

2013 Interim Report

China **LotSynergy**

China LotSynergy Holdings Limited

華彩控股有限公司*

(Incorporated in Bermuda with limited liability)

Stock code: 8161

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

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. 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.

Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors (the “Directors”) of China LotSynergy Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

INTERIM FINANCIAL STATEMENTS

The board of directors (the “Board” or the “Directors”) of China LotSynergy Holdings Limited (the “Company”) hereby presents the unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively, the “Group”) for the three months and six months ended 30 June 2013, together with the comparative unaudited figures for the corresponding periods in 2012, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Unaudited			
		Three months ended		Six months ended	
		30 June		30 June	
		2013	2012	2013	2012
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	2	169,950	136,869	341,639	291,656
Costs of sales and services	3	(40,387)	(63,594)	(85,020)	(92,258)
Gross profit		129,563	73,275	256,619	199,398
Other income and gains	4	6,507	1,308	11,203	3,470
General and administrative expenses		(45,054)	(46,099)	(83,010)	(88,939)
Share option (expenses)/income		(2,027)	1,103	(4,944)	677
Operating profit	5	88,989	29,587	179,868	114,606
Finance Costs	6	(5,825)	(4,577)	(10,466)	(9,339)
Share of losses of jointly-controlled entities		(2,439)	(328)	(3,642)	(1,046)
Profit before income tax		80,725	24,682	165,760	104,221
Income tax	7	(28,179)	(9,615)	(44,356)	(25,654)
Profit for the period		52,546	15,067	121,404	78,567
Profit attributable to:					
Owners of the Company		17,073	997	40,597	23,674
Non-controlling interests		35,473	14,070	80,807	54,893
		52,546	15,067	121,404	78,567
Earnings per share attributable to owners of the Company during the period					
— basic — HK Cent	8	0.23	0.01	0.54	0.32
— diluted — HK Cent	8	0.23	0.01	0.54	0.32

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

	Unaudited			
	Three months ended 30 June		Six months ended 30 June	
	2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000
Profit for the period	52,546	15,067	121,404	78,567
Other comprehensive income/ (expense):				
Fair value gain/(loss) on available-for-sale financial assets	2,022	(1,006)	723	(2,883)
Currency translation differences	7,388	(2,093)	12,672	(1,964)
Other comprehensive income/ (expense) for the period	9,410	(3,099)	13,395	(4,847)
Total comprehensive income for the period	61,956	11,968	134,799	73,720
Attributable to:				
Owners of the Company	24,262	(253)	49,678	20,676
Non-controlling interests	37,694	12,221	85,121	53,044
Total comprehensive income for the period	61,956	11,968	134,799	73,720

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	Unaudited As at 30 June 2013 HK\$'000	Audited As at 31 December 2012 HK\$'000
Non-current assets			
Property, plant and equipment		613,725	495,864
Intangible assets		424,888	413,763
Investments in jointly-controlled entities		98,274	99,782
Available-for-sale financial assets		31,851	31,128
Deferred income tax assets		17,176	17,176
Prepaid rentals		1,800	2,257
		<u>1,187,714</u>	<u>1,059,970</u>
Current assets			
Inventories		34,105	28,682
Accounts receivable	9	86,281	65,867
Prepayments, deposits and other receivables		168,804	106,728
Amounts due from jointly-controlled entities		82	401
Amount due from a related company		21,564	21,564
Income tax receivable		2,851	1,490
Cash and bank balances		781,059	713,606
		<u>1,094,746</u>	<u>938,338</u>
Total assets		<u>2,282,460</u>	<u>1,998,308</u>
Current liabilities			
Accounts payable	10	43,032	46,195
Accruals and other payables		26,608	22,852
Amounts due to jointly-controlled entities		5,645	6,173
Income tax payable		19,718	15,474
Financial liabilities at fair value through profit or loss	11	–	1,093
Bank borrowings		787,689	612,855
Dividend payable		13,415	–
		<u>896,107</u>	<u>704,642</u>
Net current assets		<u>198,639</u>	<u>233,696</u>
Total assets less current liabilities		<u>1,386,353</u>	<u>1,293,666</u>

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

		Unaudited As at 30 June 2013 HK\$'000	Audited As at 31 December 2012 HK\$'000
Non-current liabilities			
Deferred income tax liabilities		<u>39,387</u>	<u>39,121</u>
Net assets		<u>1,346,966</u>	<u>1,254,545</u>
Equity attributable to owners of the Company			
Share capital	12	18,654	18,631
Reserves	13	866,458	866,477
Retained profits		<u>238,685</u>	<u>196,344</u>
		1,123,797	1,081,452
Non-controlling interests		<u>223,169</u>	<u>173,093</u>
Total equity		<u>1,346,966</u>	<u>1,254,545</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

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

	Unaudited Six months ended 30 June 2012 Attributable to owners of the Company				
	Share Capital HK\$'000	Reserves HK\$'000	Retained profits HK\$'000	Non- controlling interests HK\$'000	Total HK\$'000
Balance as at 1 January 2012	18,530	877,478	109,896	211,634	1,217,538
Comprehensive income					
Profit for the period	—	—	23,674	54,893	78,567
Other comprehensive expense:					
Fair value loss on available-for-sale financial assets	—	(2,883)	—	—	(2,883)
Currency translation differences	—	(115)	—	(1,849)	(1,964)
Total other comprehensive expense	—	(2,998)	—	(1,849)	(4,847)
Total comprehensive (expense)/income	—	(2,998)	23,674	53,044	73,720
Release of convertible note equity reserve upon redemption of convertible note at maturity	—	(11,670)	11,670	—	—
Issuance of consideration shares	101	4,488	—	—	4,589
Share option scheme:					
— value of employee services	—	(679)	—	—	(679)
— value of other participants' services	—	2	—	—	2
— vested share options forfeited and expired	—	(2,628)	2,628	—	—
Total contributions by and distributions to owners of the Company	101	(10,487)	14,298	—	3,912
Dividends paid to non-controlling interests	—	—	—	(68,910)	(68,910)
Total transactions with owners	101	(10,487)	14,298	(68,910)	(64,998)
Balance as at 30 June 2012	18,631	863,993	147,868	195,768	1,226,260

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited	
	Six months ended 30 June	
	2013	2012
	HK\$'000	HK\$'000
Operating cash flows before changes in working capital	206,384	216,044
Changes in working capital	(87,155)	15,205
Income tax paid	(35,568)	(36,530)
	<hr/>	<hr/>
Net cash generated from operating activities	83,661	194,719
Net cash used in investing activities	(195,212)	(294,171)
Net cash generated from financing activities	124,367	75,502
	<hr/>	<hr/>
Net increase/(decrease) in cash and cash equivalents	12,816	(23,950)
Effect of foreign exchange rate changes	5,348	–
Cash and cash equivalents at beginning of the period	266,692	315,039
	<hr/>	<hr/>
Cash and cash equivalents at end of the period	284,856	291,089
	<hr/> <hr/>	<hr/> <hr/>
Analysis of the balances of cash and cash equivalents		
Cash and bank balances including time deposits	781,059	720,719
Less: Pledged time deposits with maturity of more than three months	(496,203)	(429,630)
	<hr/>	<hr/>
	284,856	291,089
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO CONDENSED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standards 34, "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure requirements of Chapter 18 of the GEM Listing Rules of the Stock Exchange.

