HK$'000*
Turnover					
Income from sales of lottery equipment and related software	2,193	5,325	15,068	4,128	6,351
Income from provision of maintenance services	521	549	370	271	598
	2,714	5,874	15,438	4,399	6,949

Segment information

Segment information is presented by way of the LHL Group's primary segment reporting by business segment. In determining the LHL Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

(a) Primary reporting format – business segment

During the Periods, the LHL Group's operations related solely to the sales of lottery equipment and related software, including the provision of related maintenance services. Accordingly, no business segment information is presented.

(b) Secondary reporting format – geographical segment

An analysis of the LHL Group's turnover by geographical segments is as follows:

	Year ended 31 December 2004 *HK$'000*	Year ended 31 December 2005 *HK$'000*	Year ended 31 December 2006 *HK$'000*	Period ended 30 June 2006 *HK$'000* (Unaudited)	Period ended 30 June 2007 *HK$'000*
Turnover					
PRC	2,044	5,597	15,345	4,399	6,949
Cyprus	598	261	93	–	–
Philippines	–	16	–	–	–
Korea	72	–	–	–	–
	2,714	5,874	15,438	4,399	6,949

Segment assets consist primarily of property, plant and equipment, inventories, trade and other receivables, amounts due from related companies, a fellow subsidiary and a shareholder of LHL, and cash and bank balances. Unallocated assets comprise cash and bank balances.

Segment liabilities comprise operating liabilities. Unallocated liabilities comprise items such as income tax payable.

During the Periods, all capital expenditures were incurred in the PRC and comprise additions to property, plant and equipment (Section III Note 8).

An analysis of the LHL Group's assets by geographical segments is as follows:

	As at 31 December 2004 *HK$'000*	As at 31 December 2005 *HK$'000*	As at 31 December 2006 *HK$'000*	As at 30 June 2007 *HK$'000*
Carrying amounts of segment assets				
PRC	3,270	7,262	19,601	25,861
Hong Kong	36	19	2,587	2,628

2. OTHER INCOME AND GAINS

	Year ended 31 December 2004 *HK$'000*	Year ended 31 December 2005 *HK$'000*	Year ended 31 December 2006 *HK$'000*	Period ended 30 June 2006 *HK$'000* (Unaudited)	Period ended 30 June 2007 *HK$'000*
Interest income from bank deposits	–	2	24	5	39
Value added tax refundable	123	586	1,139	314	388
Foreign exchange gain, net	–	6	–	–	–
	123	594	1,163	319	427

3. EXPENSES BY NATURE

	Year ended 31 December 2004 *HK$'000*	Year ended 31 December 2005 *HK$'000*	Year ended 31 December 2006 *HK$'000*	Period ended 30 June 2006 *HK$'000* (Unaudited)	Period ended 30 June 2007 *HK$'000*
Cost of sales and services					
– Business tax	26	27	18	14	29
– Cost of inventories expensed	923	798	5,416	1,696	2,552
	949	825	5,434	1,710	2,581
Operating lease rentals in respect of rented premises	121	187	206	90	110
Auditors' remuneration	13	9	10	5	–
Depreciation (included in general and administrative expenses)	113	115	67	40	18
Impairment of accounts receivable (included in general and administrative expenses)	2,787	–	–	–	–
Write-down of inventories to net realisable value (included in general and administrative expenses)	–	171	–	–	–
Impairment of amounts due from related companies (included in general and administrative expenses)	–	623	–	–	–

4. INCOME TAX

The amount of income tax charged to the consolidated income statements represents:

	Year ended 31 December 2004 *HK$'000*	**Year ended 31 December 2005** *HK$'000*	**Year ended 31 December 2006** *HK$'000*	**Period ended 30 June 2006** *HK$'000* (Unaudited)	**Period ended 30 June 2007** *HK$'000*
Current income tax – PRC enterprise income tax	–	116	1,357	321	710
	–	116	1,357	321	710

The tax on the LHL Group's profit/(loss) before income tax differs from the theoretical amount that would arise using PRC enterprise income tax rate of 15% (applied for advanced technology enterprise) as follows:

	Year ended 31 December 2004 *HK$'000*	**Year ended 31 December 2005** *HK$'000*	**Year ended 31 December 2006** *HK$'000*	**Period ended 30 June 2006** *HK$'000* (Unaudited)	**Period ended 30 June 2007** *HK$'000*
Profit/(Loss) before income tax	(3,420)	2,813	8,508	1,822	2,966
Tax calculated at PRC enterprise income tax rate of 15%	(513)	422	1,276	273	446
Effect of tax concession granted to a PRC subsidiary	256	(211)	–	–	–
Income not subject to tax	(4)	(42)	(1)	(48)	(1,035)
Expenses not deductible for tax purposes	4	61	82	92	1,299
Tax losses not recognised	117	–	–	–	–
Utilisation of previously unrecognised tax losses	–	(117)	–	–	–
Others	140	3	–	4	–
Income tax expense	–	116	1,357	321	710

Hong Kong profits tax

Hong Kong profits tax is calculated at the rate of 17.5% on the estimated assessable profit arising in Hong Kong for the Periods. No provision for Hong Kong profits tax has been made for the Periods as the LHL Group had no assessable profits arising in or derived from Hong Kong for the Periods.

PRC enterprise income tax

GZL, a wholly foreign owned enterprise established and operating in the PRC, is subject to PRC enterprise income tax at a rate of 15% (applied for advanced technology enterprise). GZL is entitled to exemption from PRC enterprise income tax for the first two profitable years commencing from the year ended 31 December 2001 and a 50% reduction from normal PRC enterprise income tax (effectively 7.5%) for the three years following.

As at the end of each of the Periods, the LHL Group had no material unprovided deferred income tax assets and liabilities.

5. PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF LHL

The profit/(loss) attributable to equity holders of LHL is dealt with in the financial statements of LHL to the extent of loss of approximately HK$28,000, HK$16,000 and HK$9,000 for the years ended 31 December 2004, 2005 and 2006 respectively, loss of approximately HK$9,000 for the six months ended 30 June 2006 and profit of approximately HK$32,000 for the six months ended 30 June 2007.

6. EMPLOYEE BENEFITS EXPENSE

	Year ended 31 December 2004 *HK$'000*	Year ended 31 December 2005 *HK$'000*	Year ended 31 December 2006 *HK$'000*	Period ended 30 June 2006 *HK$'000* (Unaudited)	Period ended 30 June 2007 *HK$'000*
Wages and salaries	750	528	854	413	632
Discretionary bonuses	–	64	76	75	107
Social security costs	144	167	173	85	105
Retirement scheme contributions	49	52	56	28	34
Other staff welfare	–	32	40	20	69
	943	843	1,199	621	947

7. COMPENSATION TO KEY MANAGEMENT PERSONNEL

	Year ended 31 December 2004 *HK$'000*	Year ended 31 December 2005 *HK$'000*	Year ended 31 December 2006 *HK$'000*	Period ended 30 June 2006 *HK$'000* (Unaudited)	Period ended 30 June 2007 *HK$'000*
Short-term employee benefits	385	367	367	195	181
Post-employment benefits	12	11	12	6	6
	397	378	379	201	187

(a) Directors' emoluments

The remuneration of every director of LHL for the year ended 31 December 2004 is set out below:

Name of director	Fees *HK$'000*	Salaries, allowance and benefits in kind *HK$'000*	Discretionary bonuses *HK$'000*	Employer's contributions to pension scheme *HK$'000*	Total *HK$'000*
Chen Hengben	–	128	–	4	132
Lin Jianzhong	–	143	–	4	147
Miao Zhikun	–	114	–	4	118
	–	385	–	12	397

The remuneration of every director of LHL for the year ended 31 December 2005 is set out below:

Name of director	Fees	Salaries, allowance and benefits in kind	Discretionary bonuses	Employer's contributions to pension scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Chen Hengben	–	119	10	4	133
Lin Jianzhong	–	112	10	4	126
Miao Zhikun	–	109	7	3	119
	–	340	27	11	378

The remuneration of every director of LHL for the year ended 31 December 2006 is set out below:

Name of director	Fees	Salaries, allowance and benefits in kind	Discretionary bonuses	Employer's contributions to pension scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Chen Hengben	–	123	10	4	137
Lin Jianzhong	–	105	10	4	119
Miao Zhikun	–	112	7	4	123
Wong Chun Lam *(Note (i))*	–	–	–	–	–
Wang Weiying *(Note (ii))*	–	–	–	–	–
Su Dedong *(Note (ii))*	–	–	–	–	–
Guo Puyu *(Note (ii))*	–	–	–	–	–
	–	340	27	12	379

The remuneration of every director of LHL for the six months ended 30 June 2007 is set out below:

Name of director	Fees	Salaries, allowance and benefits in kind	Discretionary bonuses	Employer's contributions to pension scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Chen Hengben	–	44	8	2	54
Lin Jianzhong	–	54	8	2	64
Miao Zhikun	–	58	9	2	69
Wong Chun Lam *(Note (i))*	–	–	–	–	–
Wang Weiying *(Note (ii))*	–	–	–	–	–
Su Dedong *(Note (ii))*	–	–	–	–	–
Guo Puyu *(Note (ii))*	–	–	–	–	–
	–	156	25	6	187

The remuneration of every director of LHL for the six months ended 30 June 2006 is set out below:

Name of director	Fees	Salaries, allowance and benefits in kind	Discretionary bonuses	Employer's contributions to pension scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Chen Hengben	–	60	10	2	72
Lin Jianzhong	–	52	10	2	64
Miao Zhikun	–	56	7	2	65
	–	168	27	6	201

Notes:

(i) Appointed on 18 October 2006.
(ii) Appointed on 9 November 2006.

During the Periods, no emoluments were paid by the LHL Group to any of the directors of LHL as an inducement to join or upon joining the LHL Group or as compensation for loss of office. None of the directors of LHL waived or agreed to waive any emoluments during the Periods.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the LHL Group during the Periods included three directors of LHL, whose emoluments are set out above. The emoluments payable to the remaining two non-director, highest paid individuals for the Periods were as follows:

	Year ended 31 December 2004	Year ended 31 December 2005	Year ended 31 December 2006	Period ended 30 June 2006	Period ended 30 June 2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Basic salaries, other allowances and benefits in kind	183	162	188	91	111
Discretionary bonuses	–	12	12	12	19
Retirement scheme contributions	6	8	9	4	2
	189	182	209	107	132

During the Periods, no emoluments were paid by the LHL Group to any of the five highest paid individuals as an inducement to join or upon joining the LHL Group, or as compensation for loss of office.

8. PROPERTY, PLANT AND EQUIPMENT

	The LHL Group		
	Office equipment and furniture	**Motor vehicles**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
As at 1 January 2004			
Cost	394	206	600
Accumulated depreciation	(194)	(65)	(259)
Net book amount	200	141	341
Year ended 31 December 2004			
Opening net book amount	200	141	341
Depreciation	(74)	(39)	(113)
Closing net book amount	126	102	228
As at 31 December 2004			
Cost	394	206	600
Accumulated depreciation	(268)	(104)	(372)
Net book amount	126	102	228
Year ended 31 December 2005			
Opening net book amount	126	102	228
Exchange differences	2	2	4
Depreciation	(75)	(40)	(115)
Closing net book amount	53	64	117
As at 31 December 2005			
Cost	404	210	614
Accumulated depreciation	(351)	(146)	(497)
Net book amount	53	64	117
Year ended 31 December 2006			
Opening net book amount	53	64	117
Additions	8	–	8
Exchange differences	1	2	3
Depreciation	(26)	(41)	(67)
Closing net book amount	36	25	61
As at 31 December 2006			
Cost	427	219	646
Accumulated depreciation	(391)	(194)	(585)
Net book amount	36	25	61

	The LHL Group		
	Office equipment and furniture	**Motor vehicles**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Period ended 30 June 2007			
Opening net book amount	36	25	61
Additions	10	550	560
Exchange differences	2	8	10
Depreciation	(4)	(14)	(18)
Closing net book amount	44	569	613
As at 30 June 2007			
Cost	451	783	1,234
Accumulated depreciation	(407)	(214)	(621)
Net book amount	44	569	613

9. INVESTMENT IN A SUBSIDIARY

	As at 31 December 2004	**As at 31 December 2005**	**As at 31 December 2006**	**As at 30 June 2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Unlisted investment, at cost	2,730	2,730	2,730	2,730

During the Periods, LHL had interests in the following subsidiary:

Name of company	**Place of establishment and kind of legal entity**	**Particulars of paid up registered capital**	**Interest held**	**Principal activities and principal place of operation**
Held directly:				
GZL	PRC, wholly foreign owned enterprise	Registered capital of US$350,000	100%	Research and development and manufacturing of lottery ticket scanners and terminal equipment in the PRC and overseas

10. INVENTORIES

Inventories consist of electronic parts and components of lottery equipment.

11. ACCOUNTS RECEIVABLE

Income from sales of lottery equipment is billed upon the delivery of products and with credit period of 30 days. Income from provision of maintenance services is billed on a monthly or yearly basis and is due 30 days after the invoice date. Aging analyses of accounts receivable as at the end of each of the Periods were as follows:

	As at 31 December 2004 *HK$'000*	As at 31 December 2005 *HK$'000*	As at 31 December 2006 *HK$'000*	As at 30 June 2007 *HK$'000*
0 – 30 days	–	–	–	90
31 – 60 days	–	–	–	92
61 – 90 days	–	–	–	92
91 – 180 days	2	–	–	276
	2	–	–	550

The carrying amounts of the LHL Group's accounts receivable are denominated in RMB. The carrying amounts of the accounts receivable approximate their fair values.

12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

The carrying amounts of prepayments, deposits and other receivables approximate their fair values.

