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# REXLot Holdings Limited

## 御泰中彩控股有限公司

*(Incorporated in Bermuda with limited liability)*

**(Stock code: 555)**

### INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2010

#### FINANCIAL RESULTS

The board of directors (the “Board”) of REXLot Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated interim results of the Company, its subsidiaries and jointly controlled entities (together, the “Group”) for the six months ended 30 June 2010 together with the unaudited comparative figures for the corresponding period in 2009 as follows:

#### CONDENSED CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	<b>Six months ended 30 June</b>	
		<b>2010</b>	<b>2009</b>
		<b>(Unaudited)</b>	<b>(Unaudited)</b>
		<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Turnover</b>	4	<b>699,517</b>	500,353
Cost of sales/service rendered		<b>(316,316)</b>	(291,263)
Other income		<b>1,979</b>	3,814
Other (losses)/gains, net		<b>(7,059)</b>	786
Selling and distribution expenses		<b>(35,843)</b>	(29,656)
Administrative expenses		<b>(79,668)</b>	(68,640)
		<hr/>	<hr/>
<b>Operating profit</b>		<b>262,610</b>	115,394
Finance costs		<b>(1,701)</b>	(226)
		<hr/>	<hr/>
<b>Profit before taxation</b>	5	<b>260,909</b>	115,168
Taxation	6	<b>(12,756)</b>	(7,794)
		<hr/>	<hr/>
<b>Profit for the period</b>		<b>248,153</b>	107,374
		<hr/> <hr/>	<hr/> <hr/>

		<b>Six months ended 30 June</b>	
		<b>2010</b>	2009
		<b>(Unaudited)</b>	(Unaudited)
<i>Notes</i>		<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
Attributable to:			
	Equity holders of the Company	<b>243,767</b>	123,156
	Non-controlling interests	<b>4,386</b>	(15,782)
		<u><b>248,153</b></u>	<u>107,374</u>
Dividend	7	<u><b>0.35 cent</b></u>	<u>0.18 cent</u>
<b>Earnings per share</b>			
	Basic	<u><b>3.18 cents</b></u>	<u>1.66 cents</u>
	Diluted	<u><b>3.17 cents</b></u>	<u>1.65 cents</u>

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<b>Six months ended 30 June</b>	
	<b>2010</b>	<b>2009</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
<b>Profit for the period</b>	<u>248,153</u>	<u>107,374</u>
<b>Other comprehensive income</b>		
Exchange difference arising from translation of foreign operations	<u>4,121</u>	<u>(5)</u>
<b>Total comprehensive income for the period</b>	<u><b>252,274</b></u>	<u><b>107,369</b></u>
Total comprehensive income for the period attributable to:		
Equity holders of the Company	<u>247,453</u>	123,204
Non-controlling interests	<u>4,821</u>	<u>(15,835)</u>
	<u><b>252,274</b></u>	<u><b>107,369</b></u>

## CONDENSED CONSOLIDATED BALANCE SHEET

		At 30 June 2010 (Unaudited) <i>HK\$'000</i>	At 31 December 2009 (Audited) <i>HK\$'000</i>
Notes			
<b>ASSETS</b>			
<b>Non-current assets</b>			
		153,469	156,428
Property, plant and equipment			
		36,307	36,120
Prepaid lease payments on land use rights			
		967	962
Investment property			
		1,694,266	1,694,266
Goodwill			
		106,460	109,663
Intangible assets			
Deposits for acquisition of leasehold land use rights		3,147	3,129
Statutory deposits		884	632
Deferred tax assets		<u>1,580</u>	<u>1,580</u>
Total non-current assets		<u>1,997,080</u>	<u>2,002,780</u>
<b>Current assets</b>			
		199,909	99,929
Inventories			
	9	667,431	679,029
Trade receivables			
		368,906	248,056
Utility and other deposits			
		395,100	385,459
Prepayments and other receivables			
		16,698	23,064
Financial assets at fair value through profit or loss			
	10	<u>231,511</u>	<u>353,158</u>
Cash and bank balances			
Total current assets		<u>1,879,555</u>	<u>1,788,695</u>
<b>Total assets</b>		<u><u>3,876,635</u></u>	<u><u>3,791,475</u></u>

		At 30 June 2010 (Unaudited) <i>HK\$'000</i>	At 31 December 2009 (Audited) <i>HK\$'000</i>
	<i>Notes</i>		
<b>EQUITY</b>			
<b>Capital and reserves attributable to equity holders of the Company</b>			
Share capital	12	77,152	75,902
Reserves		3,427,761	3,261,548
Proposed final dividend		–	33,083
		<u>3,504,913</u>	<u>3,370,533</u>
<b>Non-controlling interests</b>		<u>47,899</u>	<u>76,138</u>
<b>Total equity</b>		<u>3,552,812</u>	<u>3,446,671</u>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred tax liabilities		<u>53,769</u>	47,338
<b>Total non-current liabilities</b>		<u>53,769</u>	<u>47,338</u>
<b>Current liabilities</b>			
Trade payables	11	98,286	111,133
Other payables and accruals		55,750	77,095
Dividend payable		33,083	–
Borrowings		61,920	80,190
Current tax liabilities		<u>21,015</u>	<u>29,048</u>
<b>Total current liabilities</b>		<u>270,054</u>	<u>297,466</u>
<b>Total liabilities</b>		<u>323,823</u>	<u>344,804</u>
<b>Total equity and liabilities</b>		<u><u>3,876,635</u></u>	<u><u>3,791,475</u></u>
<b>Net current assets</b>		<u><u>1,609,501</u></u>	<u><u>1,491,229</u></u>
<b>Total assets less current liabilities</b>		<u><u>3,606,581</u></u>	<u><u>3,494,009</u></u>