The principal accounting policies and methods of computation used in the preparation of these unaudited condensed consolidated financial statements are consistent with those used in the preparation of the Group's audited financial statements for the year ended 31 December 2012.

The Group has adopted the standards, amendments and interpretations that have been issued and effective for the accounting periods beginning on or after 1 January 2013. The adoption of such standards, amendments and interpretations did not have material effect on these financial statements.

2. SEGMENT INFORMATION AND TURNOVER

The Group's revenue and contribution to profit were mainly derived from the provision of technology and service for lottery systems, terminal equipment, game products and operation in the lottery market in China, which is regarded as a single reportable segment in a manner consistent with the way in which information is reported internally to the Group's senior management for purposes of resource allocation and performance assessment. Accordingly, no segment analysis is presented other than entity-wide disclosures.

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

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000
Turnover				
Income from provision of lottery terminals and lottery sales channels	169,804	132,472	340,970	286,266
Income from sales of equipment	145	4,018	634	4,947
Income from provision of consultancy services	1	379	35	443
	<u>169,950</u>	<u>136,869</u>	<u>341,639</u>	<u>291,656</u>

3. COSTS OF SALES AND SERVICES

	Unaudited		Unaudited	
	Three months ended		Six months ended	
	30 June		30 June	
	2013	2012	2013	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Depreciation of lottery terminals	19,483	6,262	34,712	13,134
Business tax	9,303	7,125	18,344	15,504
Cost of inventories recognised as expense	89	2,307	272	2,650
Repairs and maintenance	3,175	3,141	3,622	4,220
Commission	1,330	10,587	12,524	18,618
Handling charges	5,373	2,634	10,941	3,033
Other cost of sales and services	1,634	1,749	4,605	5,310
Impairment loss of accounts receivable recognized as maintenance fee	–	29,789	–	29,789
	<u>40,387</u>	<u>63,594</u>	<u>85,020</u>	<u>92,258</u>

4. OTHER INCOME AND GAINS

	Unaudited		Unaudited	
	Three months ended		Six months ended	
	30 June		30 June	
	2013	2012	2013	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fair value adjustment of contingent consideration	(44)	567	(44)	1,773
Interest income from bank deposits	6,551	741	11,247	1,697
	<u>6,507</u>	<u>1,308</u>	<u>11,203</u>	<u>3,470</u>

5. OPERATING PROFIT

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2013	2012	2013	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Operating profit is stated after charging:				
Staff costs (excluding share options expenses)	32,959	20,010	54,453	42,301
Amortisation of intangible assets	1,632	1,632	3,264	3,264
Depreciation of other items of property, plant and equipment	1,904	2,172	3,847	4,200
Foreign exchange differences, net	(9,564)	437	(15,517)	629
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

6. FINANCE COSTS

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2013	2012	2013	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest expenses on bank borrowings wholly repayable within five years	5,825	3,399	10,466	6,396
Imputed interest expense on convertible note	—	1,178	—	2,943
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	<u>5,825</u>	<u>4,577</u>	<u>10,466</u>	<u>9,339</u>

7. INCOME TAX

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2013	2012	2013	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current tax				
— People's Republic of China ("PRC") Enterprise Income Tax	26,960	9,952	44,154	26,498
— Adjustments in respect of prior periods	—	73	—	73
Deferred tax				
— Origination and reversal of temporary difference	1,219	(410)	202	(917)
	<u>28,179</u>	<u>9,615</u>	<u>44,356</u>	<u>25,654</u>

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profit during the three months and six months ended 30 June 2013 (2012: Nil and Nil).

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

8. EARNINGS PER SHARE

(a) Basic

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

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2013	2012	2013	2012
	Profit attributable to owners of the Company (HK\$'000)	<u>17,073</u>	<u>997</u>	<u>40,597</u>
Weighted average number of ordinary shares in issue	<u>7,460,691,444</u>	<u>7,451,691,904</u>	<u>7,456,660,449</u>	<u>7,431,827,952</u>
Basic earnings per share — HK Cent	<u>0.23</u>	<u>0.01</u>	<u>0.54</u>	<u>0.32</u>

8. EARNINGS PER SHARE (CONT'D)

(b) Diluted

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

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2013	2012	2013	2012
Profit attributable to owners of the Company (HK\$'000)	<u>17,073</u>	<u>997</u>	<u>40,597</u>	<u>23,674</u>
Weighted average number of ordinary shares in issue	<u>7,460,691,444</u>	7,451,691,904	<u>7,456,660,449</u>	7,431,827,952
Effect of dilutive potential ordinary shares:				
— Share options	<u>54,920,871</u>	—	<u>55,030,717</u>	—
— Contingent consideration shares	<u>—</u>	<u>31,691,143</u>	<u>—</u>	<u>51,331,905</u>
Weighted average number of ordinary shares for diluted earnings per share	<u>7,515,612,315</u>	<u>7,483,383,047</u>	<u>7,511,691,166</u>	<u>7,483,159,857</u>
Diluted earnings per share — HK Cent	<u>0.23</u>	<u>0.01</u>	<u>0.54</u>	<u>0.32</u>

The computation of diluted earnings per share for the three months and six months ended 30 June 2013 has not assumed the issuance of contingent consideration shares since its issuance would result in an increase in earnings per share. The computation of diluted earnings per share for the three months and six months ended 30 June 2012 has not assumed the exercise of share options because their exercise would increase the earnings per share.