13. AMOUNTS DUE FROM RELATED COMPANIES

Name of related party	As at 31 December 2004 *HK$'000*	As at 31 December 2005 *HK$'000*	As at 31 December 2006 *HK$'000*	As at 30 June 2007 *HK$'000*
廣州太極三環科技有限公司	917	630	653	673
GZSH	–	4,883	6,610	–
	917	5,513	7,263	673
Provision for impairment	–	(630)	(653)	(673)
	917	4,883	6,610	–
Maximum amount outstanding during the period:				
廣州太極三環科技有限公司	964	899	653	673
GZSH	–	5,171	8,056	–

GZSH (prior to its acquisition by the CMIL Group on 22 January 2007) and 廣州太極三環科技有限公司 were controlled by certain key management personnel of the LHL Group.

The amounts due are denominated in RMB, unsecured, interest-free and repayable on demand. The carrying amounts of the amounts due approximate their fair values.

14. AMOUNT DUE FROM A FELLOW SUBSIDIARY

The amount due is denominated in RMB, unsecured, interest-free and repayable on demand. The carrying amount of the amount due approximates its fair value.

15. AMOUNT DUE FROM A SHAREHOLDER OF LHL

As at 31 December 2006, the balance represents amount due from a shareholder of LHL. The maximum amount outstanding during the year ended 31 December 2006 was approximately HK$20,000.

The amount due is denominated in RMB, unsecured, interest-fee and repayable on demand. The carrying amount of the amount due approximates its fair value.

16. CASH AND BANK BALANCES

As at the end of each of the Periods, the LHL Group had cash and bank balances denominated in RMB of approximately HK$472,000, HK$132,000, HK$4,347,000 and HK$577,000 respectively. The remittance of these funds out of the PRC is subject to the exchange control restrictions imposed by the PRC government.

The carrying amounts of the cash and bank balances approximate their fair values.

17. ACCOUNTS PAYABLE

Aging analyses of accounts payable as at the end of each of the Periods were as follows:

	As at 31 December 2004	**As at 31 December 2005**	**As at 31 December 2006**	**As at 30 June 2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
0 – 30 days	–	–	–	512
61 – 90 days	28	20	190	–
	28	20	190	512

The carrying amounts of the LHL Group's accounts payable are denominated in RMB. The carrying amounts of the LHL Group's accounts payable approximate their fair values.

18. ACCRUALS AND OTHER PAYABLES

The carrying amounts of accruals and other payables approximate their fair values.

19. AMOUNTS DUE TO A RELATED COMPANY/A SHAREHOLDER OF LHL/IMMEDIATE HOLDING COMPANY

The amounts due are denominated in RMB, unsecured, interest-free and repayable on demand. The carrying amounts of the amounts due approximate their fair values.

20. SHARE CAPITAL

	As at 31 December 2004 HK$'000	As at 31 December 2005 HK$'000	As at 31 December 2006 HK$'000	As at 30 June 2007 HK$'000
Authorised:				
350,000 ordinary shares of US$1 each	2,730	2,730	2,730	2,730
Issued and fully paid:				
350,000 ordinary shares of US$1 each	2,730	2,730	2,730	2,730

21. ACCUMULATED LOSSES

	LHL			
	As at 31 December 2004 HK$'000	As at 31 December 2005 HK$'000	As at 31 December 2006 HK$'000	As at 30 June 2007 HK$'000
Beginning of the year/period	(3)	(31)	(47)	(56)
(Loss)/Profit for the year/period	(28)	(16)	(9)	32
End of the year/period	(31)	(47)	(56)	(24)

22. OPERATING LEASE COMMITMENTS

As at the end of each of the Periods, the LHL Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises as follows:

	As at 31 December 2004 HK$'000	As at 31 December 2005 HK$'000	As at 31 December 2006 HK$'000	As at 30 June 2007 HK$'000
No later than one year	96	124	123	152
Later than one year but no later than five years	292	190	75	11
	388	314	198	163

LHL did not have significant operating lease commitments as at the end of each of the Periods.

23. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the Financial Information, the LHL Group had the following significant related party transactions during the Periods:

Nature of transaction	Year ended 31 December 2004 HK$'000	Year ended 31 December 2005 HK$'000	Year ended 31 December 2006 HK$'000	Period ended 30 June 2006 HK$'000 (Unaudited)	Period ended 30 June 2007 HK$'000
Sales of software applications to GZSH	428	4,168	2,706	735	–

The above transactions were entered into at terms agreed between the contracting parties.

IV. FINANCIAL INFORMATION OF GZSH FOR THE PERIODS

Income Statements of GZSH

	Section IV Note	Year ended 31 December 2004 *HK$'000*	Year ended 31 December 2005 *HK$'000*	Year ended 31 December 2006 *HK$'000*	Period ended 30 June 2006 *HK$'000* (Unaudited)	Period ended 30 June 2007 *HK$'000*
Turnover	*1*	15,522	23,605	27,740	12,994	12,468
Cost of sales and services	*3*	(6,086)	(10,884)	(14,836)	(7,588)	(6,042)
Gross profit		9,436	12,721	12,904	5,406	6,426
General and administrative expenses		(2,090)	(13,357)	(15,094)	(10,189)	(1,612)
Other income and gains	*2*	21	9	3,308	710	2,239
Operating profit/(loss)		7,367	(627)	1,118	(4,073)	7,053
Finance costs	*4*	(1,131)	(673)	–	–	–
Profit/(Loss) before income tax		6,236	(1,300)	1,118	(4,073)	7,053
Income tax	*6*	(1,389)	(580)	181	698	(956)
Profit/(Loss) for the year/period		4,847	(1,880)	1,299	(3,375)	6,097
Dividends	*21*	–	–	293	293	–

Balance Sheets of GZSH

	Section IV Note	As at 31 December 2004 *HK$'000*	As at 31 December 2005 *HK$'000*	As at 31 December 2006 *HK$'000*	As at 30 June 2007 *HK$'000*
Non-current assets					
Property, plant and equipment	*8*	28,351	22,714	16,450	13,232
Deferred income tax assets	*18*	–	–	840	695
Total non-current assets		28,351	22,714	17,290	13,927
Current assets					
Inventories	*9*	206	3,020	6,349	8,037
Accounts receivable	*10*	1,557	2,204	4,245	1,852
Prepayments, deposits and other receivables	*11*	174	222	270	226
Amount due from a related company	*12*	7,740	–	–	–
Cash and bank balances	*13*	429	431	853	5,742
Total current assets		10,106	5,877	11,717	15,857
Total assets		38,457	28,591	29,007	29,784
Current liabilities					
Accounts payable	*14*	3,251	3,894	6,603	3,506
Accruals and other payables	*15*	269	1,633	1,027	960
Borrowings	*16*	19,754	–	–	–
Amounts due to related companies	*17*	283	5,383	6,789	–
Amount due to a fellow subsidiary	*17*	–	–	–	4,240
Amounts due to equity holders of GZSH	*17*	–	4,149	–	–
Income tax payable		–	658	787	674
Total current liabilities		23,557	15,717	15,206	9,380
Net current (liabilities)/assets		(13,451)	(9,840)	(3,489)	6,477
Total assets less current liabilities		14,900	12,874	13,801	20,404
Non-current liabilities					
Deferred income tax liabilities	*18*	998	570	–	–
Net assets		13,902	12,304	13,801	20,404
Capital and reserves					
Paid up capital	*19*	9,393	9,393	9,393	9,393
Statutory reserve		197	1,159	1,732	1,732
Currency translation reserve		6	288	779	1,285
Accumulated profits		4,306	1,464	1,897	7,994
Total equity		13,902	12,304	13,801	20,404

Statements of Changes in Equity of GZSH

	Attributable to equity holders of GZSH				
	Paid up capital	Statutory reserve	Currency translation reserve	Accumulated profits/ (losses)	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance as at 1 January 2004	9,393	–	1	(344)	9,050
Currency translation difference	–	–	5	–	5
Net income recognised directly in equity	–	–	5	–	5
Profit for the year	–	–	–	4,847	4,847
Total recognised income for the year	–	–	5	4,847	4,852
Transfer from retained profits	–	197	–	(197)	–
Balance as at 31 December 2004	9,393	197	6	4,306	13,902
Currency translation difference	–	–	282	–	282
Net income recognised directly in equity	–	–	282	–	282
Loss for the year	–	–	–	(1,880)	(1,880)
Total recognised income/(expense) for the year	–	–	282	(1,880)	(1,598)
Transfer from retained profits	–	962	–	(962)	–
Balance as at 31 December 2005	9,393	1,159	288	1,464	12,304
Currency translation difference	–	–	491	–	491
Net income recognised directly in equity	–	–	491	–	491
Profit for the year	–	–	–	1,299	1,299
Total recognised income for the year	–	–	491	1,299	1,790
Dividends paid *(Section IV Note 21)*	–	–	–	(293)	(293)
Transfer from retained profits	–	573	–	(573)	–
Balance as at 31 December 2006	9,393	1,732	779	1,897	13,801
Currency translation difference	–	–	506	–	506
Net income recognised directly in equity	–	–	506	–	506
Profit for the period	–	–	–	6,097	6,097
Total recognised income for the period	–	–	506	6,097	6,603
Balance as at 30 June 2007	9,393	1,732	1,285	7,994	20,404

(Unaudited)	Attributable to equity holders of GZSH Paid up capital *HK$'000*	Statutory reserve *HK$'000*	Currency translation reserve *HK$'000*	Accumulated profits/ (losses) *HK$'000*	Total equity *HK$'000*
Balance as at 1 January 2006	9,393	1,159	288	1,464	12,304
Currency translation difference	–	–	127	–	127
Net income recognised directly in equity	–	–	127	–	127
Loss for the period	–	–	–	(3,375)	(3,375)
Total recognised income/(expense) for the period	–	–	127	(3,375)	(3,248)
Dividends paid *(Section IV Note 21)*	–	–	–	(293)	(293)
Balance as at 30 June 2006	9,393	1,159	415	(2,204)	8,763

Cash Flow Statements of GZSH

	Year ended 31 December 2004 HK$'000	Year ended 31 December 2005 HK$'000	Year ended 31 December 2006 HK$'000	Period ended 30 June 2006 HK$'000 (Unaudited)	Period ended 30 June 2007 HK$'000
Cash flows from operating activities					
Profit/(Loss) before income tax	6,236	(1,300)	1,118	(4,073)	7,053
Adjustments for:					
Depreciation of property, plant and equipment	4,873	6,757	7,085	3,509	3,684
Impairment of property, plant and equipment	500	5,196	12,043	8,904	–
Impairment of amount due from a related company	–	5,302	–	–	–
Interest expenses	1,131	673	–	–	–
Interest income from bank deposits	(21)	(9)	(11)	(4)	(11)
Operating cash flows before changes in working capital	12,719	16,619	20,235	8,336	10,726
– Inventories	(58)	(2,814)	(3,329)	111	(1,688)
– Accounts receivable	(1,557)	(647)	(2,041)	(188)	2,393
– Prepayments, deposits and other receivables	10,502	(48)	(48)	(1)	44
– Accounts payable	3,246	643	2,709	6,010	(3,097)
– Accruals and other payables	(196)	1,364	(606)	(554)	(67)
– Amounts due to equity holders of GZSH	–	4,149	(4,149)	(4,149)	–
– Amounts due from a related company	(7,740)	2,438	–	–	–
Cash generated from operations	16,916	21,704	12,771	9,565	8,311
PRC enterprise income tax paid	(390)	(365)	(1,091)	(521)	(901)
Interest received	21	9	11	4	11
Interest paid	(1,131)	(673)	–	–	–
Dividends paid	–	–	(293)	(293)	–
Net cash generated from operating activities	15,416	20,675	11,398	8,755	7,421
Cash flows from investing activities					
Purchases of property, plant and equipment	(25,562)	(5,833)	(12,434)	(8,970)	(21)
Net cash used in investing activities	(25,562)	(5,833)	(12,434)	(8,970)	(21)
Cash flows from financing activities					
Changes in amounts due to related companies	283	5,100	1,406	705	(6,789)
Changes in amounts due to a fellow subsidiary	–	–	–	–	4,240
Changes in borrowings	3,317	(19,754)	–	–	–
Net cash generated from/(used in) financing activities	3,600	(14,654)	1,406	705	(2,549)
Net (decrease)/increase in cash and cash equivalents	(6,546)	188	370	490	4,851
Cash and cash equivalents at beginning of the year/period	6,992	429	431	431	853
Effect of foreign exchange rate changes	(17)	(186)	52	(71)	38
Cash and cash equivalents at end of the year/period	429	431	853	850	5,742
Analysis of balances of cash and cash equivalents					
Cash and bank balances	429	431	853	850	5,742

Notes to the financial information of GZSH

1. TURNOVER AND SEGMENT INFORMATION

	Year ended 31 December 2004 *HK$'000*	Year ended 31 December 2005 *HK$'000*	Year ended 31 December 2006 *HK$'000*	Period ended 30 June 2006 *HK$'000* (Unaudited)	Period ended 30 June 2007 *HK$'000*
Turnover					
Income for provision of lottery terminals	14,506	22,396	25,269	12,095	12,468
Income from sales of lottery equipment	1,016	1,131	2,439	868	–
Income from provision of maintenance services	–	78	32	31	–
	15,522	23,605	27,740	12,994	12,468

Segment information

Segment information is presented by way of GZSH's primary segment reporting by business segment. In determining GZSH's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

(a) Primary reporting format – business segments

The segment results for the year ended 31 December 2004 are as follows:

	Sales of lottery equipment *HK$'000*	Provision of lottery terminals *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Total segment turnover	1,016	14,506	–	15,522
Segment results	510	8,397	(1,561)	7,346
Interest income				21
Finance costs				(1,131)
Profit before income tax				6,236
Income tax expense				(1,389)
Profit for the year				4,847

