

2015 Interim Report

China
LotSynergy

China LotSynergy Holdings Limited

華彩控股有限公司*

(Incorporated in Bermuda with limited liability)

Stock code: 1371

* For identification purposes only

INTERIM FINANCIAL STATEMENTS

The Board of Directors (the "Board" or the "Directors") of China LotSynergy Holdings Limited (the "Company") hereby presents the unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2015, together with the comparative unaudited figures for the corresponding period in 2014, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	Unaudited Six months ended 30 June	
		2015 HK\$'000	2014 HK\$'000
Turnover	2	522,460	460,547
Costs of sales and services	3	(136,608)	(128,864)
Gross profit		385,852	331,683
Other income	4	16,757	11,987
Other losses — net	5	(20,727)	(9,561)
General and administrative expenses		(282,561)	(100,246)
Share option expenses		(22,008)	(1,540)
Operating profit	6	77,313	232,323
Finance costs	7	(32,702)	(20,822)
Share of losses of joint ventures		(2,687)	(1,147)
Profit before income tax		41,924	210,354
Income tax expense	8	(54,785)	(50,334)
(Loss)/Profit for the period		(12,861)	160,020
(Loss)/Profit attributable to:			
Owners of the Company		(148,072)	54,874
Non-controlling interests		135,211	105,146
		(12,861)	160,020
(Loss)/Earnings per share attributable to owners of the Company for the period			
— basic — HK Cent	9	(1.75)	0.72
— diluted — HK Cent	9	(1.75)	0.70

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

	Unaudited	
	Six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
(Loss)/Profit for the period	(12,861)	160,020
Other comprehensive (expense)/income: <i>Items that may be reclassified to profit or loss</i>		
Fair value gain on available-for-sale financial assets	–	293
Currency translation differences	(188)	(24,653)
Other comprehensive expense for the period	(188)	(24,360)
Total comprehensive (expense)/income for the period	(13,049)	135,660
Attributable to:		
Owners of the Company	(148,247)	37,957
Non-controlling interests	135,198	97,703
Total comprehensive (expense)/income for the period	(13,049)	135,660

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	Unaudited As at 30 June 2015 HK\$'000	Audited As at 31 December 2014 HK\$'000
Non-current assets			
Property, plant and equipment		675,879	661,758
Intangible assets		466,341	555,430
Investments in joint ventures		48,880	51,567
Available-for-sale financial assets		12,810	35,161
Deferred income tax assets		8,799	8,807
Prepaid rentals		—	253
		<u>1,212,709</u>	<u>1,312,976</u>
Current assets			
Inventories		38,714	54,160
Accounts receivable	10	239,639	301,007
Prepayments, deposits and other receivables		416,054	459,992
Amounts due from joint ventures		297	337
Amount due from a related company		21,564	21,564
Financial assets at fair value through profit or loss		843,977	876,245
Cash and bank balances		831,072	907,930
		<u>2,391,317</u>	<u>2,621,235</u>
Total assets		<u>3,604,026</u>	<u>3,934,211</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONT'D)

		Unaudited As at 30 June 2015 HK\$'000	Audited As at 31 December 2014 HK\$'000
	Notes		
Current liabilities			
Accounts payable	11	15,598	41,513
Accruals and other payables		57,219	72,657
Amounts due to joint ventures		5,958	5,969
Income tax payable		30,824	28,822
Bank borrowings		596,071	911,213
Dividend payable		21,317	–
		<u>726,987</u>	<u>1,060,174</u>
Net current assets		<u>1,664,330</u>	<u>1,561,061</u>
Total assets less current liabilities		<u>2,877,039</u>	<u>2,874,037</u>
Non-current liabilities			
Convertible bonds		595,239	588,321
Deferred income tax liabilities		62,459	79,951
		<u>657,698</u>	<u>668,272</u>
Net assets		<u>2,219,341</u>	<u>2,205,765</u>
Equity attributable to owners of the Company			
Share capital	12	21,317	21,131
Reserves	13	1,412,622	1,365,162
Retained profits		206,128	375,396
		<u>1,640,067</u>	<u>1,761,689</u>
Non-controlling interests		<u>579,274</u>	<u>444,076</u>
Total equity		<u>2,219,341</u>	<u>2,205,765</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

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

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited	
	Six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
Operating cash flows before changes in working capital	307,665	273,531
Changes in working capital	80,386	(114,583)
Income tax paid	(70,264)	(49,252)
	<hr/>	<hr/>
Net cash generated from operating activities	317,787	109,696
Net cash generated from/(used in) investing activities	117,772	(357,864)
Net cash (used in)/generated from financing activities	(319,965)	512,504
	<hr/>	<hr/>
Net increase in cash and cash equivalents	115,594	264,336
Effect of foreign exchange rate changes	–	(6,932)
Cash and cash equivalents at beginning of the period	407,245	339,850
	<hr/>	<hr/>
Cash and cash equivalents at end of the period	522,839	597,254
	<hr/> <hr/>	<hr/> <hr/>
Analysis of the balances of cash and cash equivalents		
Cash and bank balances including time deposits	831,072	1,086,032
Less: Pledged time deposits with maturity of more than three months	(264,339)	(488,778)
Pledged bank deposits	(43,894)	–
	<hr/>	<hr/>
	522,839	597,254
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO CONDENSED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standards 34, "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure requirements of the 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 2014.