9. ACCOUNTS RECEIVABLE

Ageing analysis of accounts receivable is as follows:

	Unaudited As at 30 June 2013 HK\$'000	Audited As at 31 December 2012 HK\$'000
Less than three months	81,936	62,595
Over three months but less than one year	3,568	3,235
Over one year	777	37
	86,281	65,867

10. ACCOUNTS PAYABLE

Ageing analysis of accounts payable is as follows:

	Unaudited As at 30 June 2013 HK\$'000	Audited As at 31 December 2012 HK\$'000
Less than three months	42,258	45,869
Over three months but less than one year	339	245
Over one year	435	81
	43,032	46,195

11. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	Unaudited As at 30 June 2013 HK\$'000	Audited As at 31 December 2012 HK\$'000
Purchase consideration payables for acquisition of subsidiaries		
— contingent consideration shares	—	1,093



12. SHARE CAPITAL

	Unaudited Authorised ordinary shares	
	<i>Number of shares</i>	<i>HK\$'000</i>
At 1 January 2013 and 30 June 2013	16,000,000,000	40,000
	Unaudited Issued and fully paid ordinary shares	
	<i>Number of shares</i>	<i>HK\$'000</i>
At 1 January 2013	7,452,584,666	18,631
Consideration shares issued (Note (i))	8,888,154	23
At 30 June 2013	7,461,472,820	18,654

Note:

- (i) Pursuant to a Transfer Agreement dated 2 November 2011 and entered into by the Company's subsidiary, 43,360,000 consideration shares (subject to adjustment if the vendors cannot fulfill the Profit Guarantee for 2011 and Profit Guarantee for 2012) will be conditionally allotted and issued by the Company at an issue price of HK\$0.45 per consideration share as partial settlement of the relevant acquisition. The Company has allotted and issued a total of 8,888,154 shares of the Company on 9 April 2013 in accordance with the terms of that Transfer Agreement.

13. RESERVES

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

	Unaudited							
	Six months ended 30 June 2012							
	Share premium	Convertible note	Capital reserve	Currency translation reserve	Share-based compensation reserve	Revaluation Reserve	Available-for-sale investments	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance as at 1 January 2012	735,484	11,670	15,158	51,591	46,460	11,653	5,462	877,478
Release of convertible note equity reserve upon redemption of convertible note at maturity	-	(11,670)	-	-	-	-	-	(11,670)
Issuance of consideration shares	4,488	-	-	-	-	-	-	4,488
Share option scheme:								
— value of employee services	-	-	-	-	(679)	-	-	(679)
— value of other participants' services	-	-	-	-	2	-	-	2
— vested share options forfeited and expired	-	-	-	-	(2,628)	-	-	(2,628)
Fair value loss on available-for-sale financial assets	-	-	-	-	-	-	(2,883)	(2,883)
Currency translation differences								
— overseas jointly-controlled entities	-	-	-	(115)	-	-	-	(115)
Balance as at 30 June 2012	739,972	-	15,158	51,476	43,155	11,653	2,579	863,993

14. OPERATING LEASE COMMITMENTS

As at 30 June 2013, the Group had aggregate future minimum lease payments under non-cancellable operating lease in respect of rented premises as follows:

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2013	2012
	HK\$'000	HK\$'000
No later than one year	10,589	9,095
Later than one year and no later than five years	4,564	4,439
	15,153	13,534

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2013 (2012: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is engaged as a technology and operation service provider of lottery systems, terminal equipment and game products for the lottery market in China. The principal businesses of the Group cover various lottery products ranging from Video Lottery ("VLT"), Computer Ticket Game ("CTG") and Keno-type lottery to New Media Lottery. Backed by technical competencies, proactive operational management and sound corporate governance, the Group has established a solid foundation and a reputable brand name providing the Group with comprehensive capability for sustainable development in the industry.

China Lottery Performance

In the first half of 2013, growth momentum was maintained in the lottery market in China with total lottery sales of RMB149.71 billion, representing 16.0% growth year on year ("YOY"). Welfare Lottery and Sports Lottery contributed RMB85.31 billion and RMB64.40 billion respectively, up 13.4% and 19.6% YOY respectively. All lottery types showed double-digit sales growth except Scratch Cards in both lotteries. The top three fastest growing lottery types were Welfare Lottery's VLT, Sports Lottery's CTG and Sports Lottery's Single Match Game, which grew 34.6%, 30.2% and 16.2% YOY respectively.

Business Review and Outlook

All business segments of the Group continued to progress steadily in the first half of 2013. In its VLT business, the Group continued to deliver the third-generation VLT terminals to the provinces, which will be available in all VLT venues within this year after all the remaining old-generation terminals are replaced. A total installed base of 28,000 to 30,000 units of the third-generation terminals are expected to be connected across the country by the end of this year. In its CTG business, in addition to Guangdong Welfare Lottery Centre, the Group concluded the contract with Chongqing Welfare Lottery Centre for the provision of CTG terminals and technical services. Terminals have been deployed and the new contract is generating revenue for the Group. Further to its development in Welfare Lottery, the Group has achieved breakthrough in the terminal market in Sports Lottery after winning the bid for the provision of lottery terminals for Guizhou Provincial Sports Lottery Centre in July this year. The Standard Type KT301 terminals including services will be provided to Guizhou Sports Lottery Centre. Meanwhile, the Group has continued its efforts in the new media lottery business covering telephone lottery and new type lottery on strengthened ties with channel distributors and lottery authorities. The above represent the Group's efforts in ensuring steady and sustainable growth for all its business segments.

Video Lottery Business

China Welfare Lottery VLT Business

Using advanced technology as a backbone, VLT continues to play a vital role in the country's lottery market. The Group is the exclusive equipment provider for VLT nationwide. Sales of VLT amounted to RMB13.73 billion in the first half of 2013, up 34.6% YOY, which was substantially higher than the overall industry growth of 16.0% YOY in the same period. In terms of the average daily sales per VLT terminal, it was approximately RMB3,300, up approximately 12% YOY. Such figures made VLT again the fastest growing lottery type of all in the country, revealing its strong vitality and growth potential. The top five VLT provinces by sales in the first half of 2013 were Zhejiang (RMB1.78 billion), followed by Shandong (RMB1.35 billion), Jiangsu (RMB1.15 billion), Guangdong (RMB1.14 billion) and Hubei (RMB861 million). In seven provinces including Anhui, Zhejiang, Shandong, Hubei, Hunan, Guangxi and Gansu, VLT already contributed over 20% of the total sales of all Welfare Lottery games in the relevant province. On the other hand, the fastest growing VLT provinces were Guizhou, Hainan, Sichuan, Inner Mongolia and Qinghai, where sales of VLT achieved over 50% YOY growth. Undoubtedly, VLT has become a key growth driver for Welfare Lottery in the provinces.