Other segment items included in the income statement for the year ended 31 December 2004 are as follows:

	Sales of lottery equipment *HK$'000*	Provision of lottery terminals *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Depreciation (included in cost of sales and services)	–	4,825	–	4,825
Depreciation (included in general and administrative expenses)	–	–	48	48
Impairment of property, plant and equipment	–	500	–	500

The segment results for the year ended 31 December 2005 are as follows:

	Sales of lottery equipment *HK$'000*	Provision of lottery terminals *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Total segment turnover	1,131	22,474	–	23,605
Segment results	652	5,649	(6,937)	(636)
Interest income				9
Finance costs				(673)
Loss before income tax				(1,300)
Income tax expense				(580)
Loss for the year				(1,880)

Other segment items included in the income statement for the year ended 31 December 2005 are as follows:

	Sales of lottery equipment *HK$'000*	Provision of lottery terminals *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Depreciation (included in cost of sales and services)	–	6,691	–	6,691
Depreciation (included in general and administrative expenses)	–	–	66	66
Impairment of amount due from a related company	–	–	5,302	5,302
Impairment of property, plant and equipment	–	5,196	–	5,196

The segment results for the year ended 31 December 2006 are as follows:

	Sales of lottery equipment	Provision of lottery terminals	Unallocated	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Total segment turnover	2,439	25,301	–	27,740
Segment results	117	(527)	1,517	1,107
Interest income				11
Profit before income tax				1,118
Income tax				181
Profit for the year				1,299

Other segment items included in the income statement for the year ended 31 December 2006 are as follows:

	Sales of lottery equipment	Provision of lottery terminals	Unallocated	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Depreciation (included in cost of sales and services)	–	7,008	–	7,008
Depreciation (included in general and administrative expenses)	–	–	77	77
Impairment of property, plant and equipment	–	12,043	–	12,043
Reversal of impairment of amount due from a related company	–	–	3,297	3,297

The segment results for the period ended 30 June 2007 are as follows:

	Sales of lottery equipment	Provision of lottery terminals	Unallocated	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Total segment turnover	–	12,468	–	12,468
Segment results	–	5,737	1,305	7,042
Interest income				11
Profit before income tax				7,053
Income tax expense				(956)
Profit for the period				6,097

Other segment items included in the income statement for the period ended 30 June 2007 are as follows:

	Sales of lottery equipment *HK$'000*	Provision of lottery terminals *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Depreciation (included in cost of sales and services)	–	3,640	–	3,640
Depreciation (included in general and administrative expenses)	–	–	44	44
Reversal of impairment of amount due from a related company	–	–	2,228	2,228

The segment results for the six months ended 30 June 2006 are as follows:

	Sales of lottery equipment *HK$'000* (Unaudited)	Provision of lottery terminals *HK$'000* (Unaudited)	Unallocated *HK$'000* (Unaudited)	Total *HK$'000* (Unaudited)
Total segment turnover	868	12,126	–	12,994
Segment results	(204)	(3,829)	(44)	(4,077)
Interest income				4
Loss before income tax				(4,073)
Income tax				698
Loss for the period				(3,375)

Other segment items included in the income statement for the six months ended 30 June 2006 are as follows:

	Sales of lottery equipment *HK$'000* (Unaudited)	Provision of lottery terminals *HK$'000* (Unaudited)	Unallocated *HK$'000* (Unaudited)	Total *HK$'000* (Unaudited)
Depreciation (included in cost of sales and services)	–	3,473	–	3,473
Depreciation (included in general and administrative expenses)	–	–	36	36
Impairment of property, plant and equipment	–	8,904	–	8,904
Reversal of impairment of amount due from a related company	–	–	706	706

Segment assets consist primarily of property, plant and equipment, inventories, trade and other receivable. Unallocated assets comprise deferred income tax, assets, prepayments, deposits and other receivables, amount due from a related company and cash and bank balances.

Segment liabilities comprise operating liabilities. Unallocated liabilities comprise items such as income tax payable.

The segment assets and liabilities as at 31 December 2004 and capital expenditure for the year then ended are as follows:

	Sales of lottery equipment	**Provision of lottery terminals**	**Unallocated**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Assets	–	29,887	8,570	38,457
Liabilities	–	2,964	21,591	24,555
Capital expenditure	–	25,350	212	25,562

The segment assets and liabilities as at 31 December 2005 and capital expenditure for the year then ended are as follows:

	Sales of lottery equipment	**Provision of lottery terminals**	**Unallocated**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Assets	–	27,755	836	28,591
Liabilities	–	3,563	12,724	16,287
Capital expenditure	–	5,766	67	5,833

The segment assets and liabilities as at 31 December 2006 and capital expenditure for the year then ended are as follows:

	Sales of lottery equipment	**Provision of lottery terminals**	**Unallocated**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Assets	1,764	25,120	2,123	29,007
Liabilities	–	6,603	8,603	15,206
Capital expenditure	–	12,316	118	12,434

The segment assets and liabilities as at 30 June 2007 and capital expenditure for the period then ended are as follows:

	Sales of lottery equipment	**Provision of lottery terminals**	**Unallocated**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Assets	–	22,989	6,795	29,784
Liabilities	–	3,506	5,874	9,380
Capital expenditure	–	–	21	21

The segment assets and liabilities as at 30 June 2006 and capital expenditure for the period then ended are as follows:

	Sales of lottery equipment	Provision of lottery terminals	Unallocated	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Assets	409	24,304	1,749	26,462
Liabilities	–	9,430	8,268	17,698
Capital expenditure	–	8,957	13	8,970

(b) Secondary reporting format – geographical segments

During the Relevant Periods, over 90% of GZSH's revenues were derived from customers based in the PRC and over 90% of GZSH's assets were located in the PRC. Accordingly, no further geographical segment information is presented.

2. OTHER INCOME AND GAINS

	Year ended 31 December 2004	Year ended 31 December 2005	Year ended 31 December 2006	Period ended 30 June 2006	Period ended 30 June 2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Reversal of impairment of amount due from a related company	–	–	3,297	706	2,228
Interest income from bank deposits	21	9	11	4	11
	21	9	3,308	710	2,239

3. EXPENSES BY NATURE

	Year ended 31 December 2004	Year ended 31 December 2005	Year ended 31 December 2006	Period ended 30 June 2006	Period ended 30 June 2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Cost of sales and services					
– Depreciation of lottery terminals	4,825	6,691	7,008	3,473	3,640
– Business tax	804	1,241	1,400	671	645
– Other cost of services	5	2,533	4,228	2,417	1,757
– Cost of inventories expensed	452	419	2,200	1,027	–
	6,086	10,884	14,836	7,588	6,042

	Year ended 31 December 2004 *HK$'000*	Year ended 31 December 2005 *HK$'000*	Year ended 31 December 2006 *HK$'000*	Period ended 30 June 2006 *HK$'000* (Unaudited)	Period ended 30 June 2007 *HK$'000*
Depreciation (included in general and administrative expenses)	48	66	77	36	44
Auditors' remuneration	2	29	33	29	32
Impairment of property, plant and equipment (included in general and administrative expenses)	500	5,196	12,043	8,904	–
Impairment of amount due from a related company (included in general and administrative expenses)	–	5,302	–	–	–
Operating lease rentals in respect of rented premises	137	140	145	72	118

4. FINANCE COSTS

	Year ended 31 December 2004 *HK$'000*	Year ended 31 December 2005 *HK$'000*	Year ended 31 December 2006 *HK$'000*	Period ended 30 June 2006 *HK$'000* (Unaudited)	Period ended 30 June 2007 *HK$'000*
Interest on bank borrowings wholly repayable within five years	1,131	673	–	–	–

5. EMPLOYEE BENEFITS EXPENSE

	Year ended 31 December 2004 *HK$'000*	Year ended 31 December 2005 *HK$'000*	Year ended 31 December 2006 *HK$'000*	Period ended 30 June 2006 *HK$'000* (Unaudited)	Period ended 30 June 2007 *HK$'000*
Wages and salaries	546	773	1,162	554	660
Discretionary bonuses	–	760	–	–	141
Social security costs	94	121	172	77	99
Retirement scheme contributions	85	151	169	114	67
	725	1,805	1,503	745	967

6. INCOME TAX

The amount of income tax charged to the income statements represents:

	Year ended 31 December 2004 HK$'000	Year ended 31 December 2005 HK$'000	Year ended 31 December 2006 HK$'000	Period ended 30 June 2006 HK$'000 (Unaudited)	Period ended 30 June 2007 HK$'000
Current income tax					
– PRC enterprise income tax	389	1,023	1,220	490	788
Deferred income tax *(Section IV Note 18)*	1,000	(443)	(1,401)	(1,188)	168
	1,389	580	(181)	(698)	956

The tax on GZSH's profit/(loss) before income tax differs from the theoretical amount that would arise using the PRC enterprise income tax rate of 15% (applied for advanced technology enterprise) as follows:

	Year ended 31 December 2004 HK$'000	Year ended 31 December 2005 HK$'000	Year ended 31 December 2006 HK$'000	Period ended 30 June 2006 HK$'000 (Unaudited)	Period ended 30 June 2007 HK$'000
Profit/(Loss) before income tax	6,236	(1,300)	1,118	(4,073)	7,053
Tax calculated at PRC enterprise income tax rate of 15%	935	(195)	167	(610)	1,057
Income not subject to tax	(273)	(423)	(938)	(479)	(742)
Expenses not deductible for tax purposes	746	1,198	590	391	641
Utilisation of previously unrecognised tax losses	(19)	–	–	–	–
Income tax expense/(credit)	1,389	580	(181)	(698)	956

PRC enterprise income tax

GZSH, a Sino-foreign equity joint venture enterprise established and operating in the PRC, is subject to PRC enterprise income tax at a rate of 15% (applied for advanced technology enterprise).

7. COMPENSATION TO KEY MANAGEMENT PERSONNEL

	Year ended 31 December 2004 HK$'000	Year ended 31 December 2005 HK$'000	Year ended 31 December 2006 HK$'000	Period ended 30 June 2006 HK$'000 (Unaudited)	Period ended 30 June 2007 HK$'000
Short-term employee benefits	88	79	133	66	131
Post-employment benefits	4	4	10	5	10
	92	83	143	71	141

(a) Directors' emoluments

The remuneration of every director of GZSH for the year ended 31 December 2004 is set out below:

Name of director	Fees	Salaries, allowance and benefits in kind	Discretionary bonuses	Employer's contributions to pension scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Yan Hao	–	65	–	3	68
Wang Youcheng *(Note (i))*	–	23	–	1	24
Chen Hengben *(Note (ii))*	–	–	–	–	–
Lin Jianzhong	–	–	–	–	–
	–	88	–	4	92

The remuneration of every director of GZSH for the year ended 31 December 2005 is set out below:

Name of director	Fees	Salaries, allowance and benefits in kind	Discretionary bonuses	Employer's contributions to pension scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Yan Hao	–	79	–	4	83
Chen Hengben *(Note (ii))*	–	–	–	–	–
Lin Jianzhong	–	–	–	–	–
	–	79	–	4	83

The remuneration of every director of GZSH for the year ended 31 December 2006 is set out below:

Name of director	Fees	Salaries, allowance and benefits in kind	Discretionary bonuses	Employer's contributions to pension scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Yan Hao	–	133	–	10	143
Chen Hengben *(Note (ii))*	–	–	–	–	–
Lin Jianzhong	–	–	–	–	–
	–	133	–	10	143

The remuneration of every director of GZSH for the six months ended 30 June 2007 is set out below:

Name of director	Fees	Salaries, allowance and benefits in kind	Discretionary bonuses	Employer's contributions to pension scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Yan Hao	–	70	11	6	87
Wang Youcheng *(Note (i))*	–	50	–	4	54
Chen Hengben *(Note (ii))*	–	–	–	–	–
Lin Jianzhong	–	–	–	–	–
Su Dedong *(Note (iii))*	–	–	–	–	–
Guo Puyu *(Note (iii))*	–	–	–	–	–
Wang Weiying *(Note (iii))*	–	–	–	–	–
Wong Chun Lam *(Note (iii))*	–	–	–	–	–
Wang Jiangyang *(Note (iii))*	–	–	–	–	–
	–	120	11	10	141

The remuneration of every director of GZSH for the six months ended 30 June 2006 is set out below:

Name of director	Fees	Salaries, allowance and benefits in kind	Discretionary bonuses	Employer's contributions to pension scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Yan Hao	–	66	–	5	71
Chen Hengben *(Note (ii))*	–	–	–	–	–
Lin Jianzhong	–	–	–	–	–
	–	66	–	5	71

Notes:

(i) Resigned on 6 July 2004 and re-appointed on 22 January 2007
(ii) Appointed on 6 July 2004
(iii) Appointed on 22 January 2007

During the Periods, no emoluments were paid by GZSH to any of the directors of GZSH as an inducement to join or upon joining GZSH or as compensation for loss of office. None of the directors of GZSH waived or agreed to waive any emoluments during the Periods.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in GZSH included two, one, one, one and two directors of GZSH for each of the three years ended 31 December 2006 and the six months ended 30 June 2006 and 2007 respectively. The emoluments payables to the remaining three, four, four, four and three non-director, highest paid individuals for each of the three years ended 31 December 2006 and the six months ended 30 June 2006 and 2007 respectively were as follows:

	Year ended 31 December 2004 *HK$'000*	Year ended 31 December 2005 *HK$'000*	Year ended 31 December 2006 *HK$'000*	Period ended 30 June 2006 *HK$'000* (Unaudited)	Period ended 30 June 2007 *HK$'000*
Basic salaries, other allowances and benefits-in-kind	166	222	337	163	125
Discretionary bonuses	–	66	–	–	31
Retirement scheme contributions	7	12	23	11	10
	173	300	360	174	166

During the Periods, no emoluments were paid by GZSH to any of the five highest paid individuals of GZSH as an inducement to join or upon joining GZSH or as compensation for loss of office.