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

The Group has adopted the standards, amendments and interpretations that have been issued and effective for the accounting periods beginning on or after 1 January 2015. 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 (loss)/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	
	Six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
Turnover		
Income from provision of lottery terminals and lottery sales channels	494,324	447,238
Income from sales of equipment	27,928	11,912
Income from provision of consultancy services	208	1,397
	522,460	460,547

3. COSTS OF SALES AND SERVICES

	Unaudited Six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
Depreciation of lottery terminals	58,089	51,678
Business tax	26,306	22,658
Cost of inventories recognised as expense	24,159	9,803
Repairs and maintenance	7,156	3,610
Commission and handling charges	15,121	36,982
Other costs	5,777	4,133
	<u>136,608</u>	<u>128,864</u>

4. OTHER INCOME

	Unaudited Six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
Interest income from bank deposits and loans receivables	<u>16,757</u>	<u>11,987</u>

5. OTHER LOSSES — NET

	Unaudited Six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
Fair value (loss)/gain on financial assets at fair value through profit or loss	(29,209)	1,186
Reclassification adjustment on disposal of available-for-sale financial assets	8,006	—
Gain/(Loss) on disposal of property, plant and equipment	84	(1,343)
Foreign exchange gains/(losses)	392	(9,404)
	<u>(20,727)</u>	<u>(9,561)</u>

6. OPERATING PROFIT

	Unaudited	
	Six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
Operating profit is stated after charging:		
Staff costs (excluding share options expenses)	89,015	58,531
Amortisation of intangible assets	3,264	3,264
Depreciation of other items of property, plant and equipment	6,046	4,493
Impairment of goodwill	95,319	—
	<u> </u>	<u> </u>

7. FINANCE COSTS

	Unaudited	
	Six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
Interest expenses on bank borrowings wholly repayable within five years	9,535	11,216
Interest expenses on convertible bonds wholly repayable within five years	23,167	9,606
	<u> </u>	<u> </u>
	<u>32,702</u>	<u>20,822</u>

8. INCOME TAX EXPENSE

	Unaudited	
	Six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
Current tax		
— People's Republic of China ("PRC") Enterprise Income Tax	72,266	47,892
Deferred tax		
— Origination and reversal of temporary difference	(17,481)	2,442
	<u> </u>	<u> </u>
	<u>54,785</u>	<u>50,334</u>

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profit during the six months ended 30 June 2015 (2014: Nil).

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

9. (LOSS)/EARNINGS PER SHARE

(a) Basic

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

	Unaudited	
	Six months ended 30 June	
	2015	2014
(Loss)/Profit attributable to owners of the Company (<i>HK\$'000</i>)	<u>(148,072)</u>	<u>54,874</u>
Weighted average number of ordinary shares in issue	<u>8,472,017,278</u>	<u>7,654,268,124</u>
Basic (loss)/earnings per share — <i>HK Cent</i>	<u>(1.75)</u>	<u>0.72</u>

(b) Diluted

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

	Unaudited	
	Six months ended 30 June	
	2015	2014
(Loss)/Profit attributable to owners of the Company (<i>HK\$'000</i>)	<u>(148,072)</u>	<u>54,874</u>
Weighted average number of ordinary shares in issue	<u>8,472,017,278</u>	<u>7,654,268,124</u>
Effect of dilutive potential ordinary shares: — Share options	<u>—</u>	<u>233,014,168</u>
Weighted average number of ordinary shares for diluted (loss)/earnings per share	<u>8,472,017,278</u>	<u>7,887,282,292</u>
Diluted (loss)/earnings per share — <i>HK Cent</i>	<u>(1.75)</u>	<u>0.70</u>

The computation of diluted loss per share for the six months ended 30 June 2015 did not assume the conversion of convertible bonds and the exercise of share options since its conversion and exercise would reduce the loss per share. The computation of diluted earnings per share for the six months ended 30 June 2014 did not assume the conversion of the convertible bond since its conversion would result in an increase in earnings per share.

**10. ACCOUNTS RECEIVABLE**

Ageing analysis of accounts receivable is as follows:

	Unaudited As at 30 June 2015 HK\$'000	Audited As at 31 December 2014 HK\$'000
Less than three months	232,626	230,304
Over three months but less than one year	6,050	69,333
Over one year	963	1,370
	<hr/> 239,639 <hr/>	<hr/> 301,007 <hr/>

11. ACCOUNTS PAYABLE

Ageing analysis of accounts payable is as follows:

	Unaudited As at 30 June 2015 HK\$'000	Audited As at 31 December 2014 HK\$'000
Less than three months	13,734	33,865
Over three months but less than one year	1,658	7,530
Over one year	206	118
	<hr/> 15,598 <hr/>	<hr/> 41,513 <hr/>

12. SHARE CAPITAL

	Unaudited Authorised ordinary shares	
	<i>Number of shares</i>	<i>HK\$'000</i>
At 1 January 2015 and 30 June 2015	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 2015	8,452,207,333	21,131
Share options exercised (<i>Note (i)</i>)	74,600,000	186
At 30 June 2015	8,526,807,333	21,317

Note:

- (i) Share options were exercised by optionholders during the period ended 30 June 2015 to subscribe for a total of 74,600,000 shares of HK\$0.0025 each by payment of subscription monies of approximately HK\$33,940,000, of which approximately HK\$186,000 was credited to share capital and the balance of approximately HK\$33,754,000 was credited to the share premium account.

14. OPERATING LEASE COMMITMENTS

As at 30 June 2015, 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
	2015	2014
	HK\$'000	HK\$'000
Within one year	16,973	15,303
In the second to fifth years inclusive	24,404	28,314
Over five years	35,452	37,520
	<hr/> 76,829 <hr/>	<hr/> 81,137 <hr/>

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2015 (2014: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

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

China's Lottery Market

According to figures published by the Ministry of Finance, China's lottery market continued to grow in the first half of 2015, with total lottery sales of RMB187.68 billion, representing year-on-year growth of 5.2%. Welfare Lottery sales increased by 4.4% year-on-year to RMB102.84 billion, whereas Sports Lottery sales increased by 6.2% year-on-year to RMB84.84 billion. Lotto, which is the industry's main source of revenue, achieved 4.1% year-on-year sales growth, accounting for 64.9% of total lottery sales. VLT continued to grow rapidly, growing at 20.1% year-on-year and accounting for 11.3% of total lottery sales. Single Match Games ("SMG") witnessed 14.2% year-on-year sales growth, accounting for 15.3% of total lottery sales. Paper-based Scratch Card sales declined by 14.2% on a year-on-year basis, accounting for 8.4% of total lottery sales. The Lotto category forms the backbone of China's lottery industry, followed by the VLT, SMG and Scratch Card categories, which form the other three key pillars of the sector.