As requested by China Welfare Lottery Centre ("CWLC"), the Group had delivered approximately 25,000 units of the third-generation terminals out of approximately 27,000 units produced, on a cumulative basis, as at 31 July 2013. In accordance with the deployment arrangement of CWLC, the Group has worked closely with both CWLC and provincial welfare lottery centres on system registration, testing and upgrade without affecting the operation of the venues. The Group expects to complete the production and delivery of a total number of 28,000 to 30,000 units of the third-generation terminals by the end of this year. By then, third-generation terminals will be available in all VLT venues after all the remaining old-generation terminals are replaced. Accordingly, the sales of VLT are expected to hit a new record high.

With the substantial increase in lottery funds attributable to higher sales, more public welfare initiatives including social security and charitable programs have been launched, benefitting many individuals and disadvantaged groups in need. In the first half of 2013, various welfare related programs and campaign including providing financial aids to people living in substandard conditions, establishing student assistance funds, opening up old age homes and child care centres were implemented by welfare lottery authorities in the provinces including Zibo City, Jining City and Liaocheng City in Shandong, Nantong City in Jiangsu, Shenyang City in Liaoning, and Chongqing. With favorable feedback received from the community, these programs and campaign represent the realization of the mission and values of Welfare Lottery emphasizing on good causes, charity, health, happiness and innovation.

CTG and Keno-type Lottery Business

CTG Business

In the first half of 2013, total sales of Welfare Lottery CTG in the country reached RMB62.13 billion, including RMB5.36 billion, or approximately 9%, attributable to Welfare Lottery CTG in Guangdong province. Guangdong remained the top performing province in Welfare Lottery. The Group has rolled out additional CTG terminals in economically more developed regions in the province including Guangzhou, Dongguan, and Foshan since 2012 as an effort to assist Guangdong Welfare Lottery to secure its leadership position in Welfare Lottery by enlarging its market share as well as maintaining sales growth. Such initiative is expected to contribute to the double-digit sales growth for Guangdong Welfare Lottery in 2013.

Guangzhou San Huan Yong Xin Technology Company Limited (“GZSH”), a subsidiary of the Group, has concluded the contract with Chongqing Welfare Lottery Centre for the provision of terminals and technical service. This is the second CTG terminal contract for the Group in Welfare Lottery after Guangdong. Following the deployment of the first batch of CTG terminals in Chongqing on 1 June 2013, GZSH will receive monthly service income on a revenue-sharing basis. Meanwhile, GZSH continued to provide terminal maintenance service to Shenzhen Welfare Lottery.

Guangzhou Lottnal Terminal Company Limited (“GZL”), a subsidiary of the Group, remains a preferred supplier of lottery terminals and readers for a number of domestic and international lottery terminal vendors. In March 2013, all three terminal types of GZL including the standard type, the economy type and portable type were approved and included in the terminal purchase catalogue of China Sports Lottery Centre. In July 2013, GZL won the bid for the provision of lottery terminals for Guizhou Sports Lottery Centre, under which GZL will provide the standard type KT301 terminals and technical services. There are currently over 130,000 units of CTG terminals installed and in operation in the country’s Sports Lottery market. The next five years represent the peak period for the substantial addition or replacement of terminals in the Sports Lottery market. The Group will endeavor to secure such opportunities with more provinces with its competitive terminal products and quality services, with an aim to expand its market share in the Sports Lottery terminals market. The Group’s strong emphasis on product innovation and improvement allow it to maintain its leadership position in terminal components such as lottery ticket scanners and readers nationwide.

Keno-type Lottery Business (KENO)

Subsequent to the assignment of the responsibility for the marketing and sales of KENO to the division in charge of CTG at CWLC in the first half of 2013, relevant policy adjustments are being developed and it is expected that new measures will be announced in due course.

New Media Lottery Business

Telephone lottery business:

The Group maintained steady development in its telephone lottery business in the second quarter of 2013 on enhanced cooperation with distribution channels including financial institutions and telecom operators as well as extended collaboration with provincial lottery authorities. Sales in the first six months grew 251% compared to the same period in 2012.

In the cooperation with financial institutions, the latest development includes the launch of the new version of mobile lottery application with China Merchant Bank in the second quarter of 2013; and the introduction of mobile lottery application for mobile banking users with Shanghai Pudong Development Bank to be available in August this year. Meanwhile, the Group has pushed forward its cooperation with local financial institutions such as Bank of Chengdu.

In June 2013, the Group entered into a cooperative agreement with Shanghai Municipal Welfare Lottery Centre on telephone lottery business. Under the cooperation, the Group was authorized to develop and construct the telephone distribution channel for the lottery authority. The telephone lottery cooperation agreements with each of Beijing Welfare Lottery Centre and Shanghai Welfare Lottery Centre represent high recognition given to the Group's operational capability in telephone lottery business by provincial lottery authorities.

In the latter half of 2013, the Group will further enhance its cooperation with distribution channels such as financial institutions and telecom operators as well as provincial lottery authorities in a bid to maintain its competitive strength in the market and to ensure continued growth in its telephone lottery business.

New type lottery business:

In the first half of 2013, the Group's efforts in the new type lottery business achieved further progress. Backed by its strong technology and product advantage, the Group took proactive steps to push forward with new projects relating new game type and trial run in certain selected provinces is expected in due course.

Further technical preparations are in place as the development of the system has moved on to an advanced stage after improvements and enhancements made, and initial hardware deployment completed. The focus for the next stage will be a simulated run for the system and business process.

It can be expected that new type lottery will become a new growth driver for the lottery market in China going forward, set to attract hundreds of millions of new players. While it will become a great addition to the lottery market in China, new type lottery will demonstrate its importance in the development of the Group going forward.

Conclusion

According to figures published by Ministry of Finance, total lottery sales in the first half of 2013 reached RMB149.71 billion, a 16.0% growth YOY, indicating a slowdown in growth rate. Nevertheless, the total lottery sales for 2013 is expected to exceed RMB300 billion for the first time. Growth in the lottery market in China is driven by three major factors including the macro economic landscape, distribution channels and game products. As the China lottery market is experiencing a slowdown in growth rate due to the current sluggish economy, there is greater expectation for innovation in distribution channels and game products, the combination of which will form the new growth momentum for the market.

Past research on the structure of lottery players in China showed that older people form the majority of lottery players. Recent survey data has noted a change indicating a shift towards the younger generation. This is attributable to the growing popularity of new distribution channels including telephone, mobile phone and the Internet, as well as the expectation for the emergence of new game types on those new channels.