8. PROPERTY, PLANT AND EQUIPMENT

	Lottery terminals leased to third parties under operating leases *HK$'000*	Lottery terminals under construction *HK$'000*	Office equipment and furniture *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
As at 1 January 2004					
Cost	–	8,050	104	–	8,154
Accumulated depreciation	–	–	(11)	–	(11)
Net book amount	–	8,050	93	–	8,143
Year ended 31 December 2004					
Opening net book amount	–	8,050	93	–	8,143
Exchange differences	8	11	–	–	19
Additions	3,245	22,105	40	172	25,562
Transfers	30,166	(30,166)	–	–	–
Depreciation	(4,825)	–	(36)	(12)	(4,873)
Impairment	(500)	–	–	–	(500)
Closing net book amount	28,094	–	97	160	28,351
As at 31 December 2004					
Cost	33,410	–	144	172	33,726
Accumulated depreciation	(4,816)	–	(47)	(12)	(4,875)
Accumulated impairment	(500)	–	–	–	(500)
Net book amount	28,094	–	97	160	28,351

	Lottery terminals leased to third parties under operating leases	Lottery terminals under construction	Office equipment and furniture	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2005					
Opening net book amount	28,094	–	97	160	28,351
Exchange differences	478	–	2	3	483
Additions	48	5,718	67	–	5,833
Transfers	5,718	(5,718)	–	–	–
Depreciation	(6,691)	–	(41)	(25)	(6,757)
Impairment	(5,196)	–	–	–	(5,196)
Closing net book amount	22,451	–	125	138	22,714
As at 31 December 2005					
Cost	39,904	–	214	175	40,293
Accumulated depreciation	(11,688)	–	(89)	(37)	(11,814)
Accumulated impairment	(5,765)	–	–	–	(5,765)
Net book amount	22,451	–	125	138	22,714
Year ended 31 December 2006					
Opening net book amount	22,451	–	125	138	22,714
Exchange differences	421	–	4	5	430
Additions	–	12,316	63	55	12,434
Transfers	12,316	(12,316)	–	–	–
Depreciation	(7,008)	–	(50)	(27)	(7,085)
Impairment	(12,043)	–	–	–	(12,043)
Closing net book amount	16,137	–	142	171	16,450
As at 31 December 2006					
Cost	53,738	–	285	238	54,261
Accumulated depreciation	(19,300)	–	(143)	(67)	(19,510)
Accumulated impairment	(18,301)	–	–	–	(18,301)
Net book amount	16,137	–	142	171	16,450
Period ended 30 June 2007					
Opening net book amount	16,137	–	142	171	16,450
Exchange differences	437	–	3	5	445
Additions	–	–	21	–	21
Depreciation	(3,640)	–	(26)	(18)	(3,684)
Closing net book amount	12,934	–	140	158	13,232
As at 30 June 2007					
Cost	55,368	–	314	245	55,927
Accumulated depreciation	(23,578)	–	(174)	(87)	(23,839)
Accumulated impairment	(18,856)	–	–	–	(18,856)
Net book amount	12,934	–	140	158	13,232

During the Periods, the directors of GZSH conducted a review of the lottery terminals leased to third parties and determined that a number of those assets were impaired. Accordingly, impairment losses of were recognised in respect of lottery terminals leased to third parties, which are used in the provision of lottery terminals segment. The recoverable amounts of the relevant assets have been determined on the basis of their value in use.

9. INVENTORIES

Inventories consist of electronic parts and components of lottery equipment.

10. ACCOUNTS RECEIVABLE

Income from sales of lottery equipment is billed upon the delivery of products and with credit period of 180 days. Income from provision of maintenance services is billed on a monthly basis and is due 30 days after the invoice date. Income from provision of lottery terminals is billed on a monthly basis and is due 30 days after month-end. Aging analyses of accounts receivable as at the end of each of the Periods were as follows:

	As at 31 December 2004	**As at 31 December 2005**	**As at 31 December 2006**	**As at 30 June 2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
0 – 30 days	1,557	2,204	4,245	1,852

The carrying amounts of GZSH's accounts receivable are denominated in RMB. The carrying amounts of GZSH's accounts receivable approximate their fair values.

11. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

The carrying amounts of prepayments, deposits and other receivables approximate their fair values.

12. AMOUNT DUE FROM A RELATED COMPANY

Name of related party	**As at 31 December 2004**	**As at 31 December 2005**	**As at 31 December 2006**	**As at 30 June 2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
廣州市舒康保健設備有限公司	7,740	–	–	–
Maximum amount outstanding during the period:				
廣州市舒康保健設備有限公司	8,372	7,908	–	–

The amount due was unsecured, interest-free and repayable on demand. The carrying amount of the amount due approximates its fair value.

13. CASH AND BANK BALANCES

As at the end of each of the Periods, all of GZSH's cash and bank balances are denominated in RMB. The remittance of these funds out of the PRC is subject to the exchange control restrictions imposed by the PRC government.

The carrying amounts of GZSH's cash and bank balances approximate their fair values.

14. ACCOUNTS PAYABLE

Aging analyses of accounts payable as at the end of each of the Periods were as follows:

	As at 31 December 2004 *HK$'000*	As at 31 December 2005 *HK$'000*	As at 31 December 2006 *HK$'000*	As at 30 June 2007 *HK$'000*
0 – 30 days	288	620	–	–
31 – 60 days	–	–	–	–
61 – 90 days	–	–	–	–
91 – 180 day	–	–	–	–
Over 180 days	2,963	3,274	6,603	3,506
	3,251	3,894	6,603	3,506

The carrying amounts of GZSH's accounts payable are denominated in RMB. The carrying amounts of GZSH's accounts payable approximate their fair values.

15. ACCRUALS AND OTHER PAYABLES

The carrying amounts of accruals and other payables approximate their fair values.

16. BORROWINGS

	As at 31 December 2004 *HK$'000*	As at 31 December 2005 *HK$'000*	As at 31 December 2006 *HK$'000*	As at 30 June 2007 *HK$'000*
Current				
Secured bank borrowings repayable within one year	19,754	–	–	–
Total borrowings	19,754	–	–	–

The effective interest rates of the bank borrowings for 2004 and 2005 range from 5.33% to 6.336% per annum.

17. AMOUNTS DUE TO RELATED COMPANIES/A FELLOW SUBSIDIARY/EQUITY HOLDERS OF GZSH

The amounts due are unsecured, interest-free and repayable on demand. The carrying amounts of amounts due approximate their fair values.

18. DEFERRED INCOME TAX LIABILITIES/(ASSETS)

	As at 31 December 2004 *HK$'000*	As at 31 December 2005 *HK$'000*	As at 31 December 2006 *HK$'000*	As at 30 June 2007 *HK$'000*
Beginning of the period	–	998	570	(840)
Exchange differences	(2)	15	(9)	(23)
Deferred income tax (charged)/credited to the income statement *(Section IV Note 6)*	1,000	(443)	(1,401)	168
End of the period	998	570	(840)	(695)

The balances of deferred income tax assets as at 30 June 2007 are attributable to the accelerated tax depreciation on property, plant and equipment.

As at the end of each of the Periods, GZSH had no other material unprovided deferred income tax assets and liabilities.

19. PAID UP CAPITAL

	As at 31 December 2004 *HK$'000*	As at 31 December 2005 *HK$'000*	As at 31 December 2006 *HK$'000*	As at 30 June 2007 *HK$'000*
Registered capital of RMB10,000,000	9,393	9,393	9,393	9,393

20. OPERATING LEASE COMMITMENTS

As at the end of each of the Periods, GZSH had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises as follows:

	As at 31 December 2004 *HK$'000*	As at 31 December 2005 *HK$'000*	As at 31 December 2006 *HK$'000*	As at 30 June 2007 *HK$'000*
No later than one year	102	94	112	187
Later than one year and no later than five years	9	50	10	9
	111	144	122	196

21. DIVIDENDS

	Year ended 31 December 2004	Year ended 31 December 2005	Year ended 31 December 2006	Period ended 30 June 2006	Period ended 30 June 2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Dividends paid	–	–	293	293	–

22. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the Financial Information, GZSH had entered into the following significant related party transactions during the Periods:

Nature of transaction	Year ended 31 December 2004	Year ended 31 December 2005	Year ended 31 December 2006	Period ended 30 June 2006	Period ended 30 June 2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Purchases of software applications from the LHL Group	428	4,168	2,706	735	–

The above transactions were entered into at terms agreed between the contracting parties.

V. SUBSEQUENT EVENTS

Save as disclosed in the Financial Information, there were no significant events subsequent to 30 June 2007.

VI. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the companies comprising the CMIL Group have been prepared in respect of any period subsequent to 30 June 2007.

Yours faithfully,
HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
Hong Kong

1. UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

The following is the unaudited pro forma statement of assets and liabilities of the Enlarged Group (the "Unaudited Pro Forma Financial Information") which has been prepared in accordance with Rule 7.31 of the GEM Listing Rules, for illustrative purposes only, to provide information about how (i) the Acquisition; (ii) the GZSH Acquisition; and (iii) the LHL Acquisition might have affected the assets and liabilities of the Group as if these transactions had taken place on 30 June 2007.

The Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only, based on the judgements and assumptions of the Directors, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 30 June 2007 or any future date.

	The Group as at 30 June 2007	**The CMIL Group as at 30 June 2007**	**Pro forma adjustments**		**Pro forma Enlarged Group**
	HK$'000	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
	(Note 1)	*(Note 2)*			
Non-current assets					
Intangible assets	987,542	22,712	168,000	*3(a)*	1,184,409
			1,800	*3(d)*	
			(44,408)	*4, 5*	
			8,000	*3(b)*	
			(4,081)	*6*	
			48,000	*3(c)*	
			(3,156)	*7*	
Property, plant and equipment	86,784	13,845			100,629
Investment in an associate	52,103	–			52,103
Deferred income tax assets	–	695			695
Total non-current assets	1,126,429	37,252			1,337,836
Current assets					
Inventories	–	24,840			24,840
Financial assets at fair value through profit and loss	123,998	–			123,998
Accounts receivable	41,879	2,402			44,281
Prepayments, deposits and other receivables	14,995	3,297			18,292
Amounts due from related companies	20,231	–			20,231
Deposit with a financial institution	16,175	–			16,175
Cash and cash equivalents	1,115,994	8,955	(117,600)	*3(a)*	966,349
			(8,000)	*3(b)*	
			(31,200)	*3(c)*	
			(1,800)	*3(d)*	
Total current assets	1,333,272	39,494			1,214,166

	The Group as at 30 June 2007 HK$'000 (Note 1)	The CMIL Group as at 30 June 2007 HK$'000 (Note 2)	Pro forma adjustments HK$'000	Notes	Pro forma Enlarged Group HK$'000
Current liabilities					
Financial liability at fair value through profit and loss	75,930	–			75,930
Accounts payable	8,711	4,018			12,729
Accruals and other payables	19,286	12,328			31,614
Amount due to an associate	29,605	–			29,605
Amounts due to related companies	10,498	127			10,625
Amount due to a director	345	–			345
Income tax payable	682	1,393			2,075
Total current liabilities	145,057	17,866			162,923
Net current assets	1,188,215	21,628			1,051,243
Total assets less current liabilities	2,314,644	58,880			2,389,079
Non-current liabilities					
Deferred income tax liabilities	14,125	–			14,125
Convertible note	524,837	–			524,837
	538,962	–			538,962
Net assets	1,775,682	58,880			1,850,117
Capital and reserves					
Share capital	18,678	1,685	126	*3(a)*	18,846
			42	*3(c)*	
			(1,685)	*4*	
Reserves	1,612,235	559	50,274	*3(a)*	1,679,267
			16,758	*3(c)*	
			(559)	*4*	
Retained profit	11,364	42,164	(42,164)	*4*	11,364
Capital and reserves attributable to equity holders of the Company	1,642,277	44,408			1,709,477
Minority interests	133,405	14,472	(4,081)	*6*	140,640
			(3,156)	*7*	
Total equity	1,775,682	58,880			1,850,117

Notes:

1. The figures have been extracted from the unaudited consolidated balance sheet of the Group as at 30 June 2007 as disclosed in the published interim report of the Company for the six months ended 30 June 2007.

2. The figures have been extracted from the audited consolidated balance sheet of the CMIL Group as at 30 June 2007 as disclosed in Section II of Appendix II "Financial information on the CMIL Group".

3. To reflect settlement of the Consideration, the GZSH Consideration, the LHL Consideration and the estimated expenses directly attributable to the transaction, in the following manner:

   (a) Pursuant to the Acquisition Agreement, the Purchaser has conditionally agreed to acquire from the Vendor and the Vendor has conditionally agreed to sell to the Purchaser the Sale Shares, representing the entire issued share capital of CMIL. The Consideration is HK$168.0 million (subject to adjustments), to be satisfied as to (i) HK$117.6 million by cash, of which HK$16.8 million was paid within 3 Business Days after the date of the Acquisition Agreement and the remaining balance of HK$100.8 million is payable at Completion; and as to (ii) HK$50.4 million by the allotment and issue of 50.4 million Consideration Shares at the Issue Price of HK$1.0 each, credited as fully paid-up, to the Vendor (or its nominees) at Completion. The Directors intend to finance the cash consideration by internal resources.