Business Review and Outlook

The Group's business segments continued to develop steadily in the first half of 2015. As the fastest growing product among all lottery types, VLT sales once again reached record highs, with year-on-year growth of 20.1%. All VLT terminals have been upgraded to third generation units, with the number of connected terminals exceeding 41,000 units, forming the world's largest VLT terminal network. On the Welfare CTG side, Guangdong and Chongqing continued to maintain steady sales growth, while Shanghai achieved a complete system and terminal handover, and officially commenced sales operations. On the Sports CTG side, the Group successively won bids in 2015 to supply terminals to Gansu, Shaanxi, Guizhou, Hunan, Guangxi Autonomous Region, Yunnan, Inner Mongolia Autonomous Region, Henan, Guangdong and Liaoning, successfully expanding the coverage of the Group's Sports CTG terminal business to 15 provinces and regions across China, becoming 2015's top ranking supplier by terminal sales volume. Meanwhile, in adherence to new regulations issued by the relevant regulatory authorities, the Group has continued expansion of its new media lottery business, ensuring that it will maintain its competitive advantage in the new media lottery area.

Video Lottery Business

China Welfare Lottery Video Lottery (VLT) Business

As a technology-rich product, VLT plays an important role in China's lottery industry. The Group is the exclusive terminal equipment provider for VLT.

In the first half of 2015, China Welfare Lottery's sales exceeded RMB100 billion for the first time, representing 4.4% year-on-year growth. Out of all lottery types, VLT posted the highest growth, with sales of RMB21.19 billion, representing 20.1% year-on-year growth, and accounting for 20.6% of total Welfare Lottery sales, as well as over 11% of total nationwide lottery sales. VLT has become one of China's most pivotal lottery categories. The Lotto category forms the backbone of China's lottery industry, followed by the VLT, SMG and Scratch Card categories, which form the other three key pillars of the sector.

In the first half of 2015, all provinces continued to record growth in VLT sales. Zhejiang was the top selling province, with sales of RMB2.18 billion. Shandong (RMB1.88 billion), Jiangsu (RMB1.74 billion), Guangdong (RMB1.54 billion) and Hunan (RMB1.33 billion) were respectively ranked from second to fifth place. This was closely followed by the provinces of Hubei and Anhui, where sales exceeded RMB1.2 billion. In the first half of 2015, 15 provinces recorded sales growth of more than 20%, out of which the provinces of Guizhou, Yunnan, Hainan, Sichuan and Tianjin grew at more than 40%, with Guizhou growing at 231%. Given the trend of slowing China lottery sales in the first half of 2015, VLT has become a key growth driver for Welfare Lottery sales across the provinces.

As at the first half of 2015, the Group cumulatively supplied a total of over 41,500 third generation terminals. The number of connected third generation terminals, which are located in over 1,700 VLT halls, exceeded 41,000. Corresponding to the increased installed terminal base, average daily VLT sales reached RMB120 million, representing year-on-year growth of 20%, and setting a new record for VLT. VLT's rapid growth and stable development is largely dependent on the Group's continued provision of high quality terminals and services. The Group has fully utilized its Guangdong Lottery Terminal Equipment Engineering and Technology Research Centre, which was built by its subsidiary Dongguan Tianyi Electronic Company Limited ("Tianyi"). Through this research platform, the Group has formed indispensable core strengths in VLT terminals, hall cashier machines, hall servers and hall solutions.

The Group's VLT terminal supply contract with Beijing China Lottery Online Technology Company Limited expired on 28 June 2015. The ownership rights of over 41,000 VLT terminals currently operating belong to the Group's subsidiary, Tianyi. As at June 28, the Group has not received any notices from China Welfare Lottery Issuance and Administration Centre ("China Welfare Lottery Centre") regarding the suspension of VLT sales after the expiry of the supply contract. To support the sustained healthy development of the VLT business, the Group's Board of Directors has decided to maintain the terminals provided by the Group in fully operational condition, for China Welfare Lottery Centre's continued use after the expiry of the supply contract. According to the legally binding documents, the Group should be compensated for its provision of terminal services in the interim period after the expiry of the supply contract and before the implementation of the new supply contract. The Group is currently discussing with China Welfare Lottery Centre on these interim arrangements.

CTG and KENO-type Lottery Business

On the Welfare Lottery CTG side, Guangdong province, which is served by the Group, remained the largest provincial Welfare Lottery market in China, with sales of RMB6.2 billion in the first half of 2015. In July, the Group successfully won a bid for Guangdong Welfare Lottery's new generation sales management system supply contract, with responsibilities to develop a new generation lottery sales system. Chongqing Welfare Lottery, which is served by the Group, recorded CTG sales of RMB1.25 billion, representing 8% year-on-year growth. Shanghai Welfare Lottery, which is also served by the Group, commenced trial run operations in December 2014, and officially launched sales in May 2015, after completing a full terminal and system handover, with sales achieving stable growth. Additionally, the Group continued to provide terminal maintenance services to Shenzhen Welfare Lottery Centre. In the first half of 2015, KENO sales were approximately RMB14.83 million.

2015 has been a year of accelerated expansion for the Group's Sports Lottery CTG terminal business. The Group successively won bids for the Sports Lottery CTG terminal procurement programmes of Gansu, Shaanxi, Guizhou, Henan, Guangxi Autonomous Region, Yunnan, Inner Mongolia Autonomous Region, Henan, Guangdong and Liaoning, expanding its business presence from 9 provinces and regions last year to 15. In the first half of 2015, the Group became the top selling Sports Lottery CTG terminal provider for the first time, with a 30% market share of the total nationwide Sports CTG procurement volume, swiftly establishing a leading position in the Sports Lottery industry. In the second half of this year, the Group will leverage its unique technology and product advantages to earn business from more provinces. At the same time, it will continue to maintain its collaboration with domestic and international terminal manufacturers to provide specialized lottery products and core components, including lottery terminals and scanners.