Sound lottery regulations are essential for the sustainable development of the industry. The Administrative Measures on Lottery Distribution and Sales (《彩票發行銷售管理辦法》), effective from 1 January 2013, not only includes telephone and the Internet as new channels to distribute lottery, but also introduces adjustment and improvement to the financial management of lottery. The most prominent provisions include the implementation of budget management for lottery issuing authorities, business expenditure of local lottery sales authorities being centrally managed by the relevant provincial lottery authority, requirement for revolving funds for giving out lottery prizes, and establishment of adjustment funds. Such provisions represent enhanced regulations and transparency for the raising, management and utilization of lottery funds.

In the meantime, more global attention has been drawn to the lottery market in China. The Global Gaming Expo Asia, which was held in Macau in May 2013, set up for the first time a session dedicated to lottery development in China, “The inaugural China Lottery Industry Forum”. It provided not only an international platform for lottery elites in China to share the development of the country’s lottery market and solutions, but also the opportunity for cross-region exchange of knowledge over various topics including regulations, sustainability and industry standardization.

In conclusion, the lottery market in China is well prepared in many ways for the formal approval from lottery authorities for new distribution channels and new game types as can be seen in the development in regulatory support, protection for market participants, player structure and their purchasing habit. The Group will continue to improve its business and technology capabilities in strict compliance with the State’s planning regulation on lottery development. We will endeavor to capture new business opportunities while maintaining steady and healthy growth in our existing businesses with an aim to maximizing shareholder value.

FINANCIAL REVIEW

In the first half of 2013, the Group recorded a turnover of approximately HK\$341.6 million (the first half of 2012: HK\$291.7 million), representing an increase of approximately 17.1% over the same period of last year. The continuing increase in average daily sales per terminal of VLT across the provinces as compared with the same period of last year has offset the financial impact brought by the adjustment of VLT service fee made in the second quarter of last year. Profit attributable to owners of the Company for the first half of 2013 amounted to approximately HK\$40.6 million, representing an increase of approximately 71.5% over the same period of last year.

Liquidity, Financial Resources, Gearing Ratio and Capital Structure

The Group believes that it has adequate financial resources to fund its capital and operating requirements. At 30 June 2013, the Group had an outstanding corporate guarantee for unlimited amount for a banking facility of a property installment loan of approximately HK\$138.7 million (at 31 December 2012: HK\$106.9 million), and an outstanding corporate guarantee limited to approximately HK\$17 million (at 31 December 2012: HK\$17 million) for a banking facility of a property installment loan of approximately HK\$17 million (at 31 December 2012: HK\$17 million); whereas, a subsidiary of the Group had an outstanding corporate guarantee for a maximum of RMB150 million (at 31 December 2012: RMB80 million) plus interest and fees for a banking facilities of a working capital loan of RMB150 million (at 31 December 2012: RMB150 million) granted to the Group. The Group had outstanding bank borrowings at 30 June 2013 of approximately HK\$787.7 million (at 31 December 2012: HK\$612.9 million). At 30 June 2013, the bank borrowings and banking facilities of the Group were secured by (i) leasehold land and buildings of the Group with a carrying amount of approximately HK\$174.6 million (at 31 December 2012: HK\$176.4 million), (ii) standby letters of credit issued by bank for an aggregate amount of US\$59 million (at 31 December 2012: US\$55 million), (iii) accounts receivable of approximately HK\$75.3 million (at 31 December 2012: HK\$47.4 million) and (iv) bank deposits amounting to approximately HK\$496.2 million (at 31 December 2012: HK\$446.9 million).

The Group's total equity amounted to approximately HK\$1,347.0 million at 30 June 2013 (at 31 December 2012: HK\$1,254.5 million). At 30 June 2013, net current assets of the Group amounted to approximately HK\$198.6 million (At 31 December 2012: HK\$233.7 million), including approximately HK\$781.1 million in cash and deposits with banks and financial institution (at 31 December 2012: HK\$713.6 million).

The gearing ratio (defined as total liabilities over total assets) of the Group at 30 June 2013 was approximately 41.0% (at 31 December 2012: 37.2%).

Exposure to Exchange Rates Fluctuation

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

Pledge of Asset

At 30 June 2013, the Group's leasehold land and buildings at net book value of approximately HK\$174.6 million (at 31 December 2012: HK\$176.4 million) were pledged to bank to secure the bank borrowings granted to the Group. As at 30 June 2013, the Group's accounts receivable at outstanding balance of approximately HK\$75.3 million (at 31 December 2012: HK\$47.4 million) and bank deposits amounting to approximately HK\$496.2 million (as at 31 December 2012: HK\$446.9 million) were pledged to secure bank borrowings and banking facilities granted to the Group.

Contingent Liabilities

As at 30 June 2013, the Group did not have any material contingent liabilities (as at 31 December 2012: Nil).

Staff

As at 30 June 2013, the Group employed 467 staff (2012: 446). The management believes that the competence of employees is a major contributing factor to the Group's sustained growth and advancement in profitability. Staff remuneration is based on performance and experience. In addition to basic salary, benefits for employees include a performance-related bonus, contributory provident fund, medical insurance and regulated employees' social security program in China. The Group also adopted a share option scheme under which options may be granted to eligible staff based on individual performance. Training programs for staff are provided as and when required. The Group will further strengthen its team, and in particular on the buildup of its technical team, in order to offer enhanced services for China's lottery market.

SHARE OPTION SCHEMES

As at 30 June 2013, there were options for 171,800,000 shares of HK\$0.0025 each in the share capital of the Company granted by the Company pursuant to the share option scheme, as adopted by the shareholders of the Company on 30 July 2002 (the "2002 Option Scheme"), which were valid and outstanding; in addition, there were options for 417,000,000 shares of HK\$0.0025 each in the share capital of the Company granted by the Company pursuant to the share option scheme, as adopted by the shareholders of the Company on 18 May 2012 (the "2012 Option Scheme"), which were valid and outstanding.