   (b) Pursuant to the GZSH Acquisition Agreement, the GZSH Purchaser has conditionally agreed to acquire from the GZSH Vendors and the GZSH Vendors have conditionally agreed to sell to the GZSH Purchaser the GZSH Sale Interest, representing 20% of the total equity interests in GZSH. The GZSH Consideration is HK$8.0 million payable in cash within 10 Business Days upon GZSH Completion. The Directors intend to finance the GZSH Consideration by internal resources.

   (c) Pursuant to the LHL Acquisition Agreement, the LHL Purchaser has conditionally agreed to acquire from the LHL Vendors and the LHL Vendors have conditionally agreed to sell to the LHL Purchaser the LHL Sale Shares, representing 20% of the total issued share capital of LHL. The LHL Consideration is HK$48.0 million, to be satisfied as to (i) HK$31.2 million by cash payable at LHL Completion; and as to (ii) HK$16.8 million by the allotment and issue of 16.8 million LHL Consideration Shares at the Issue Price of HK$1.0 each, credited as fully paid-up, to the LHL Vendors (or their respective nominees) at LHL Completion. The Directors intend to finance the cash portion of the LHL Consideration by internal resources.

   (d) The expenses directly attributable to the transaction were estimated to be approximately HK$1.8 million.

   For the purpose of preparation of the Unaudited Pro Forma Financial Information, it has been assumed that the Consideration, the GZSH Consideration, the LHL Consideration and the estimated expenses directly attributable to the transaction were settled as at 30 June 2007 and that the Issue Price of the Consideration Shares and the LHL Consideration Shares approximated their respective fair values. Moreover, any adjustments to the Consideration have not been taken into account.

   Since the actual dates of settlement of the Consideration, the GZSH Consideration, the LHL Consideration and the estimated expenses directly attributable to the transaction will be different from the assumptions used in the preparation of the Unaudited Pro Forma Financial Information presented above, the actual financial position arising from the Acquisition, the GZSH Acquisition and the LHL Acquisition may be different from the financial position shown in this Appendix.

4. To record the share capital and pre-acquisition reserves of the CMIL Group as at 30 June 2007 arising from the Acquisition.

5. To reflect the goodwill of approximately HK$125,392,000 arising from the Acquisition, representing the excess of the Consideration of HK$168.0 million and the estimated expenses directly attributable to the transaction of approximately HK$1.8 million over the consolidated net assets attributable to the equity holders of CMIL as at 30 June 2007 of approximately HK$44,408,000, as if the Acquisition had been completed at 30 June 2007. For the purpose of preparation of the Unaudited Pro Forma Financial Information, it has been assumed that the carrying amount of the net assets of the CMIL Group as at 30 June 2007 approximated the fair values of the assets, liabilities and contingent liabilities of the CMIL Group as at the date of completion of the Acquisition.

6. To reflect the goodwill of approximately HK$3,919,000 arising from the GZSH Acquisition, representing the excess of the GZSH Consideration of HK$8.0 million over the attributable interest in the net assets of GZSH as at 30 June 2007 of approximately HK$4,081,000 (based on the net assets of GZSH as at 30 June 2007 of approximately HK$20,404,000 as disclosed in Section IV of Appendix II "Financial information on the CMIL Group"), and the resultant decrease in minority interests of approximately HK$4,081,000, as if the GZSH Acquisition had been completed at 30 June 2007. For the purpose of preparation of the Unaudited Pro Forma Financial Information, it has been assumed that the carrying amount of the net assets of GZSH as at 30 June 2007 approximated the fair values of the assets, liabilities and contingent liabilities of GZSH as at the date of completion of the GZSH Acquisition.

7. To reflect the goodwill of approximately HK$44,844,000 arising from the LHL Acquisition, representing the excess of the LHL Consideration of HK$48.0 million over the attributable interest in the net assets of the LHL Group as at 30 June 2007 of approximately HK$3,156,000 (based on the net assets of the LHL Group as at 30 June 2007 of approximately HK$15,778,000 as disclosed in Section III of Appendix II "Financial information on the CMIL Group"), and the resultant decrease in minority interests of approximately HK$3,156,000, as if the LHL Acquisition had been completed at 30 June 2007. For the purpose of preparation of the Unaudited Pro Forma Financial Information, it has been assumed that the carrying amount of the net assets of the LHL Group as at 30 June 2007 approximated the fair values of the assets, liabilities and contingent liabilities of the LHL Group as at the date of completion of the LHL Acquisition.

8. Since the actual fair values of the Consideration, the GZSH Consideration and the LHL Consideration (including the actual fair values of the Consideration Shares and the LHL Consideration Shares and any adjustments to the Consideration) and the actual fair values of the assets, liabilities and contingent liabilities of the companies comprising the CMIL Group as at the respective dates of completion of the Acquisition, the GZSH Acquisition and the LHL Acquisition may be different from their estimated fair values used in the preparation of the Unaudited Pro Forma Financial Information presented above, the actual amounts of goodwill arising from the Acquisition, the GZSH Acquisition and the LHL Acquisition may be different from the estimated amounts shown in this Appendix.

2. ACCOUNTANTS' REPORT ON THE UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the auditors of the Company, HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, Hong Kong. As described in the paragraph headed "Documents available for inspection" in Appendix V, a copy of the following accountants' report is available for inspection.

HLB 國衛會計師事務所
Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

4 October 2007

The Directors
China LotSynergy Holdings Limited

Dear Sirs,

ACCOUNTANTS' REPORT ON THE UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

Introduction

We report on the unaudited pro forma statement of assets and liabilities (the "Unaudited Pro Forma Financial Information") of China LotSynergy Holdings Limited (the "Company") and its subsidiaries (the "Group") and CMIL and its subsidiaries (collectively referred to as the "Enlarged Group"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how (i) the Acquisition; (ii) the GZSH Acquisition; and (iii) the LHL Acquisition (capitalised terms as defined in the Circular) might have affected the net assets of the Group as if these transactions had taken place on 30 June 2007, for inclusion in the Company's circular dated 4 October 2007 (the "Circular"). The basis of preparation of the Unaudited Pro Forma Financial Information is set out in Section 1 of Appendix III of the Circular.

Respective responsibilities of the directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with Rule 7.31 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by Rule 7.31(7) of the GEM Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements (HKSIR) 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to Rule 7.31(1) of the GEM Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 30 June 2007 or any future date.

Opinion

In our opinion:

a. the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

b. such basis is consistent with the accounting policies of the Group; and

c. the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to Rule 7.31(1) of the GEM Listing Rules.

Yours faithfully,
HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
Hong Kong

1. MANAGEMENT DISCUSSION AND ANALYSIS

(a) The CMIL Group

The followings are the management discussion and analysis of the CMIL Group for the six months ended 30 June 2007 and the period from 6 January 2006 (date of incorporation) to 31 December 2006.

For the six months ended 30 June 2007

On 22 January 2007, CMIL, through its wholly-owned subsidiary, acquired 60% of the equity interests of GZSH at total purchase consideration of approximately HK$8,000,000. The acquired business contributed revenues of approximately HK$10,138,000 and net profit of approximately HK$6,284,000 to the CMIL Group for the period from 22 January 2007 to 30 June 2007. During the six months ended 30 June 2007, results of CMIL Group included the results of LHL Group for the six months ended 30 June 2007 and the results of GZSH for the period from 22 January 2007 to 30 June 2007. During the six months ended 30 June 2007, the CMIL Group recorded total turnover of approximately HK$17,087,000. Income from sales of lottery equipment and provision of maintenance services amounted to approximately HK$6,949,000. Income from provision of lottery terminals to Guangdong Welfare Lottery Issuing Centre ("GWLC") amounted to HK$10,138,000. The consolidated profit after income tax was approximately HK$44,987,000, including waiver of amounts due to a shareholder of CMIL and minority shareholders of approximately HK$36,448,000.

As at 30 June 2007, CMIL Group had net current assets of approximately HK$21,628,000. As at 30 June 2007, the current ratio of the CMIL Group was approximately 221%. The gearing ratio (defined as total liabilities over total assets) of the CMIL Group as at 30 June 2007 was approximately 23%. As at 30 June 2007, the issued share capital of CMIL was US$216,000 and there were no other loan stocks, preference shares or convertibles issued and outstanding.

Save as disclosed above, the CMIL Group had no material acquisition and disposal of investment during the six months ended 30 June 2007. As at 30 June 2007, the CMIL Group did not pledge any of its assets to obtain banking facilities nor have any charge on its assets. As at 30 June 2007, the CMIL Group did not have any material contingent liabilities.

There was no material exposure to exchange rate fluctuation risk since the business operation of the CMIL Group is carried out in the PRC, substantial receipts and payments in relation to operation are denominated in Renminbi, which is not freely convertible into foreign currencies. All foreign exchange transactions must take place through the People's Bank of China or other institutions authorised to buy and sell foreign currencies. The CMIL Group did not enter any foreign forward contracts to hedge against exchange rate fluctuations.

The total number of employees of the CMIL Group as at 30 June 2007 was 66.

For the period from 6 January 2006 to 31 December 2006

CMIL was incorporated in the BVI with limited liability on 6 January 2006. The principal asset of CMIL is its 100% equity interest in CTL. On 19 October 2006, CTL acquired 60% of the issued capital of LHL at total purchase consideration of approximately HK$30,066,000. The acquired business contributed revenues of approximately HK$956,000 and net profit of approximately HK$726,000 to the CMIL Group for the period from 19 October 2006 to 31 December 2006.

As at 31 December 2006, the CMIL Group had net current liabilities of approximately HK$15,429,000 including amount due to minority shareholders of approximately HK$28,142,000. As at 31 December 2006, the current ratio of the CMIL Group was approximately 61%. The gearing ratio (defined as total liabilities over total assets) of the CMIL Group as at 31 December 2006 was approximately 84%. As at 31 December 2006, the issued share capital of CMIL was US$216,000 and there were no other loan stocks, preference shares or convertibles issued and outstanding.

Save as disclosed above, the CMIL Group had no material acquisitions and disposal of investment during the period from 6 January 2006 to 31 December 2006. As at 31 December 2006, the CMIL Group did not pledge any of its assets to obtain banking facilities nor have any charge on its assets. As at 31 December 2006, the CMIL Group did not have any material contingent liabilities.

There was no material exposure to exchange rate fluctuation risk since the business operation of the CMIL Group is carried out in the PRC, substantial receipts and payments in relation to operation are denominated in Renminbi, which is not freely convertible into foreign currencies. All foreign exchange transactions must take place through the People's Bank of China or other institutions authorised to buy and sell foreign currencies. The CMIL Group did not enter any foreign forward contracts to hedge against exchange rate fluctuations.

The total number of employees of the CMIL Group as at 31 December 2006 was 31.

(b) GZSH

The followings are the management discussion and analysis of GZSH for the year ended 31 December 2006, 2005 and 2004 respectively.

For the year ended 31 December 2006

During the year ended 31 December 2006, GZSH recorded total turnover of approximately HK$27,740,000 including income from provision of lottery terminals of approximately HK$25,269,000. Income from sales of lottery equipment and provision of maintenance services amounted to approximately HK$2,471,000. The profit after income tax was approximately HK$1,299,000 for the year ended 31 December 2006. The major expense incurred by GZSH was depreciation for lottery terminals provided to GWLC, which is calculated on a straight-line basis over five years. During the year ended 31 December 2006, GZSH incurred software expense of approximately HK$12,043,000 in relation to lottery terminals provided to GWLC, in which software applications of approximately HK$2,706,000 was purchased from the LHL Group. Moreover, bad debt had been recovered from a related company of approximately HK$3,297,000.

As at 31 December 2006, GZSH had net current liabilities of approximately HK$3,489,000. As at 31 December 2006, the current ratio of the GZSH was approximately 77%. The gearing ratio (defined as total liabilities over total assets) of the GZSH as at 31 December 2006 was approximately 52%. As at 31 December 2006, the paid up capital of GZSH was RMB10,000,000.

No significant investments were held by the GZSH as at 31 December 2006. During the year under review, GZSH had no material acquisition and disposal of investment. As at 31 December 2006, GZSH did not pledge any of its assets to obtain banking facilities nor have any charge on its assets. As at 31 December 2006, GZSH did not have any material contingent liabilities.

There was no material exposure to exchange rate fluctuation risk since the business operation of GZSH is carried out in the PRC, substantial receipts and payments in relation to operation are denominated in Renminbi, which is not freely convertible into foreign currencies. All foreign exchange transactions must take place through the People's Bank of China or other institutions authorised to buy and sell foreign currencies. GZSH did not enter any foreign forward contracts to hedge against exchange rate fluctuations.

The total number of employees of GZSH as at 31 December 2006 was 35.

For the year ended 31 December 2005

During the year ended 31 December 2005, GZSH recorded total turnover of approximately HK$23,605,000 including income from provision of lottery terminals of approximately HK$22,396,000. Income from sales of lottery equipment and provision of maintenance services amounted to approximately HK$1,209,000. The loss after income tax was approximately HK$1,880,000 for the year ended 31 December 2005. The major expense incurred by GZSH was depreciation for lottery terminals provided to GWLC, which is calculated on a straight-line basis over five years. During the year ended 31 December 2005, GZSH incurred software expense of approximately HK$5,195,000 in relation to lottery terminals provided to GWLC, in which software applications of approximately HK$4,168,000 was purchased from the LHL Group. Moreover, bad debt provision of approximately HK$5,302,000 was made to the outstanding balance due from a related company.

As at 31 December 2005, GZSH had net current liabilities of approximately HK$9,840,000. The bank borrowings had been fully repaid during the year. As at 31 December 2005, the current ratio of the GZSH was approximately 37%. The gearing ratio (defined as total liabilities over total assets) of the GZSH as at 31 December 2005 was approximately 57%. As at 31 December 2005, the paid up capital of GZSH was RMB10,000,000.