In the first half of 2015, the Group officially launched its Sports Lottery project in collaboration with Cambodia's National Sports Lottery Company Limited. This collaboration includes both CTG and instant lottery game types, and will raise funds for the 2023 Southeast Asian Games to be held in Cambodia.

New Media Lottery Business

In the first half of 2015, eight PRC government ministries called for a full suspension of internet lottery sales, and the National Audit Office published an audit report on the lottery funds of 18 provinces and cities. These measures further demonstrate that the CPC Central Committee and the State Council attach great importance to the healthy development of lottery, which generates funds for good causes. Meanwhile, this also highlights lottery authorities' urgent need for standardized management of new media lottery, in order to create a favourable market environment for new channels and new game development.

In the first half of 2015, as required by the relevant regulatory authorities, the Group has made appropriate adjustments to its telephone lottery sales business, and continued to maintain close ties with telecom operators, banks and financial institutions, actively providing telephone lottery sales system technical development services to multiple provincial lottery authorities.

In the first half of 2015, the Group strengthened its cooperation with multiple provincial lottery authorities, and achieved progress on the optimization and upgrade of telephone lottery sales management systems of these provincial lottery authorities. In April 2015, the Group won a bid for Henan Sports Lottery's "Telephone Lottery Sales Management System Software Development Services Project", with responsibilities to provide Henan Sports Lottery with a comprehensive range of services related to telephone lottery sales management system software development. This project will be an exemplar of the Group's rapid development in the new media lottery area.

In the second half of 2015, the Group will continue to maintain its advantages in its collaborations with financial institutions and telecom operators, and draw upon advanced concepts and experience to provide its important collaboration partners, including lottery authorities, financial institutions and telecom operators, with innovative products and services, and thoroughly prepare its business and team to expand the new media lottery business. We believe that the Group has comprehensive strengths and will create a new concept in the new media lottery area, thus opening up new business opportunities.

Conclusion

In the first half of 2015, the Group's business operations thrived despite slowing growth in the overall China lottery market, with the VLT and CTG businesses achieving large year-on-year revenue growth. As the exclusive VLT terminal provider for the past 10 years, the Group is under discussion with China Welfare Lottery Centre regarding future paid cooperation on VLT business. Meanwhile, the Group has secured its position in the Sports Lottery CTG terminal market as the industry leader. In response to the eight ministries' calls to suspend internet lottery sales, the Group has refocused its efforts on the development and construction of system platform software. Internet and telephone lottery sales are integral to the lottery industry's response to the State's "Internet plus" strategy, and the Group, as the most experienced and capable system supplier, terminal supplier, game supplier and distributor in the China lottery industry, is bound to become the strongest contender under the lottery sector's adoption of "Internet plus".

Financial Review

In the first half of 2015, the Group recorded a turnover of approximately HK\$522.5 million (the first half of 2014: HK\$460.5 million), representing an increase of approximately 13.5% over the same period of last year. Loss attributable to owners of the Company for the first half of 2015 amounted to approximately HK\$148.1 million (the first half of 2014: profit of approximately HK\$54.9 million), and is mainly due to impairment of goodwill of approximately HK\$95.3 million (the first half of 2014: Nil), fair value loss on financial assets at fair value through profit and loss of approximately HK\$29.2 million (the first half of 2014: gain of approximately HK\$1.2 million), staff costs of approximately HK\$89 million (the first half of 2014: HK\$58.5 million) and share option expenses of approximately HK\$22 million (the first half of 2014: HK\$1.5 million).

The Group has continually discussed with China Welfare Lottery Centre on the interim arrangements after the expiry of the VLT supply contract (“the Supply Contract”) on 28 June 2015 and consulted with China Welfare Lottery Centre on the status of the procurement procedures for the relevant new supply contract. The contractual relationship between all currently operating VLT terminals and the Supply Contract is over. The revenue generated from these VLT terminals will be determined by the terms of the interim arrangements, which is under negotiation. On 11 August 2015, the Company’s lawyer issued lawyer’s letters (the “Letters”) to China Welfare Lottery Centre and Beijing China Lottery Online Technology Company Limited (“CLO”). The Letters requested, among others, China Welfare Lottery Centre and CLO to confirm that Tianyi should be compensated for its provision of terminal services after the expiry of the Supply Contract. The Letters also stated that confirmation is deemed to be provided if there is no written reply from China Welfare Lottery Centre or CLO by 18 August 2015. As of the date of this report, Tianyi has not received any reply or disagreement from China Welfare Lottery Centre or CLO. Therefore, the Company considers that the Group should be compensated for its provision of terminal services after the expiry of the Supply Contract. Although the Company is able to recognize the revenue for its VLT business, the revenue model is still uncertain and the management of the Company expects that the relevant interim arrangements will not be finalized before the publication of the Company’s interim results announcement. As of the date of this report, the Group has not yet received any compensation which is subject to the terms of the interim arrangements to be finalized. In addition, on the accounting side, given the above uncertainty, it would be unable to assess the value-in-use of the remaining goodwill from the VLT business. Therefore, on 14 August 2015, based on the information available at that time, the management of the Company decided to make an impairment of the remaining goodwill from the VLT business in the amount of approximately HK\$95.3 million, and published on the same day a profit warning announcement to announce, among others, its expectation of impairment. The Company has informed its auditors of the information contained in this paragraph.