Movements of share options granted under the 2002 Option Scheme and 2012 Option Scheme during the six months ended 30 June 2013:

Participants	Date of grant	Exercise price per share HK\$	Exercise period from	Exercise period until	held as at the beginning of the period	No. of shares under the options					held as at the end of the period	Approximate percentage of the Company's issued share capital
						granted during the period	exercised during the period	cancelled during the period	lapsed during the period			
2002 Option Scheme												
(i) Director												
WU Jingwei	04/07/2007	0.975	01/01/2012	31/12/2013	800,000	-	-	-	-	800,000	0.011%	
	25/08/2008	0.500	25/08/2011	24/08/2013	2,000,000	-	-	-	-	2,000,000	0.027%	
	25/08/2008	0.500	25/08/2012	24/08/2013	2,000,000	-	-	-	-	2,000,000	0.027%	
	02/10/2009	0.500	01/09/2011	31/08/2014	3,400,000	-	-	-	-	3,400,000	0.046%	
	02/10/2009	0.500	01/09/2012	31/08/2014	3,400,000	-	-	-	-	3,400,000	0.046%	
	02/10/2009	0.500	01/09/2013	31/08/2014	3,400,000	-	-	-	-	3,400,000	0.046%	
	13/05/2011	0.216	13/05/2011	12/05/2013	11,500,000	-	-	-	(11,500,000)	-	-	
									15,000,000	0.201%		
LI Zi Kui	17/08/2009	0.500	17/02/2010	16/08/2014	5,000,000	-	-	-	-	5,000,000	0.067%	
	17/08/2009	0.500	17/08/2010	16/08/2014	5,000,000	-	-	-	-	5,000,000	0.067%	
									10,000,000	0.134%		
HOONG Cheong Thard	30/06/2006	0.285	16/08/2007	29/06/2016	17,600,000	-	-	-	-	17,600,000	0.236%	
	30/06/2006	0.285	16/08/2008	29/06/2016	17,600,000	-	-	-	-	17,600,000	0.236%	
	13/05/2011	0.216	13/05/2011	12/05/2013	2,000,000	-	-	-	(2,000,000)	-	-	
									35,200,000	0.472%		
HUANG Shenglan	13/05/2011	0.216	13/05/2011	12/05/2013	2,000,000	-	-	-	(2,000,000)	-	-	
CHAN Ming Fai	13/05/2011	0.216	13/05/2011	12/05/2013	2,000,000	-	-	-	(2,000,000)	-	-	
CUI Shuming	13/05/2011	0.216	13/05/2011	12/05/2013	2,000,000	-	-	-	(2,000,000)	-	-	



Participants	Date of grant	Exercise price per share HK\$	Exercise period from until		held as at the beginning of the period	No. of shares under the options					held as at the end of the period	Approximate percentage of the Company's issued share capital
						granted during the period	exercised during the period	cancelled during the period	lapsed during the period			
(ii) Continuous contract employees	11/05/2007	0.775	02/05/2008	01/05/2014	1,800,000	-	-	-	-	1,800,000	0.024%	
	11/05/2007	0.775	02/05/2009	01/05/2014	1,800,000	-	-	-	-	1,800,000	0.024%	
	11/05/2007	0.775	02/05/2010	01/05/2014	1,800,000	-	-	-	-	1,800,000	0.024%	
	11/05/2007	0.775	02/05/2011	01/05/2014	1,800,000	-	-	-	-	1,800,000	0.024%	
	11/05/2007	0.775	02/05/2012	01/05/2014	1,800,000	-	-	-	-	1,800,000	0.024%	
	11/05/2007	0.775	02/05/2013	01/05/2014	3,000,000	-	-	-	-	3,000,000	0.040%	
	25/08/2008	0.500	11/03/2009	10/03/2013	600,000	-	-	-	(600,000)	-	-	
	25/08/2008	0.500	11/03/2010	10/03/2013	600,000	-	-	-	(600,000)	-	-	
	25/08/2008	0.500	11/03/2011	10/03/2013	600,000	-	-	-	(600,000)	-	-	
	25/08/2008	0.500	11/03/2012	10/03/2013	600,000	-	-	-	(600,000)	-	-	
	25/08/2008	0.500	25/08/2009	24/08/2013	2,400,000	-	-	-	-	2,400,000	0.032%	
	25/08/2008	0.500	25/08/2010	24/08/2013	2,400,000	-	-	-	-	2,400,000	0.032%	
	25/08/2008	0.500	25/08/2011	24/08/2013	2,400,000	-	-	-	-	2,400,000	0.032%	
	25/08/2008	0.500	25/08/2012	24/08/2013	2,400,000	-	-	-	-	2,400,000	0.032%	
	09/04/2009	0.500	17/08/2009	16/08/2013	400,000	-	-	-	-	400,000	0.005%	
	09/04/2009	0.500	17/08/2010	16/08/2013	400,000	-	-	-	-	400,000	0.005%	
	09/04/2009	0.500	17/08/2011	16/08/2013	400,000	-	-	-	-	400,000	0.005%	
	09/04/2009	0.500	17/08/2012	16/08/2013	400,000	-	-	-	-	400,000	0.005%	
	15/06/2009	0.500	15/06/2010	14/06/2015	5,000,000	-	-	-	-	5,000,000	0.067%	
	15/06/2009	0.500	15/06/2011	14/06/2015	5,000,000	-	-	-	-	5,000,000	0.067%	
17/08/2009	0.500	17/02/2010	16/08/2014	36,000,000	-	-	-	-	36,000,000	0.482%		
17/08/2009	0.500	17/08/2010	16/08/2014	36,000,000	-	-	-	-	36,000,000	0.482%		
02/10/2009	0.500	01/09/2010	31/08/2014	1,450,000	-	-	-	-	1,450,000	0.019%		
02/10/2009	0.500	01/09/2011	31/08/2014	1,450,000	-	-	-	-	1,450,000	0.019%		
02/10/2009	0.500	01/09/2012	31/08/2014	1,450,000	-	-	-	-	1,450,000	0.019%		
02/10/2009	0.500	01/09/2013	31/08/2014	1,450,000	-	-	-	-	1,450,000	0.019%		
13/05/2011	0.216	13/05/2011	12/05/2013	63,000,000	-	-	-	(63,000,000)	-	-		
(iii) Other participants	25/08/2008	0.500	25/08/2009	24/08/2013	150,000	-	-	-	-	150,000	0.002%	
	25/08/2008	0.500	25/08/2010	24/08/2013	150,000	-	-	-	-	150,000	0.002%	
	25/08/2008	0.500	25/08/2011	24/08/2013	150,000	-	-	-	-	150,000	0.002%	
	25/08/2008	0.500	25/08/2012	24/08/2013	150,000	-	-	-	-	150,000	0.002%	
	13/05/2011	0.216	13/05/2011	12/05/2013	47,700,000	-	-	-	(47,700,000)	-	-	
	30/05/2011	0.250	30/05/2011	29/05/2013	296,000,000	-	-	-	(296,000,000)	-	-	
Total:					<u>600,400,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(428,600,000)</u>	<u>171,800,000</u>	<u>2.302%</u>	