No significant investments were held by the GZSH as at 31 December 2005. During the year under review, GZSH had no material acquisition and disposal of investment. As at 31 December 2005, GZSH did not pledge any of its assets to obtain banking facilities nor have any charge on its assets. As at 31 December 2005, GZSH did not have any material contingent liabilities.

There was no material exposure to exchange rate fluctuation risk since the business operation of GZSH is carried out in the PRC, substantial receipts and payments in relation to operation are denominated in Renminbi, which is not freely convertible into foreign currencies. All foreign exchange transactions must take place through the People's Bank of China or other institutions authorised to buy and sell foreign currencies. GZSH did not enter any foreign forward contracts to hedge against exchange rate fluctuations.

The total number of employees of GZSH as at 31 December 2005 was 25.

For the year ended 31 December 2004

On 5 November 2003, GZSH entered into a contact with GWLC under which GZSH provides GWLC with traditional computer lottery terminals on revenue-sharing basis. During the year ended 31 December 2004, over 7,000 lottery terminals had been delivered by GZSH to GWLC and income derived from that was approximately HK$14,506,000. During the year ended 31 December 2004, income from sales of lottery equipment was approximately HK$1,016,000. The profit after income tax was approximately HK$4,847,000 for the year ended 31 December 2004. The major expense incurred by GZSH was depreciation for lottery terminals provided to GWLC, which is calculated on a straight-line basis over five years. During the year ended 31 December 2004, GZSH incurred software expense of approximately HK$501,000 in relation to lottery terminals provided to GWLC, in which software applications of approximately HK$428,000 was purchased from the LHL Group.

As at 31 December 2004, GZSH had net current liabilities of approximately HK$13,451,000 including secured bank borrowings of approximately HK$19,754,000. The bank borrowings were used to finance the manufacturing of lottery terminals provided to GWLC and secured by the revenue receivable from GWLC. As at 31 December 2004, the current ratio of the GZSH was approximately 43%. The gearing ratio (defined as total liabilities over total assets) of the GZSH as at 31 December 2004 was approximately 64%. As at 31 December 2004, the paid up capital of GZSH was RMB10,000,000.

No significant investments were held by the GZSH as at 31 December 2004. During the year under review, GZSH had no material acquisition and disposal of investment. Save as disclosed above, GZSH did not pledge any of its assets to obtain banking facilities nor have any charge on its assets as at 31 December 2004. As at 31 December 2004, GZSH did not have any material contingent liabilities.

There was no material exposure to exchange rate fluctuation risk since the business operation of GZSH is carried out in the PRC, substantial receipts and payments in relation to operation are denominated in Renminbi, which is not freely convertible into foreign currencies. All foreign exchange transactions must take place through the People's Bank of China or other institutions authorised to buy and sell foreign currencies. GZSH did not enter any foreign forward contracts to hedge against exchange rate fluctuations.

The total number of employees of GZSH as at 31 December 2004 was 25.

(c) The LHL Group

The followings are the management discussion and analysis of the LHL Group for the year ended 31 December 2006, 2005 and 2004 respectively.

For the year ended 31 December 2006

During the year ended 31 December 2006, the LHL Group recorded total turnover of approximately HK$15,438,000. Income from sales of lottery equipment and software applications amounted to approximately HK$15,068,000, which included sales of lottery ticket scanners of approximately HK$12,195,000 and sales of software applications to GZSH of approximately HK$2,706,000. The consolidated profit after income tax was approximately HK$7,151,000. Compared with year 2005, sales of lottery ticket scanners increased by 1,373%, it was mainly attributable to the increasing demand of the lottery ticket scanners in the PRC lottery market. The LHL Group possesses a number of important intellectual property rights relating to lottery equipment. The major expense to the LHL Group was research and development costs.

As at 31 December 2006, the LHL Group had net current assets of approximately HK$13,031,000. In addition, as at 31 December 2006, the current ratio of the LHL Group was approximately 243%. The gearing ratio (defined as total liabilities over total assets) of the LHL Group as at 31 December 2006 was approximately 41%. As at 31 December 2006, the issued share capital of LHL was US$350,000 and there were no other loan stocks, preference shares or convertibles issued and outstanding.

No significant investments were held by the LHL Group as at 31 December 2006. During the year under review, the LHL Group had no material acquisition and disposal of investment. As at 31 December 2006, the LHL Group did not pledge any of its assets to obtain banking facilities nor have any charge on its assets. As at 31 December 2006, the LHL Group did not have any material contingent liabilities.

There was no material exposure to exchange rate fluctuation risk since the business operation of the LHL Group is carried out in the PRC, substantial receipts and payments in relation to operation are denominated in Renminbi, which is not freely convertible into foreign currencies. All foreign exchange transactions must take place through the People's Bank of China or other institutions authorised to buy and sell foreign currencies. The LHL Group did not enter any foreign forward contracts to hedge against exchange rate fluctuations.

The total number of employees of the LHL Group as at 31 December 2006 was 31.

For the year ended 31 December 2005

During the year ended 31 December 2005, the LHL Group recorded total turnover of approximately HK$5,874,000. Income from sales of lottery equipment and software applications amounted to approximately HK$5,325,000, which included sales of lottery ticket scanners of approximately HK$828,000 and sales of software applications to GZSH of approximately HK$4,168,000. The consolidated profit after income tax was approximately HK$2,697,000. The LHL Group possesses a number of important intellectual property rights relating to lottery equipment. The major expense to the LHL Group was research and development costs.

As at 31 December 2005, the LHL Group had net current assets of approximately HK$5,448,000. In addition, as at 31 December 2005, the current ratio of the LHL Group was approximately 417%. The gearing ratio (defined as total liabilities over total assets) of the LHL Group as at 31 December 2005 was approximately 24%. As at 31 December 2005, the issued share capital of LHL was US$350,000 and there were no other loan stocks, preference shares or convertibles issued and outstanding.

No significant investments were held by the LHL Group as at 31 December 2005. During the year under review, the LHL Group had no material acquisition and disposal of investment. As at 31 December 2005, the LHL Group did not pledge any of its assets to obtain banking facilities nor have any charge on its assets. As at 31 December 2005, the LHL Group did not have any material contingent liabilities.

There was no material exposure to exchange rate fluctuation risk since the business operation of the LHL Group is carried out in the PRC, substantial receipts and payments in relation to operation are denominated in Renminbi, which is not freely convertible into foreign currencies. All foreign exchange transactions must take place through the People's Bank of China or other institutions authorised to buy and sell foreign currencies. The LHL Group did not enter any foreign forward contracts to hedge against exchange rate fluctuations.

The total number of employees of the LHL Group as at 31 December 2005 was 24.

For the year ended 31 December 2004

During the year ended 31 December 2004, the LHL Group recorded total turnover of approximately HK$2,714,000. Income from sales of lottery equipment and software applications amounted to approximately HK$2,193,000, which included sales of lottery ticket scanners of approximately HK$1,095,000 and sales of software applications to GZSH of approximately HK$428,000. The consolidated loss after income tax was approximately HK$3,420,000. The LHL Group possesses a number of important intellectual property rights relating to lottery equipment. The major expense to LHL Group was research and development costs.

As at 31 December 2004, the LHL Group had net current assets of approximately HK$2,548,000. In addition, as at 31 December 2004, the current ratio of the LHL Group was approximately 580%. The gearing ratio (defined as total liabilities over total assets) of the LHL Group as at 31 December 2004 was approximately 16%. As at 31 December 2004, the issued share capital of LHL was US$350,000 and there were no other loan stocks, preference shares or convertibles issued and outstanding.

No significant investments were held by the LHL Group as at 31 December 2004. During the year under review, the LHL Group had no material acquisition and disposal of investment. As at 31 December 2004, the LHL Group did not pledge any of its assets to obtain banking facilities nor have any charge on its assets. As at 31 December 2004, the LHL Group did not have any material contingent liabilities.

There was no material exposure to exchange rate fluctuation risk since the business operation of the LHL Group is carried out in the PRC, substantial receipts and payments in relation to operation are denominated in Renminbi, which is not freely convertible into foreign currencies. All foreign exchange transactions must take place through the People's Bank of China or other institutions authorised to buy and sell foreign currencies. The LHL Group did not enter any foreign forward contracts to hedge against exchange rate fluctuations.

The total number of employees of the LHL Group as at 31 December 2004 was 22.

2. FINANCIAL AND TRADING PROSPECT OF THE ENLARGED GROUP

Welfare lottery is a fast developing national business directed by the PRC authorities with the mission to help those in poverty, support disaster relief, and to provide welfare support to the public ("扶貧、救災、濟困、助孤"). Welfare lottery had contributed over RMB73,000 million to social security and welfare funds in its twenty years of operation since its launch in 1987 and had contributed significantly to the development of China welfare business. In 2006, total sales from welfare lottery amounted to approximately RMB49,567 million, and raised approximately RMB17,351 million in welfare funds.

In recent years, the Central Government has stated its desire to create a harmonious society. The country will continue to require a healthy growth of public welfare lottery to provide important contribution to support the welfare need of many people in China. The Group believes that high frequency games operated under the CLO ("中福在線") brand name as new welfare lottery product, will continue to grow rapidly in the future under the strict supervision of the Ministry of Finance and the Ministry of Civil Affairs. Together with the determination of the Chinese government to clamp down on illegal gambling, there are significant growth opportunities in China's welfare lottery business.

The Group expects that there will be substantial growth in its VLT business in 2007 and sales of KENO will increase significantly after its national rollout outside of CLO halls. The Group is optimistic of the prospects of its businesses overall.

The Group will continue to focus on lottery-related businesses in China and will seek to explore new business opportunities within the segment. The Group is continuing the build-up of its technical team, closely monitoring any good acquisition targets and will add internal resources as appropriate for organic expansion. The Group will continue to make relevant investment to strengthen its infrastructure to support the development of lottery related business with the aim to provide long term and stable returns to our shareholders.

As stated in the paragraph headed "Reasons for the acquisitions" in the letter from Board contained in this circular, the CMIL Group has been principally engaged in the research and development, manufacturing and the supply of computer lottery system and equipment in the PRC. The Board believes that the Acquisition, the GZSH Acquisition and the LHL Acquisition further reinforce the development of the core business of the Group. With the synergetic edge derived from the above acquisitions, the Group is well positioned to play a vital role in the PRC's lottery market. Given the growth potential of the PRC's lottery market as discussed above, the Directors are positive about the financial and business prospects of the Enlarged Group.

3. STATEMENT OF INDEBTEDNESS

As at the close of business on 31 August 2007, being the latest practicable date for the purpose of this statement prior to the printing of this circular, the Enlarged Group had outstanding indebtedness of approximately HK$550,000,000 which represents the principal amount of convertible note issued by the Company. Details of the issue of the said convertible note are set out in the announcement of the Company dated 2 May 2007. The convertible note does not bear any coupon. Unless previously redeemed and converted, the note will be redeemed on the maturity date on 31 May 2015 at 137.27857% of the principal amount. As at 31 August 2007, the Enlarged Group had no material contingent liabilities.

Save as disclosed above and apart from intra-group liabilities and normal trade payables, the Enlarged Group did not have, as at the close of business on 31 August 2007, any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans, debentures or other similar indebtedness, liabilities under acceptance (other than normal trade bills), acceptance credits, debentures, mortgages, charges, hire purchase or finance lease commitments, guarantees or other material contingent liabilities.

4. WORKING CAPITAL

The Directors are of the opinion that after taking into account the internal resources and the existing banking facilities available, the Enlarged Group will have sufficient working capital for its normal business for the next 12 months from the date of this circular.

5. MATERIAL ADVERSE CHANGE

The Directors have confirmed that there has not been any material adverse change in the financial or trading position of the Enlarged Group since 31 December 2006 (being the date to which the latest published audited financial statements of the Company were made up).

RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this circular is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this circular misleading; and (iii) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including those interests and short positions which were taken or deemed to have under such provisions of the SFO), or were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or were required, pursuant to the required standard of dealings set out in Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange were as follows:

(1) Interests in Shares

(A) The Company

	Number of Shares				Approximate percentage interest in the Company's issued share capital
Name of Director	Personal interests	Family interests	Corporate interests	Total	
CHAN Shing	337,407,092	209,155,212 *(Note 1)*	1,629,617,232 *(Notes 2&3)*	2,176,179,536 *(Note 3)*	28.94%
LAU Ting	209,155,212	337,407,092 *(Note 4)*	1,629,617,232 *(Notes 2&3)*	2,176,179,536 *(Note 3)*	28.94%
SUN Ho	11,980,000	120,000	–	12,100,000	0.16%
LI Xiaojun	2,000,000	–	–	2,000,000	0.03%

Notes:

1. These Shares were owned by Ms. LAU Ting, the spouse of Mr. CHAN Shing.

2. 45,280,768 Shares were held by Hang Sing Overseas Limited ("Hang Sing") which is owned as to 51% by Orient Strength Limited ("Orient Strength"), a company which is wholly-owned by Mr. CHAN Shing and Ms. LAU Ting. 42,380,168 Shares were held by Strong Purpose Corporation ("Strong Purpose"), a company which is wholly-owned by Mr. CHAN Shing and Ms. LAU Ting. 1,541,956,296 Shares were held by Burwill, which is owned as to 20.36% by Hang Sing, as to 19.05% by Strong Purpose, as to 3.42% by Mr. CHAN Shing and as to 2.88% by Ms. LAU Ting.

3. As the interests of each of Mr. CHAN Shing and Ms. LAU Ting are deemed to be the interests of each other, the figures referred to the same Shares.