For the six months ended 30 June 2015, the revenue, net profit and assets from the VLT business (being the business under the Supply Contract) was approximately HK\$444 million, approximately HK\$260 million and approximately HK\$1,405 million respectively, representing 85%, N/A and 39% respectively to the Group's total revenue, net profit and total assets. Regarding the VLT business, over 41,000 units of VLT terminals of the Company are still being used for the video lottery category, which is currently the fastest growing and steadily developing lottery category in China's Welfare Lottery space. The Company expects that there will be a material impact on its financial position if there is not any new contract for supplying additional VLT terminals. Nevertheless, the Company believes that these 41,000 plus units of currently operating VLT terminals will continue to generate substantial revenue for the Company. Meanwhile, Tianyi is a high technology enterprise in China, equipped with state of art lottery equipment manufacturing as well as R&D capabilities given its self-built Guangdong Lottery Terminal Equipment Engineering and Technology Research Centre. It is able to take on extensive lottery equipment manufacturing and R&D work for domestic and overseas market participants. Therefore, there should not be a material impact to the Company's assets after the expiry of the Supply Contract. The Group has continually discussed with China Welfare Lottery Centre on the interim arrangements and consulted with China Welfare Lottery Centre on the status of the procurement procedures for the relevant new supply contract. The other business segments of the Group are well managed as mentioned in the above Business Review and Outlook and generating stable cash flow. Therefore, there is no adverse material change to the Group's business and operation after the expiry of the Supply Contract.

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 2015, the Company had an outstanding corporate guarantee of an unlimited amount for total banking facilities of property installment loans of approximately HK\$153.7 million (at 31 December 2014: HK\$153.7 million), and an outstanding corporate guarantee limited to approximately HK\$17 million (at 31 December 2014: HK\$17 million) for a banking facility of a property installment loan of approximately HK\$17 million (at 31 December 2014: HK\$17 million), outstanding corporate guarantees of unlimited amount for credit facilities of investment purpose totaling US\$25 million (at 31 December 2014: US\$20 million) and an outstanding corporate guarantee of unlimited amount for credit facilities of short term advances of US\$15 million (at 31 December 2014: Nil). The Group had outstanding bank borrowings at 30 June 2015 of approximately HK\$596.1 million (at 31 December 2014: HK\$911.2 million). At 30 June 2015, 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\$167.5 million (at 31 December 2014: HK\$169.3 million); (ii) standby letters of credit issued by a bank for an aggregate amount of US\$32 million (at 31 December 2014: US\$59 million); (iii) accounts receivable of approximately HK\$225.2 million (at 31 December 2014: HK\$284 million); (iv) bank deposits amounting to approximately HK\$308.2 million (at 31 December 2014: HK\$500.7 million); and (v) trading securities of approximately HK\$746.3 million (at 31 December 2014: HK\$298.5 million).

The Group's total equity amounted to approximately HK\$2,219.3 million at 30 June 2015 (at 31 December 2014: HK\$2,205.8 million). At 30 June 2015, net current assets of the Group amounted to approximately HK\$1,664.3 million (At 31 December 2014: HK\$1,561.1 million), including approximately HK\$831 million in cash and deposits with banks and financial institutions (at 31 December 2014: HK\$907.9 million).

The gearing ratio (defined as total liabilities over total assets) of the Group at 30 June 2015 was approximately 38.4% (at 31 December 2014: 43.9%).

Exposure to Exchange Rates Fluctuation

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

Pledge of Asset

At 30 June 2015, the Group's leasehold land and buildings at net book value of approximately HK\$167.5 million (at 31 December 2014: HK\$169.3 million) were pledged to banks to secure the bank borrowings granted to the Group. As at 30 June 2015, the Group's accounts receivable at outstanding balance of approximately HK\$225.2 million (at 31 December 2014: HK\$284 million) and bank deposits amounting to approximately HK\$264.3 million (as at 31 December 2014: HK\$488.8 million) were pledged to secure bank borrowings and banking facilities granted to the Group. At 30 June 2015, the Group's cash deposits and trading securities at an aggregate carrying value of approximately HK\$790.2 million (at 31 December 2014: HK\$310.4 million) were pledged to financial institutions to secure the credit facilities granted to the Group.

Contingent Liabilities

As at 30 June 2015, the Group did not have any material contingent liabilities (as at 31 December 2014: Nil).

Staff

As at 30 June 2015, the Group employed 460 staff (2014: 461). 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 programme in China. The Group also adopted a share option scheme under which options may be granted to eligible staff based on individual performance. Training programs for staff are provided as and when required. The Group will further strengthen its team buildup, in order to offer enhanced services for China's lottery market.



SHARE OPTION SCHEMES

As at 30 June 2015, there were options for 17,200,000 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. An ordinary resolution has been passed by the Company's shareholders to terminate the operation of the 2002 Share Option Scheme in accordance with its terms (such that no further options could thereafter be offered under the 2002 Option Scheme but in all other respects the provisions of the 2002 Option Scheme shall remain in full force and effect and all options granted prior to such termination and not exercised at the date of termination shall remain valid). In addition, there were options for 300,125,000 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. On 27 May 2015, a resolution has been approved by the Company's shareholders to refresh the limit of granting option under the 2012 Option Scheme. More information can be referred in the Company's circular dated 28 April 2015.

To supplement the disclosure contained in the Company's 2014 annual report, as of 16 March 2015, being the date of the Company's 2014 annual report, 27,200,000 shares are available for issue (being the options were granted and outstanding) under the 2002 Share Option Scheme, representing approximately 0.32% of the issued shares of the Company on the same date; in addition, 362,258,466 shares are available for issue (being the options were granted and outstanding plus the options may be granted) under the 2012 Share Option Scheme, representing approximately 4.28% of the issued shares of the Company on the same date.

As of 27 August 2015, being the date of this report, 17,200,000 shares are available for issue (being the options were granted and outstanding) under the 2002 Share Option Scheme, representing approximately 0.20% of the issued shares of the Company on the same date; in addition, 1,146,805,733 shares are available for issue (being the options were granted and outstanding plus the options may be granted) under the 2012 Share Option Scheme, representing approximately 13.44% of the issued shares of the Company on the same date.