Participants	Date of grant	Exercise price per share HK\$	Exercise period from until		held as at the beginning of the period	No. of shares under the options					held as at the end of the period	Approximate percentage of the Company's issued share capital
						granted during the period	exercised during the period	cancelled during the period	lapsed during the period			
2012 Option Scheme												
(i) Director												
LAU Ting	13/11/2012	0.109	13/05/2013	12/05/2015	3,500,000	-	-	-	-	3,500,000	0.047%	
	13/11/2012	0.109	13/05/2014	12/05/2016	3,500,000	-	-	-	-	3,500,000	0.047%	
										7,000,000	0.094%	
WU Jingwei	13/11/2012	0.109	13/05/2013	12/05/2015	24,000,000	-	-	-	-	24,000,000	0.322%	
	13/11/2012	0.109	13/05/2014	12/05/2016	24,000,000	-	-	-	-	24,000,000	0.322%	
										48,000,000	0.643%	
CHAN Tan Na, Donna	13/11/2012	0.109	13/05/2013	12/05/2015	20,000,000	-	-	-	-	20,000,000	0.268%	
	13/11/2012	0.109	13/05/2014	12/05/2016	20,000,000	-	-	-	-	20,000,000	0.268%	
										40,000,000	0.536%	
LI Zi Kui	13/11/2012	0.109	13/05/2013	12/05/2015	7,500,000	-	-	-	-	7,500,000	0.101%	
	13/11/2012	0.109	13/05/2014	12/05/2016	7,500,000	-	-	-	-	7,500,000	0.101%	
										15,000,000	0.201%	
HOONG Cheong Thard	13/11/2012	0.109	13/05/2013	12/05/2015	2,500,000	-	-	-	-	2,500,000	0.034%	
	13/11/2012	0.109	13/05/2014	12/05/2016	2,500,000	-	-	-	-	2,500,000	0.034%	
										5,000,000	0.067%	
HUANG Shenglan	13/11/2012	0.109	13/05/2013	12/05/2015	2,500,000	-	-	-	-	2,500,000	0.034%	
	13/11/2012	0.109	13/05/2014	12/05/2016	2,500,000	-	-	-	-	2,500,000	0.034%	
										5,000,000	0.067%	
CHAN Ming Fai	13/11/2012	0.109	13/05/2013	12/05/2015	2,500,000	-	-	-	-	2,500,000	0.034%	
	13/11/2012	0.109	13/05/2014	12/05/2016	2,500,000	-	-	-	-	2,500,000	0.034%	
										5,000,000	0.067%	
CUI Shuming	13/11/2012	0.109	13/05/2013	12/05/2015	2,500,000	-	-	-	-	2,500,000	0.034%	
	13/11/2012	0.109	13/05/2014	12/05/2016	2,500,000	-	-	-	-	2,500,000	0.034%	
										5,000,000	0.067%	
(ii) Continuous contract employees												
	13/11/2012	0.109	13/05/2013	12/05/2015	92,000,000	-	-	-	-	92,000,000	1.233%	
	13/11/2012	0.109	13/05/2014	12/05/2016	92,000,000	-	-	-	-	92,000,000	1.233%	
	20/11/2012	0.109	20/05/2013	19/05/2015	1,500,000	-	-	-	-	1,500,000	0.020%	
	20/11/2012	0.109	20/05/2014	19/05/2016	1,500,000	-	-	-	-	1,500,000	0.020%	
(iii) Other participants												
	13/11/2012	0.109	13/05/2013	12/05/2015	25,000,000	-	-	-	-	25,000,000	0.335%	
	13/11/2012	0.109	13/05/2014	12/05/2016	25,000,000	-	-	-	-	25,000,000	0.335%	
	20/11/2012	0.109	20/05/2013	19/05/2015	25,000,000	-	-	-	-	25,000,000	0.335%	
	20/11/2012	0.109	20/05/2014	19/05/2016	25,000,000	-	-	-	-	25,000,000	0.335%	
Total:					417,000,000	-	-	-	-	417,000,000	5.589%	

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

As at 30 June 2013, the interests and short positions of the Directors and chief executive of the Company (including those interests and short positions which were taken or deemed to have interests and short positions under the provisions of the Securities and Futures Ordinance (the "SFO")) in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standards of dealings by directors of the listed issuer as referred to in Rule 5.46 of the GEM Listing Rules, were as follows:

(1) Interests in Shares of the Company

Name of Directors	Number of shares				Approximate percentage of the Company's issued share capital
	Beneficial interests	Family interests	Corporate interests	Total	
LAU Ting	259,974,373(L)	389,286,426(L)	867,762,948(L) 23,093,192(S)	1,517,023,747(L) 23,093,192(S) (Note 1)	20.36%(L) 0.31%(S)
WU Jingwei	20,000,000(L)	-	-	20,000,000(L)	0.27%(L)
LI Zi Kui	6,500,000(L)	-	-	6,500,000(L)	0.09%(L)
HUANG Shenglan	4,000,000(L)	-	-	4,000,000(L)	0.05%(L)

Notes:

1. For the corporate interests, 147,162,496 shares, includes abovementioned 23,093,192 shares, were held by Hang Sing Overseas Limited ("Hang Sing") which was owned as to 51% by Orient Strength Limited ("Orient Strength"), a company which was wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 137,735,546 shares were held by Strong Purpose Corporation ("Strong Purpose"), a company which was wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 580,932,594 shares were held by Glory Add Limited ("Glory Add") which was wholly owned by Favor King Limited, a company which was wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 1,932,312 shares were held by Burwill Holdings Limited of which Ms. LAU Ting and Mr. CHAN Shing were the controlling shareholders. The shares of the family interests were owned by Mr. CHAN Shing. As Mr. CHAN Shing is the spouse of Ms. LAU Ting, the interests of each of Ms. LAU Ting and Mr. CHAN Shing were deemed to be the interests of each other.
2. The letter "L" denotes long position(s) and the letter "S" denotes short position(s).

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

As at 30 June 2013, certain Directors of the Company had the interests in respect of options to subscribe for the shares of the Company under the option schemes. Details of their interests in the share options of the Company are separately disclosed in the section "Share Option Schemes".

Save as otherwise disclosed above, as at 30 June 2013, none of the Directors or chief executive of the Company had, or were deemed under the SFO to have, any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) which were required to be recorded in the register kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standards of dealing by directors of listed issuer as referred to in Rule 5.46 of the GEM Listing Rules.