4. These Shares were owned by Mr. CHAN Shing.

(B) Associated corporation – Burwill

	Number of ordinary shares				Approximate percentage interest in the issued share capital of Burwill
Name of Director	**Personal interests**	**Family interests**	**Corporate interests**	**Total**	
CHAN Shing	37,999,472	32,058,072 *(Note 1)*	438,304,701 *(Notes 2&3)*	508,362,245 *(Note 3)*	45.71%
LAU Ting	32,058,072	37,999,472 *(Note 4)*	438,304,701 *(Notes 2&3)*	508,362,245 *(Note 3)*	45.71%
SUN Ho	200,000	–	–	200,000	0.02%

Notes:

1. These shares were owned by Ms. LAU Ting, the spouse of Mr. CHAN Shing.

2. 226,403,853 shares were held by Hang Sing which is owned as to 51% by Orient Strength, a company which is wholly-owned by Mr. CHAN Shing and Ms. LAU Ting. 211,900,848 shares were held by Strong Purpose, a company which is wholly-owned by Mr. CHAN Shing and Ms. LAU Ting.

3. As the interests of each of Mr. CHAN Shing and Ms. LAU Ting are deemed to be the interests of each other, the figures referred to the same shares.

4. These shares were owned by Mr. CHAN Shing.

(2) Interest in share options in the Company

Name of Director	Date of grant	Exercise price per Share *HK$*	Exercise period from	Exercise period until	Number of Shares under the options held as at the Latest Practicable Date	Approximate percentage interest in the Company's issued share capital
CHAN Shing	01/09/2005	0.490	31/10/2005	30/10/2007	2,000,000	0.027%
	01/09/2005	0.490	31/10/2006	30/10/2007	2,000,000	0.027%
	08/06/2006	0.305	08/06/2007	07/06/2011	600,000	0.008%
	08/06/2006	0.305	08/06/2008	07/06/2011	600,000	0.008%
	08/06/2006	0.305	08/06/2009	07/06/2011	600,000	0.008%
	08/06/2006	0.305	08/06/2010	07/06/2011	600,000	0.008%
LAU Ting	01/09/2005	0.490	31/10/2005	30/10/2007	2,000,000	0.027%
	01/09/2005	0.490	31/10/2006	30/10/2007	2,000,000	0.027%
	08/06/2006	0.305	08/06/2007	07/06/2011	600,000	0.008%
	08/06/2006	0.305	08/06/2008	07/06/2011	600,000	0.008%
	08/06/2006	0.305	08/06/2009	07/06/2011	600,000	0.008%
	08/06/2006	0.305	08/06/2010	07/06/2011	600,000	0.008%
HOONG Cheong Thard	30/06/2006	0.285	16/08/2007	29/06/2016	17,600,000	0.234%
	30/06/2006	0.285	16/08/2008	29/06/2016	17,600,000	0.234%
	30/06/2006	0.285	16/08/2009	29/06/2016	17,600,000	0.234%
	30/06/2006	0.285	16/08/2010	29/06/2016	17,600,000	0.234%
WU Jingwei	11/01/2007	0.445	01/01/2008	31/12/2011	2,000,000	0.027%
	11/01/2007	0.445	01/01/2009	31/12/2011	2,000,000	0.027%
	11/01/2007	0.445	01/01/2010	31/12/2011	2,000,000	0.027%
	11/01/2007	0.445	01/01/2011	31/12/2011	2,000,000	0.027%
	04/07/2007	0.975	01/01/2008	31/12/2013	1,200,000	0.016%
	04/07/2007	0.975	01/01/2009	31/12/2013	1,200,000	0.016%
	04/07/2007	0.975	01/01/2010	31/12/2013	1,200,000	0.016%
	04/07/2007	0.975	01/01/2011	31/12/2013	1,200,000	0.016%
	04/07/2007	0.975	01/01/2012	31/12/2013	3,200,000	0.043%
	04/07/2007	0.975	01/01/2013	31/12/2013	3,200,000	0.043%
SUN Ho	01/09/2005	0.490	31/10/2005	30/10/2007	27,600,000	0.367%
	01/09/2005	0.490	31/10/2006	30/10/2007	27,600,000	0.367%
	08/06/2006	0.305	08/06/2007	07/06/2011	3,800,000	0.051%
	08/06/2006	0.305	08/06/2008	07/06/2011	3,800,000	0.051%
	08/06/2006	0.305	08/06/2009	07/06/2011	3,800,000	0.051%
	08/06/2006	0.305	08/06/2010	07/06/2011	3,800,000	0.051%

Name of Director	Date of grant	Exercise price per Share *HK$*	Exercise period from	until	Number of Shares under the options held as at the Latest Practicable Date	Approximate percentage interest in the Company's issued share capital
HUANG Shenglan	01/09/2005	0.490	31/10/2005	30/10/2007	2,000,000	0.027%
	01/09/2005	0.490	31/10/2006	30/10/2007	2,000,000	0.027%
	08/06/2006	0.305	08/06/2007	07/06/2011	600,000	0.008%
	08/06/2006	0.305	08/06/2008	07/06/2011	600,000	0.008%
	08/06/2006	0.305	08/06/2009	07/06/2011	600,000	0.008%
	08/06/2006	0.305	08/06/2010	07/06/2011	600,000	0.008%
CHAN Ming Fai	08/06/2006	0.305	08/06/2008	07/06/2011	600,000	0.008%
	08/06/2006	0.305	08/06/2009	07/06/2011	600,000	0.008%
	08/06/2006	0.305	08/06/2010	07/06/2011	600,000	0.008%
LI Xiaojun	08/06/2006	0.305	08/06/2007	07/06/2011	600,000	0.008%
	08/06/2006	0.305	08/06/2008	07/06/2011	600,000	0.008%
	08/06/2006	0.305	08/06/2009	07/06/2011	600,000	0.008%
	08/06/2006	0.305	08/06/2010	07/06/2011	600,000	0.008%

Save as otherwise disclosed above, as at the Latest Practicable Date, none of the Directors or any chief executive of the Company had interests or short positions in any Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO), or which was required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or pursuant to the required standard of dealings set out in Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange.

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

So far as is known to the Directors and chief executive of the Company, as at the Latest Practicable Date, the following persons (other than a Director or chief executive of the Company) had an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or recorded in the register kept by the Company pursuant to Section 336 of the SFO, or who was directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group or had any options in respect of such capital:

(1) Interests in Shares

	Number of Shares				Approximate percentage interest in the Company's issued share capital
Name of Shareholder	Personal interests	Family interests	Corporate interests	Total	
Burwill	–	–	1,541,956,296	1,541,956,296 *(Note 1)*	20.50%
Atlantis Investment Management Limited	616,200,000	–	–	616,200,000	8.19%
Legg Mason Inc *(Note 2)*	–	–	566,952,000	566,952,000	7.54%
Lloyds TSB Group Plc *(Note 3)*	–	–	536,716,800	536,716,800	7.14%
LIM Loong Keng *(Note 4)*	–	–	464,000,000	464,000,000	6.17%
YU Man Yiu, Park	176,834,000	–	260,000,400 *(Note 5)*	436,834,400	5.81%
Ward Ferry Management (BVI) Limited *(Note 6)*	–	–	432,792,000	432,792,000	5.75%
JPMorgan Chase & Co. *(Note 7)*	–	–	389,656,000	389,656,000	5.18%

Notes:

1. These Shares formed part of the interests of Mr. CHAN Shing and Ms. LAU Ting.

2. These Shares were held by Legg Mason International Equities (Singapore) Pte Limited, a company which is wholly-owned by LM International Holding LP ("LM International"). LM International is wholly-owned by Legg Mason International Holdings II, LLC, a company which is wholly-owned by Legg Mason Inc.

3. These Shares were held by Scottish Widows Plc, a company which is wholly-owned by Lloyds TSB Group Plc.

4. 464,000,000 Shares were held by Toward Plan Investments Limited which is wholly-owned by Mr. LIM Loong Keng.

5. 400 Shares were held by Good Talent Trading Limited which is owned as to 35% by Mr. YU Man Yiu, Park and 260,000,000 Shares were held by Centrix Investments Limited, a company which is wholly-owned by Mr. YU Man Yiu, Park.

6. 193,528,000 Shares were held by WF Asia Fund Limited, 13,048,000 Shares were held by Arrow WF Asia Fund, 61,048,000 Shares were held by WF Japan Fund Limited, 78,920,000 Shares were held by WF Asian Smaller Companies Fund Limited and 86,248,000 Shares were held by WF Asian Reconnaissance Fund Limited. Ward Ferry Management (BVI) Limited is the investment manager of these funds or companies.

7. These Shares were held by JPMorgan Chase Bank, N.A., a company which is wholly-owned by JPMorgan Chase & Co.

(2) Interest in underlying Shares

As at the Latest Practicable Date, International Game Technology had a derivative interest in 575,916,000 Shares as recorded in the register required to be kept under Section 336 of the SFO.

Save as disclosed above, the Directors and the chief executive of the Company were not aware that there was any person (other than a Director or chief executive of the Company) who, as at the Latest Practicable Date, had an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group or had any options in respect of such capital.

PROCEDURES BY WHICH A POLL MAY BE DEMANDED

Pursuant to bye-law 70 of the bye-laws of the Company, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is required by the GEM Listing Rules or (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

(i) by the chairman of the meeting; or

(ii) by at least three Shareholders present in person or by a duly authorised corporate representative or by proxy for the time being entitled to vote at the meeting; or

(iii) by any Shareholder or Shareholders present in person or by its duly authorised corporate representative or by proxy and representing not less than one-tenth of the total voting rights of all the Shareholders having the right to vote at the meeting; or

(iv) by any Shareholder or Shareholders present in person or by its duly authorised corporate representative or by proxy and holding shares conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the Shares conferring that right; or

(v) if required by the GEM Listing Rules, by any Director or Directors who, individually or collectively, hold proxies in respect of Shares representing 5% or more of the total voting rights at such meeting.

Unless a poll be so demanded and the demand is not withdrawn, a declaration by the chairman that a resolution has on a show of hands been carried or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the book containing the minutes of the proceedings of the Company shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour or against such resolution.

EXPERT AND CONSENT

The following is the qualification of the expert who has given opinion, letter of advice contained or referred to in this circular:

Name	Qualification
HLB Hodgson Impey Cheng ("HLB")	Chartered Accountants Certified Public Accountants

HLB has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its reports or opinions as set out in this circular and references to its name in the form and context in which it appears.

As at the Latest Practicable Date, HLB was not beneficially interested in the share capital of any member of the Enlarged Group, nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group, nor did it have any interest, either direct or indirect, in any assets which had been since 31 December 2006 (being the date to which the latest published audited consolidated financial statements of the Group were made up) acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Enlarged Group.

COMPETING INTERESTS

The Directors believe that none of the Directors, the management Shareholders (as defined under the GEM Listing Rules) and their respective associates had any interest, directly or indirectly, in a business which competes or may compete with the business of the Group as at the Latest Practicable Date.

LITIGATION

As at the Latest Practicable Date, no member of the Enlarged Group was engaged in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened by or against any member of the Enlarged Group.

SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group which does not expire or is not terminable by the Group within one year without payment of compensation (other than statutory compensation).

MATERIAL CONTRACTS

The following contracts, not being contracts in the ordinary course of business, were entered into by the Enlarged Group within two years immediately preceding the Latest Practicable Date, and are or may be material:

(i) the service agreement entered into on 28 October 2005 between China LotSynergy Limited (a wholly-owned subsidiary of the Company) and Tabcorp International Hong Kong Limited ("TIHK"), an associated company of the Group, in relation to provision of consultancy and other services by China LotSynergy Limited to TIHK;

(ii) the heads of agreement entered into on 20 December 2005 amongst China LotSynergy Group Limited ("CLG") (a wholly-owned subsidiary of the Company), Toward Plan Investments Limited ("TPI") and Win Key Development Limited ("Win Key") in relation to the subscription by CLG of 1,000,000 shares in Corich International Limited ("Corich") at a consideration which would be satisfied partly by cash and partly by issue of shares of the Company;

(iii) a deed of waiver in respect of certain shareholder's loan dated 31 December 2005 between Win Key and Corich;

(iv) a deed of waiver in respect of certain shareholder's loan dated 31 December 2005 between TPI and Corich;

(v) the subscription agreement entered into on 9 January 2006 amongst the Company, CLG, TPI, Win Key and Corich in relation to the subscription by CLG of the 1,000,000 shares in Corich for an aggregate consideration of HK$980,000,000 which would be satisfied as to HK$500,000,000 by cash and as to HK$480,000,000 by the allotment and issue of 200,000,000 the then ordinary shares of HK$0.01 each of the Company;

(vi) the heads of agreement entered into on 10 January 2006 between the Group and the existing shareholder of Octavian International Limited ("Octavian") in relation to the potential acquisition of 90% interest in Octavian at a consideration which would be satisfied partly by cash and partly by issue of shares of the Company;

(vii) the subscription agreement dated 17 January 2006 entered into between Chan Shing and the Company relating to the subscription of 70,000,000 the then ordinary shares of HK$0.01 each of the Company at the subscription price of HK$3.675 per share upon completion of the placing agreement dated 17 January 2006 entered into between Chan Shing and Deutsche Bank AG, Hong Kong;

(viii) the subscription agreement dated 17 January 2006 entered into between Lau Ting and the Company relating to the subscription of 40,000,000 the then ordinary shares of HK$0.01 each of the Company at the subscription price of HK$3.675 per share upon completion of the placing agreement dated 17 January 2006 entered into between Lau Ting and Deutsche Bank AG, Hong Kong;

(ix) the subscription agreement dated 17 January 2006 entered into between Centrix Investments Limited ("Centrix") and the Company relating to the subscription of 70,000,000 the then ordinary shares of HK$0.01 each of the Company at the subscription price of HK$3.675 per share upon completion of the placing agreement dated 17 January 2006 entered into between Centrix and Deutsche Bank AG, Hong Kong;