Movements of share options granted under the 2002 Option Scheme and 2012 Option Scheme during the six months ended 30 June 2015:

	Date of grant	Exercise price per share HK\$	Exercise period from until		No. of shares under the options					
					held as at the beginning of the period	granted during the period	exercised during the period	cancelled during the period	lapsed during the period	held as at the end of the period
2002 Option Scheme										
(i) Name of Director										
Mr. HOONG Cheong Thard	30/06/2006	0.285	16/08/2008	29/06/2016	17,200,000	-	-	-	-	17,200,000
(ii) Continuous Contract Employees										
	15/06/2009	0.500	15/06/2010	14/06/2015	5,000,000	-	(5,000,000)	-	-	-
	15/06/2009	0.500	15/06/2011	14/06/2015	5,000,000	-	(5,000,000)	-	-	-
Sub-total:					<u>27,200,000</u>	<u>-</u>	<u>(10,000,000)</u>	<u>-</u>	<u>-</u>	<u>17,200,000</u>
2012 Option Scheme										
(i) Name of Director										
Mr. WU Jingwei	14/07/2014	0.690	14/07/2017	13/07/2018	10,000,000	-	-	-	-	10,000,000
Ms. CHAN Tan Na, Donna	14/07/2014	0.690	14/07/2017	13/07/2018	10,000,000	-	-	-	-	10,000,000
Mr. LI Zi Kui	14/07/2014	0.690	14/07/2017	13/07/2018	5,000,000	-	-	-	-	5,000,000
Mr. HOONG Cheong Thard	14/07/2014	0.690	14/07/2017	13/07/2018	100,000	-	-	-	-	100,000
Mr. HUANG Shenglan	14/07/2014	0.690	14/07/2017	13/07/2018	100,000	-	-	-	-	100,000
Mr. CHAN Ming Fai	14/07/2014	0.690	14/07/2017	13/07/2018	100,000	-	-	-	-	100,000
Mr. CUI Shuming	14/07/2014	0.690	14/07/2017	13/07/2018	100,000	-	-	-	-	100,000
(ii) Continuous Contract Employees										
	13/11/2012	0.109	13/05/2013	12/05/2015	5,000,000	-	(5,000,000)	-	-	-
	13/11/2012	0.109	13/05/2014	12/05/2016	31,500,000	-	(15,000,000)	-	-	16,500,000
	14/07/2014	0.690	14/07/2017	13/07/2018	85,100,000	-	-	-	-	85,100,000
(iii) Other Participants										
	14/07/2014	0.690	14/07/2017	13/07/2018	75,525,000	-	-	-	-	75,525,000
	29/10/2014	0.840	29/10/2015	28/10/2018	46,000,000	-	-	-	-	46,000,000
	29/10/2014	0.840	29/10/2017	28/10/2020	11,600,000	-	-	-	-	11,600,000
	02/01/2015	0.600	02/01/2015	01/01/2017	-	84,600,000	(44,600,000)	-	-	40,000,000
Sub-total:					<u>280,125,000</u>	<u>84,600,000</u>	<u>(64,600,000)</u>	<u>-</u>	<u>-</u>	<u>300,125,000</u>
Total:					<u>307,325,000</u>	<u>84,600,000</u>	<u>(74,600,000)</u>	<u>-</u>	<u>-</u>	<u>317,325,000</u>

Notes:

- The options are recognised as expenses in the accounts in accordance with Hong Kong Financial Reporting Standard 2.
- For the share options granted under the 2012 Option Scheme during the period, the closing price per share immediately before the date of grant of 2 January 2015 was HK\$0.58.

3. For the share options exercised under the 2002 Option Scheme during the period, the weighted average closing price of share immediately before the date on which the options for 10,000,000 shares were exercised was approximately HK\$0.71. For the share options exercised under the 2012 Option Scheme during the period, the weighted average closing price of share immediately before the date on which the options for 64,600,000 shares were exercised was approximately HK\$0.676.

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

As at 30 June 2015, the interests and short positions of the Directors and chief executive of the Company (including those interests and short positions which were taken or deemed to have interests and short positions under the provisions of the Securities and Futures Ordinance (the "SFO")) in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Rules Governing the Listing of Securities of the Stock Exchange (the "Listing Rules"), were as follows:

(1) Interests in Shares of the Company

Name of Director	Number of shares					Approximate percentage of the Company's issued share capital
	Beneficial interests	Family interests	Corporate interests	Security interests in shares	Total	
Ms. LAU Ting	37,974,373 (L)	242,486,426 (L)	727,213,326 (L)	229,000,000 (L)	1,236,674,125 (L) (Note 1)	14.50% (L)
Mr. WU Jingwei	82,200,000 (L)	-	-	-	82,200,000 (L)	0.96% (L)
Ms. CHAN Tan Na, Donna	40,000,000 (L)	-	-	-	40,000,000 (L)	0.47% (L)
Mr. LI Zikui	28,000,000 (L)	-	-	-	28,000,000 (L)	0.33% (L)
Mr. HOONG Cheong Thard	6,000,000 (L)	-	-	-	6,000,000 (L)	0.07% (L)
Mr. HUANG Shenglan	1,100,000 (L)	-	-	-	1,100,000 (L)	0.01% (L)
Mr. CUI Shuming	2,000,000 (L)	-	-	-	2,000,000 (L)	0.02% (L)

Notes:

1. For the corporate interests, 75,052,874 shares were held by Hang Sing Overseas Limited (“Hang Sing”) which was wholly owned by Orient Strength Limited (“Orient Strength”), a company which was wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 137,735,546 shares were held by Strong Purpose Corporation (“Strong Purpose”), a company which was wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 512,492,594 shares were held by Glory Add Limited (“Glory Add”) which was wholly owned by Favor King Limited, a company which was wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 1,932,312 shares were held by Burwill Holdings Limited of which Ms. LAU Ting and Mr. CHAN Shing were the controlling shareholders. The shares of the family interests were owned by Mr. CHAN Shing. As Mr. CHAN Shing is the spouse of Ms. LAU Ting, the interests of each of Ms. LAU Ting and Mr. CHAN Shing were deemed to be the interests of each other.
2. The letter “L” denotes long position(s).