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

As at 30 June 2013, according to the register required to be kept by the Company under Section 336 of the SFO, the following persons (other than the Directors and chief executive of the Company) had interests and/or short positions in the shares and underlying shares of the Company:

Interests in Shares of the Company

Name of Shareholder	Number of shares			Total	Approximate percentage interest in the Company's issued share capital
	Beneficial interests	Family interests	Corporate interests		
CHAN Shing	389,286,426(L)	259,974,373(L)	867,762,948(L) 23,093,192(S)	1,517,023,747(L) 23,093,192(S) (Note 1)	20.36%(L) 0.31%(S)
Atlantis Capital Holdings Limited	–	–	680,000,000(L)	680,000,000(L) (Note 2)	9.12%(L)
LIU Yang	–	–	680,000,000(L)	680,000,000(L) (Note 2)	9.12%(L)
Favor King Limited	–	–	582,864,906(L)	582,864,906(L) (Note 1)	7.82%(L)

Notes:

- For the corporate interests, 147,162,496 shares, includes abovementioned 23,093,192 shares, were held by Hang Sing which was owned as to 51% by Orient Strength, a company which was wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 137,735,546 shares were held by Strong Purpose, a company which was wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 580,932,594 shares were held by Glory Add which was wholly owned by Favor King Limited, a company which was wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 1,932,312 shares were held by Burwill Holdings Limited of which Ms. LAU Ting and Mr. CHAN Shing were the controlling shareholders. The shares of the family interests were owned by Ms. LAU Ting. As Ms. LAU Ting is the spouse of Mr. CHAN Shing, the interests of each of Mr. CHAN Shing and Ms. LAU Ting were deemed to be the interests of each other.

2. These shares represent the same block of interest held by Atlantis Capital Holdings Limited and Ms. LIU Yang. Atlantis Investment Management (Hong Kong) Limited interested in 680,000,000 shares among these shares. Atlantis Fund Management (Ireland) Limited and Atlantis Investment Management (London) Limited interested in 200,000,000 shares respectively among these shares. The above three companies were wholly-owned by Atlantis Capital Holdings Limited, which in turn was wholly-owned by Ms. LIU Yang. 20,000,000 shares were held by Riverwood Asset Management (Cayman) Limited which was wholly owned by Ms. LIU Yang.
3. The letter "L" denotes long position(s) and the letter "P" denotes lending pool(s).

Save as disclosed above, as at 30 June 2013, there was no person (other than the Directors and chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and/or who were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any members of the Group.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2013.

PROPOSED TRANSFER OF LISTING FROM GEM TO THE MAIN BOARD OF THE STOCK EXCHANGE

On 25 March 2013, the Company made an application to the Stock Exchange for the transfer of listing of the shares of the Company from GEM to the Main Board pursuant to the transfer of listing procedures under Chapter 9A of the Main Board Listing Rules (the "Proposed Transfer"). The Board believes that the listing of the Shares on the Main Board would help to enhance the profile of the Group and increase the trading liquidity of the shares of the Company by attracting more institutional and retail investors. The Directors consider that the Proposed Transfer will be beneficial to the financing flexibility, future growth and business development of the Group. No change in the nature of business of the Group is currently contemplated by the Board following the Proposed Transfer. The Proposed Transfer will not involve any issue of new shares by the Company. The Proposed Transfer is subject to, among others, the Stock Exchange granting approval for the listing of, and permission to deal in, the shares of the Company on the Main Board.



CONSIDERATION SHARES

Pursuant to the terms and conditions of a Transfer Agreement entered into by the Company's subsidiary as mentioned in the announcement of the Company dated 2 November 2011, 43,360,000 consideration shares (subject to adjustment if the vendors cannot fulfill the Profit Guarantee for 2011 and Profit Guarantee for 2012) would be conditionally allotted and issued by the Company at an issue price of HK\$0.45 per consideration share as partial settlement of the relevant acquisition. The Company has allotted and issued the total of 13,008,000 shares of the Company, as the first batch, on 3 April 2012 in accordance with the terms of that Transfer Agreement. In addition, since the actual profit before tax of the Target Group, as defined in the abovementioned announcement, in 2012 was RMB2,928,358.81, which was less than the Profit Guarantee for 2012 (in amount of RMB10,000,000) guaranteed by the Vendors, therefore, pursuant to the terms under the Transfer Agreement, adjustment has been made to the number of second batch of consideration shares proportionally (by dividing the actual profit before tax of the Target Group in 2012 by the Profit Guarantee for 2012). 8,888,154 consideration shares, being the second batch of the consideration shares, have been allotted and issued on 9 April 2013.

COMPETING INTERESTS

None of the Directors or their respective associates has any interest in any business which competes or potentially competes, either directly or indirectly, with the business of the Group.

AUDIT COMMITTEE

The Company's Audit Committee currently comprises the three Independent Non-executive Directors of the Company, namely Mr. HUANG Shenglan, Mr. CHAN Ming Fai and Mr. CUI Shuming. The unaudited interim results of the Group for the six months ended 30 June 2013 have been reviewed by the Audit Committee.

CORPORATE GOVERNANCE

The Company has complied with the code provisions of the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 15 of the GEM Listing Rules throughout the six months ended 30 June 2013, except for the deviations from Code provisions A2.1, A4.1 and A4.2.

The Chairperson of the Company, Ms. LAU Ting, currently also assumes the role of the Chief Executive Officer. Although the Code provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual, the Board considers that given the nature of the Group’s businesses which requires considerable market expertise, the vesting of the two roles provides the Group with stable and consistent leadership and allows for more effective planning and implementation of long term business strategies. The Board will continuously review the effectiveness of the structure to balance the power and authority of the Board and the management. Although some of the Non-Executive Directors of the Company are not appointed for a specific term as is stipulated in Code provision A4.1, all of them are subject to retirement by rotation in accordance with the Bye-laws of the Company. The Board will ensure the retirement of each Director, other than the one who holds the office as Chairperson or Managing Director, by rotation at least once every three years. The Chairperson is not subject to retirement by rotation as is stipulated in Code provision A.4.2 as the Board considers that the continuity of office of the Chairperson provides the Group a strong and consistent leadership and is of great importance to the smooth operations of the Group.

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



REQUIRED STANDARD OF DEALING REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the required standard of dealings regarding securities transactions by directors set out in Rules 5.48 to 5.67 of the GEM Listing Rules as its code of conduct for dealings in securities of the Company by the Directors (the "Code of Conduct"). Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the Code of Conduct during the six months ended 30 June 2013.

On behalf of the Board
LAU Ting
Chairperson

Hong Kong, 5 August 2013

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