(x) the agreement entered into on 29 June 2006 amongst China LotSynergy Investment Limited ("CLIL") (a wholly-owned subsidiary of the Company), Octavian and Aceteam Investment Limited relating to the proposed establishment of a 60:40 joint venture company between CLIL and Octavian;

(xi) the share transfer agreement entered into on 11 July 2006 amongst Mr. Chen, Mr. Lin, Mr. Miao and CTL relating to the transfer of an aggregate of 60% of the total issued share capital of LHL from Mr. Chen, Mr. Lin and Mr. Miao to CTL (the "LHL Transfer");

(xii) the agreement entered into on 11 July 2006 amongst Mr. Chen, Mr. Lin, Mr. Miao and CTL relating to the consideration of the LHL Transfer;

(xiii) the equity interest transfer agreement entered into on 11 July 2006 amongst Mr. Chen, Mr. Lin, Mr. Yan, Mr. Wang and CTL relating to the transfer of an aggregate of 60% equity interests in GZSH from Mr. Chen, Mr. Lin, Mr. Yan and Mr. Wang to CTL (the "GZSH Transfer");

(xiv) the agreement entered into on 11 July 2006 amongst Mr. Chen, Mr. Lin, Mr. Yan, Mr. Wang and CTL relating to the consideration of the GZSH Transfer;

(xv) the subscription agreement entered into on 1 May 2007 between the Company and International Game Technology ("IGT") relating to the subscription of 93,400,000 the then ordinary shares of HK$0.01 each of the Company at a subscription price of HK$2.70 per share and the unsecured 8-year maturity zero coupon convertible note (the "Convertible Note") with a principal amount of HK$550 million;

(xvi) the Convertible Note executed by the Company in favour of IGT on 31 May 2007;

(xvii) the technical cooperation agreement entered into on 1 May 2007 between the Company and IGT relating to the provision of the technical support, assistance and consultation services by IGT to the Company;

(xviii) a deed of waiver in respect of a minority shareholder's loan dated 30 June 2007 between Mr. Chen and CTL;

(xix) a deed of waiver in respect of a minority shareholder's loan dated 30 June 2007 between Mr. Lin and CTL;

(xx) a deed of waiver in respect of a minority shareholder's loan dated 30 June 2007 between Mr. Miao and CTL;

(xxi) a deed of waiver in respect of a shareholder's loan dated 30 June 2007 between Ms. Tsang and CMIL;

(xxii) the Acquisition Agreement;

(xxiii) the GZSH Acquisition Agreement; and

(xxiv) the LHL Acquisition Agreement.

AUDIT COMMITTEE

In compliance with Rules 5.28 and 5.29 of the GEM Listing Rules, the Company has established an audit committee which comprises all of the three independent non-executive Directors. Its principal duties include the review of the Company's annual report and accounts, half-yearly report and quarterly reports, and review and supervision of the Company's financial reporting and internal control procedures.

Biographies of the members of the audit committee

Mr. Huang Shenglan, aged 55, joined the Group in October 2002 and is an independent non-executive Director. Mr. Huang was an executive director and the deputy governor of China Everbright Bank, Head Office and was an executive director and the general manager of China Everbright Technology Limited. Mr. Huang holds a diploma in Arts from Huazhong Normal University and in International Economics from Huadong Normal University and a certificate in International Economic Law from Xiamen University and in Advanced Management Programme from the Business School of Harvard University, USA. Mr. Huang is also an independent non-executive director of Burwill Holdings Limited and Chongqing Road & Bridge Co. Ltd.

Mr. Chan Ming Fai, aged 46, joined the Group in May 2006 and is an independent non-executive Director. He is currently the President of Dandelion Capital Group, which is a private financial advisory company. He has over twenty years of experience in investment banking and asset management. Mr. Chan had worked for Jardine Fleming Investment Management with a major responsibility to market unit trusts and asset management products in Hong Kong and subsequently in various Asian markets, and was particularly instrumental in the establishment of Jardine Fleming's investment trust operation in Japan, Korea and Indonesia. Mr. Chan also co-founded the KGI Group, which is a pan-Asian investment bank with shareholders including major investors and institutions in Asia, where he was the head of the asset management operation which managed about US$400 million in hedge funds and other portfolios, and was also a member of the management committee of KGI Group. Mr. Chan received a bachelor's degree in Social Sciences with major in Economics from the University of Hong Kong.

Mr. Li Xiaojun, aged 32, joined the Group in September 2004 and is an independent non-executive Director. Mr. Li is a practicing lawyer in Beijing, the PRC at Gaopeng & Partners, focusing his area of practice in corporate and capital market matters and has represented a number of domestic state-owned enterprises, private-owned enterprises and foreign invested companies in restructuring and reorganisation, mergers and acquisitions, and initial public offerings exercises. Mr. Li serves as legal counsel for the first Sino-foreign fund management company, where he has been engaged in the invention and development of investment funds, providing legal service for issuances of the first domestic Umbrella Fund, QDII Fund, Money Market Fund and other mutual funds. Mr. Li has also successfully participated in the project regarding disposition of bad assets of state-owned commercial bank. In addition, he has also been focusing his work on business strategy formulation and alliance for wholly foreign-owned commercial enterprises in China. Mr. Li has proven ability and experience in various areas in the legal profession. Mr. Li graduated from Zhongnan University of Economic and Law and is a member of All-China Lawyers Association and Beijing Bar Association.

GENERAL

(i) The Hong Kong branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited at Shop Nos. 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(ii) The compliance officer of the Company is Mr. Hoong Cheong Thard, an executive Director and the Chief Executive Officer of the Company. Mr. Hoong is a member of the Institute of Chartered Accountants in England and Wales and holds a bachelor's degree in Mechanical Engineering from Imperial College, University of London.

(iii) The company secretary of the Company is Ms. Ng Lai Ping, Grace, who is an associate member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom.

(iv) The qualified accountant of the Company is Mr. Tan Yung Kai, Richard, who holds a bachelor's degree in commerce from McGill University, Canada and a master's degree in corporate finance from the Hong Kong Polytechnic University. Mr. Tan is also an associate member of the Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public Accountants.

(v) Save as disclosed in this circular:

(a) none of the Directors has any direct or indirect interest in any assets which were, since 31 December 2006 (being the date to which the latest published audited consolidated financial statements of the Group were made up) to the Latest Practicable Date, acquired or disposed of by or leased to any member of the Enlarged Group, or were proposed to be acquired or disposed of by or leased to any member of the Enlarged Group; and

(b) none of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Enlarged Group.

(vi) The English text of this circular and the accompanying form of proxy shall prevail over the Chinese text thereof in case of inconsistency.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business of the Company at Unit 3206, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong during normal business hours on any weekdays other than public holidays up to and including 22 October 2007:

(i) the memorandum of association and the bye-laws of the Company;

(ii) the accountants' report on the CMIL Group, including GZSH and the LHL Group, the text of which is set out in Appendix II to this circular;

(iii) the report from HLB on the unaudited pro forma statement of assets and liabilities of the Enlarged Group, the text of which is set out in Appendix III to this circular;

(iv) the written consent as referred to in the paragraph headed "Expert and consent" in this appendix;

(v) the material contracts as referred to in the paragraphs headed "Material contracts" in this appendix;

(vi) the annual reports of the Company for the nine months ended 31 December 2005 and the year ended 31 December 2006 respectively; and

(vii) the interim reports of the Company for the six months ended 30 June 2006 and 2007, respectively.

China LotSynergy

China LotSynergy Holdings Limited
華彩控股有限公司
(Incorporated in Bermuda with limited liability)
(Stock code: 8161)

Notice is hereby given that a special general meeting of China LotSynergy Holdings Limited (the "Company") will be held at Concord Rooms 2 & 3, 8/F., Renaissance Harbour View Hotel, 1 Harbour Road, Wanchai, Hong Kong on Monday, 22 October 2007 at 10:00 a.m. for the purpose of considering and, if thought fit, passing, with or without amendments, the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

"**THAT**

(A) the acquisition agreement entered into amongst Citibest Investments Limited ("**CIL**") (as vendor), Upmax Investments Limited ("**UIL**") (as purchaser), Tsang Hoi Yin ("**Ms. Tsang**") (as warrantor), Wong Chun Lam ("**Mr. Wong**") (as warrantor), Chen Hengben ("**Mr. Chen**") (as warrantor), Lin Jianzhong ("**Mr. Lin**") (as warrantor), Miao Zhikun ("**Mr. Miao**") (as warrantor), Yan Hao ("**Mr. Yan**") (as warrantor) and Wang Youcheng ("**Mr. Wang**") (as warrantor) on 10 September 2007 (the "**Acquisition Agreement**") (a copy of which has been produced to this meeting marked "A" and, for the purpose of identification, signed by the Chairman of this meeting), pursuant to which, inter alia, CIL has conditionally agreed to sell to UIL and UIL has conditionally agreed to purchase from CIL the 3,600 issued shares of no par value in the share capital of Champ Mark Investments Limited ("**CMIL**"), representing the entire issued share capital of CMIL, for a total consideration of HK$168.0 million (subject to adjustments) which will be satisfied as to (i) HK$117.6 million by cash; and (ii) HK$50.4 million by the allotment and issue by the Company of 50.4 million shares of HK$0.0025 each (the "**Consideration Shares**") in the capital of the Company at the issue price of HK$1.0 each to CIL (or its nominees), and the other transactions contemplated therein be and are hereby approved, ratified and confirmed;

(B) the acquisition agreement entered into amongst Mr. Chen (as vendor), Mr. Lin (as vendor), Mr. Yan (as vendor), Mr. Wang (as vendor) (Mr. Chen, Mr. Lin, Mr. Yan and Mr. Wang, collectively, the "**GZSH Vendors**") and Champ Technology Limited ("**CTL**") (as purchaser) on 10 September 2007 (the "**GZSH Acquisition Agreement**") (a copy of which has been produced to this meeting marked "B" and, for the purpose of identification, signed by the Chairman of this meeting), pursuant to which, inter alia, the GZSH Vendors have conditionally agreed to sell to CTL and CTL has conditionally agreed to purchase from the GZSH Vendors the capital contribution in the sum of RMB2.0 million made by the GZSH Vendors to 廣州市三環永新科技有限公司 (Guangzhou San Huan Yong Xin Technology Company Limited*) ("**GZSH**"),

* *for identification purpose only*

representing 20% of the total equity interests in GZSH, for a total consideration of HK$8.0 million, and the other transactions contemplated therein be and are hereby approved, ratified and confirmed;

(C) the acquisition agreement entered into amongst Mr. Chen (as vendor), Mr. Lin (as vendor), Mr. Miao (as vendor) (Mr. Chen, Mr. Lin and Mr. Miao, collectively the "**LHL Vendors**"), CTL (as purchaser), Ms. Tsang (as warrantor), Mr. Wong (as warrantor), Mr. Yan (as warrantor), Mr. Wang (as warrantor), CIL (as warrantor) and UIL on 10 September 2007 (the "**LHL Acquisition Agreement**") (a copy of which has been produced to this meeting marked "C" and, for the purpose of identification, signed by the Chairman of this meeting), pursuant to which, inter alia, the LHL Vendors have conditionally agreed to sell to CTL and CTL has conditionally agreed to purchase from the LHL Vendors 70,000 shares of US$1.0 each in the share capital of Lottnal Holdings Limited (洛圖控股有限公司) ("**LHL**"), representing 20% of the total issued share capital of LHL, for a total consideration of HK$48.0 million which will be satisfied as to (i) HK$31.2 million by cash; and (ii) HK$16.8 million by the allotment and issue by the Company of 16.8 million shares of HK$0.0025 each (the "**LHL Consideration Shares**") in the capital of the Company at the issue price of HK$1.0 each to the LHL Vendors (or their respective nominees), and the other transactions contemplated therein be and are hereby approved, ratified and confirmed;

(D) subject to the Company obtaining the approval from the listing committee of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") for the listing of and permission to deal in the Consideration Shares, the directors of the Company be and are hereby authorised to issue and allot the Consideration Shares pursuant to the terms and subject to the conditions of the Acquisition Agreement;

(E) subject to the Company obtaining the approval from the listing committee of the Stock Exchange for the listing of and permission to deal in the LHL Consideration Shares, the directors of the Company be and are hereby authorised to issue and allot the LHL Consideration Shares pursuant to the terms and subject to the conditions of the LHL Acquisition Agreement; and

(F) any one of the directors of the Company be and are hereby authorised to, for and on behalf of the Company, to amend any terms of the Acquisition Agreement, the GZSH Acquisition Agreement, the LHL Acquisition Agreement as he/she may see fit or necessary, and to execute all documents or deeds, and to do all acts and things and take all steps which he/she may consider necessary or desirable for the purpose of implementing and giving effect to the Acquisition Agreement, the GZSH Acquisition Agreement, the LHL Acquisition Agreement and/or the transactions contemplated thereunder."

By order of the Board
Ng Lai Ping, Grace
Company Secretary

Hong Kong, 4 October 2007

Notes:

1. A member entitled to attend and vote at the special general meeting is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to attend on the same occasion. A proxy need not be a member of the Company. In the event that a member appoints more than one proxy, on a show of hands, all such proxies shall collectively have one vote unless otherwise provided for in the bye-laws of the Company.

2. A form of proxy for use at the special general meeting is enclosed. To be valid, the form of proxy together with the power of attorney or other authority (if any) under which it is signed or notarially certified copy thereof must be deposited at the principal place of business of the Company at Unit 3206, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong as soon as possible and, in any event, not less than 48 hours before the time appointed for the holding of the special general meeting or any adjournment thereof (as the case may be). Completion and deposit of the form of proxy will not preclude a member from attending and voting in person.

3. If two or more persons are joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s) and for this purpose seniority shall be determined by the order in which the names stand in the Register of Members of the Company in respect of the share.