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

As at 30 June 2015, certain Directors of the Company had the interests in respect of options to subscribe for the shares of the Company under the option schemes. Details of their interests in the share options of the Company are separately disclosed in the section “Share Option Schemes” of this report.

Save as otherwise disclosed above, as at 30 June 2015, none of the Directors or chief executive of the Company had, or were deemed under the SFO to have, any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) which were required to be recorded in the register kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code set out in Appendix 10 of the Listing Rules.



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

As at 30 June 2015, according to the register required to be kept by the Company under Section 336 of the SFO, the following persons (other than the Directors and chief executive of the Company) had interests and short positions in the shares and underlying shares of the Company:

Interests in Shares of the Company

Name of Shareholder	Number of shares						Approximate percentage interest in the Company's issued share capital
	Beneficial interests	Family interests	Investment Manager	Security interest in shares	Corporate interests	Total	
Mr. CHAN Shing	242,486,426 (L)	266,974,373 (L)	-	-	727,213,326 (L)	1,236,674,125 (L) (Note 1)	14.50% (L)
Tencent Holdings Limited	-	-	-	-	867,175,482 (L)	867,175,482 (L)	10.17% (L)
MIH TC Holdings Limited	-	-	-	-	867,175,482 (L)	867,175,482 (L)	10.17% (L)
Naspers Limited	-	-	-	-	867,175,482 (L)	867,175,482 (L)	10.17% (L)
Favor King Limited	-	-	-	-	512,492,594 (L)	512,492,594 (L)	6.01% (L)
Barclays Plc	-	-	42,344,609 (L)	1,440,000 (L)	496,121,011 (L) 222,818,000 (S)	539,905,620 (L) 222,818,000 (S)	6.33% (L) 2.61% (S)

Notes:

- For the corporate interests, 75,052,874 shares were held by Hang Sing which was wholly owned 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. 512,492,594 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 Mr. CHAN Shing. As Mr. CHAN Shing is the spouse of Ms. LAU Ting, the interests of each of Ms. LAU Ting and Mr. CHAN Shing were deemed to be the interests of each other.
- The letter "L" denotes long position(s) and the letter "S" denotes short position(s).

Save as disclosed above, as at 30 June 2015, there was no person (other than the Directors and chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and/or who were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2015.

CONVERTIBLE BONDS

The payment of a final dividend of 0.25 HK cents per share of the Company for the year ended 31 December 2014 (the "Final Dividend") has been approved by the shareholders of the Company at the annual general meeting held on 27 May 2015.

Based on the adjustment provisions stipulated under condition 6(C)(3) of the terms and conditions of the Bonds, an adjustment will be made to the conversion price of the Bonds as a result of the Final Dividend. The conversion price of the Bonds, HK\$0.93 per share, was adjusted to HK\$0.92 per share with effect from 6 June 2015. With reference to the total outstanding principal amount of the Bonds of HK\$650 million on 6 June 2015, the maximum number of shares that will be issued upon conversion of all the outstanding Bonds at the previous conversion price and the adjusted conversion price is 698,924,731 shares and 706,521,739 shares respectively.

During the six months ended 30 June 2015, there was no Convertible Bonds had been exercised by holders of the Convertible Bonds or redeemed by the Company. The Convertible Bonds are currently listed on the Stock Exchange.

CHANGES OF DIRECTORS' DETAIL

The Directors' fee of Mr. HOONG Cheong Thard, as a Non-Executive Director of the Company, Mr. HUANG Shenglan and CHAN Ming Fai, as Independent Non-Executive Directors of the Company, have been changed to HK\$364,000, HK\$336,000 and HK\$336,000 respectively per annum from 1 April 2015.

SUPPLEMENTAL INFORMATION TO ISSUE OF NEW SHARES AND GRANT OF OPTION IN 2014 UNDER GENERAL MANDATE

Reference was made to the completion of issue of new shares and grant of option by the Company to Hongze Lake Investment Limited on 4 November 2014 of which the information has been summarized in the Company's 2014 annual report. It is supplemented that the market price of the shares of the Company on 15 October 2014, being the date immediately before the execution of the relevant subscription agreement, was HK\$0.85 per share. As of the date of the Company's 2014 annual report, the proceeds raised from the abovementioned issuance has been fully used for the Group's general working capital (mainly for staff costs) and investments on the financial assets for corporate treasury purpose.

SUPPLEMENTAL INFORMATION TO CONTROL CONTRACTS

Reference was made to the disclosure of the Control Contracts in place during the year ended 31 December 2014 in the Company's 2014 annual report. For the year ended 31 December 2014 and half year ended 30 June 2015, there is no unwinding of the Control Contract as the restrictions that led to the adoption of the Control Contracts are not removed. As disclosed in the Company's announcement dated 4 October 2013, risk factors in connection with the Control Contracts are listed below (terms used in this section shall have the same meanings as defined in the Company's 2014 annual report and the Company's announcement dated 4 October 2013 unless otherwise stated):

If the PRC Government determines that the Control Contracts are not in compliance with applicable PRC laws and regulations, our business, financial condition or results of operations could be adversely affected.

In the opinion of the PRC Legal Adviser of the Company, the Control Contracts are in compliance with existing PRC laws and regulations. There are, however, substantial uncertainties regarding the interpretation and application of current and future PRC laws and regulations. Accordingly, there is no assurance that the PRC regulatory authorities will not take a view contrary to that of the PRC Legal Adviser. In such event, the payment of services fee from the OPCO to the WFOE as stipulated under the Control Contracts could be hampered or even terminated.

The Group may have to rationalise or restructure the operations of the OPCO under the Control Contracts or terminate the New Media Business operated by the OPCO in extreme circumstances where (i) the existing Control Contracts are invalidated by the PRC courts for non-compliance of applicable laws and regulations; and/or (ii) the Company is unable to satisfy the then applicable PRC laws and regulations, which may include but not limited to "The Regulations for the Administration of Foreign-Invested Telecommunications Enterprises". Such rationalisation or restructuring or termination of the New Media Business could result in the diversion of management attention and the incurrence of substantial operating and production costs which could adversely affect the Group's business, financial condition or results of operations.

The Control Contracts may not be as effective as direct ownership in providing operational control.

The Group relies on the Control Contracts with the OPCOs and its shareholders to operate the OPCO's businesses. These Control Contracts may not be as effective as direct equity ownership in providing the Group with control and security over the OPCO.

However, under the Control Contracts, if the OPCO or their registered shareholders fail to perform its, his or her respective obligations under these Control Contracts, the Group may have to incur substantial costs and expend significant resources and time to enforce those arrangements and rely on legal remedies under the PRC laws.

The Nominees may not act in the interests of the Group and they may breach their contracts with the Group.

The Nominees may breach their contracts with the Group or otherwise have disputes with the Group, the Group may have to initiate legal proceedings, which involve significant uncertainties. Such disputes and proceedings may significantly disrupt the business operations of the Group, adversely affect the Group's ability to control the OPCO and/or otherwise result in negative publicity, and the Group cannot provide assurance that the outcome of such disputes and proceedings will be in the favour of the Group.

The Control Contracts may be subject to scrutiny by the PRC tax authorities, which may result in a finding that the Group owes additional taxes than calculated or are ineligible for tax exemptions, or both, which could substantially increase the Group's taxes and thereby reduce the Group's net income in the future.

Arrangements and transactions among related parties may be subject to audits or challenges by the PRC tax authorities. If any transactions of the Group entered into between subsidiaries of the Group in the PRC, any of the OPCO and their respective shareholders are determined by the PRC tax authorities not to be on an arm's length basis, or found to result in an impermissible reduction in taxes, the PRC tax authorities may adjust the profits and losses of such OPCO, which may result in additional taxes payable. In addition, the PRC tax authorities may impose late payment fees and other penalties to such OPCO for under-paid taxes. Thus, the Group's net income may be adversely and materially affected if the tax liabilities of any the OPCO increase or if it is found to be subject to late payment fees or other penalties.

In order to mitigate the risk as above mentioned, actions have been taken by the Company, including but not limited to, the following:

As disclosed in the Company's announcement dated 4 October 2013, the PRC Legal Adviser is of the opinion that each of the Control Contracts complies with, and is not in breach of, the PRC laws and regulations (including the Contract Law and the General Principles of Civil Code). The Company has continually monitored the development of PRC laws and regulations in relation to the Control Contracts. The Company noticed that the Ministry of Commerce of PRC published a discussion draft of the proposed new Foreign Investment Law for public comments at the beginning of 2015. The Company will closely monitor the progress of the drafting of the proposed new Foreign Investment Law. Once there is substantive change on the relevant law and regulation, the Group will use its reasonable endeavors to fulfill the relevant requirement including but not limited to the restructuring of the OPCO's corporate structure and Control Contracts or unwinding the Control Contracts.

Pursuant to the Agency Agreement, the Nominees agree to appoint the personnel recommended by the Group as director(s), general manager, finance director and other senior management of the OPCO. The Nominees also agree to act on the recommendations of the aforesaid appointees. The OPCO's senior management reports regularly to the Group's management about the operation of the OPCO to improve the effective control of the OPCO by the Group.

Each of the Control Contracts is governed by PRC laws and provides for the resolution of disputes through arbitration in accordance with the arbitration rules of the China International Economic and Trade Arbitration Commission (中國國際經濟貿易仲裁委員會). The arbitration shall take place in Beijing and the outcome of the arbitration shall be final and binding. The Control Contracts provide that arbitrators may award remedies in rem over the equity interests in or assets of OPCO in arbitration. They also provide that courts in the places where the parties of the Control Contracts are located shall have the power to grant interim remedies (such as property preservation and evidence preservation) in support of the arbitration pending formation of the arbitral tribunal or at an appropriate time.

The Company considers that tax risk of OPCO is low as the current revenue and tax expense of OPCO are in small size when compared to the whole Group as a whole. The Group has maintained close contact with the relevant tax authorities and, if needed, will use its reasonable endeavors to discuss with the relevant tax authorities and explain to them in order to minimize the associated risks.

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 2015 have been reviewed by the Audit Committee.

CORPORATE GOVERNANCE

The Company has complied with the code provisions of the Code on Corporate Governance Practices (the "Code") under Appendix 14 of the Listing Rules throughout the six months ended 30 June 2015, except for the deviations as disclosed below:

The Chairperson of the Company, Ms. LAU Ting, currently also assumes the role of the Chief Executive Officer. Although the Code provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual, the Board considers that given the nature of the Group's businesses which requires considerable market expertise, the vesting of the two roles provides the Group with stable and consistent leadership and allows for more effective planning and implementation of long term business strategies. The Board will continuously review the effectiveness of the structure to balance the power and authority of the Board and the management. Although some of the Non-Executive Directors of the Company are not appointed for a specific term as is stipulated in Code provision A.4.1, all of them are subject to retirement by rotation in accordance with the Bye-laws of the Company. The Board will ensure the retirement of each Director, other than the one who holds the office as Chairperson or Managing Director, by rotation at least once every three years. The Chairperson is not subject to retirement by rotation as is stipulated in Code provision A.4.2 as the Board considers that the continuity of office of the Chairperson provides the Group a strong and consistent leadership and is of great importance to the smooth operations of the Group.

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



REQUIRED STANDARD OF DEALING REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the required standard of dealings regarding securities transactions by directors set out in Appendix 10 to the Listing Rules as its code of conduct for dealings in securities of the Company by the Directors (the “Code of Conduct”). Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the Code of Conduct during the six months ended 30 June 2015.

On behalf of the Board
LAU Ting
Chairperson

Hong Kong, 27 August 2015

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.