Notes:

**1. Basis of preparation**

The unaudited condensed consolidated interim financial statements have been prepared in accordance with applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with the Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

**2. Principal accounting policies**

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2009.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations issued by the HKICPA, which are effective for the Group’s financial year beginning on 1 January 2010.

HKFRS 1 Amendments	Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards-Additional Exemptions for First-time Adopters
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKFRS 2 Amendments	Amendments to HKFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners

The adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

### 3. Segment information

The Group manages its businesses by segments which are organised by business lines. In a manner consistent with the way in which information is reported internally to the Group's chief operating decision maker for the purposes of resources allocation and performance assessment, the Group determines that there are two reportable segments which are lottery and financial business.

#### **Business segments**

*For the six months ended 30 June 2010*

	Lottery business		Financial business		Total	
	2010 (Unaudited) <i>HK\$'000</i>	2009 (Unaudited) <i>HK\$'000</i>	2010 (Unaudited) <i>HK\$'000</i>	2009 (Unaudited) <i>HK\$'000</i>	2010 (Unaudited) <i>HK\$'000</i>	2009 (Unaudited) <i>HK\$'000</i>
Turnover	<u>694,373</u>	<u>487,980</u>	<u>5,144</u>	<u>12,373</u>	<u>699,517</u>	<u>500,353</u>
Segment results						
Profit/(loss)	<u>277,130</u>	<u>128,272</u>	<u>(4,849)</u>	<u>(7,018)</u>	<u>272,281</u>	<u>121,254</u>
Net unallocated expenses					<u>(11,372)</u>	<u>(6,086)</u>
Profit before taxation					<u>260,909</u>	<u>115,168</u>
Taxation					<u>(12,756)</u>	<u>(7,794)</u>
Profit for the period					<u><u>248,153</u></u>	<u><u>107,374</u></u>

#### 4. Turnover

Turnover represents the aggregate of income from provision of lottery machines and related services, commission income and interest income.

	Six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Lottery Income		
Income from provision of lottery machines and related services	694,373	487,980
Financial Income		
Commission income	2,113	2,479
Interest income	3,031	9,894
	<u>699,517</u>	<u>500,353</u>

#### 5. Profit before taxation

The Group's profit before taxation is stated after charging the following:

	Six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Depreciation and amortisation on:		
– Property, plant and equipment	31,191	19,232
– Intangible assets	3,630	762
Operating lease rentals in respect of office premises and warehouse	8,696	8,882



## 6. Taxation

No provision for Hong Kong profits tax is made as the Group has no estimated assessable profits for the six months ended 30 June 2010 (2009: Nil). Taxation on overseas profits has been calculated on the estimated assessable profits for the period at the rate of taxation prevailing in the countries in which the Group operates.

	Six months ended 30 June	
	2010 (Unaudited) <i>HK\$'000</i>	2009 (Unaudited) <i>HK\$'000</i>
Current tax		
– Hong Kong profits tax	–	–
– PRC income tax	<u>12,756</u>	<u>7,794</u>

## 7. Dividend

The Board has declared an interim dividend of 0.35 HK cent per share for the six months ended 30 June 2010 (2009: 0.18 HK cent per share) payable to shareholders of the Company whose names appear on the Company's register of members on 19 October 2010.

## 8. Earnings per share

The calculation of basic and diluted earnings per share for the six months ended 30 June 2010 are based on the profit attributable to equity holders of the Company of approximately HK\$243,767,000 (2009: approximately HK\$123,156,000).

- (a) The basic earnings per share is based on the weighted average number of approximately 7,670,658,425 (2009: approximately 7,423,996,000) ordinary shares in issue during the six months ended 30 June 2010.
- (b) The diluted earnings per share is based on approximately 7,686,472,664 (2009: approximately 7,465,992,000) ordinary shares which are the weighted average number of ordinary shares in issue during the period plus the weighted average number of approximately 15,814,239 (2009: approximately 41,996,000) ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.

## 9. Trade receivables

	<b>At 30 June 2010 (Unaudited) HK\$'000</b>	At 31 December 2009 (Audited) HK\$'000
Margin client receivables, net	<b>5,619</b>	2,507
Other client receivables, net	<b>2,055</b>	841
Broker receivables	<b>802</b>	6,316
Amounts due from clearing houses	<b>23</b>	–
Loan receivables, net	–	1,478
Loan interest receivables, net	–	391
Trade receivables – Lottery business	<b>658,932</b>	667,496
	<b>667,431</b>	679,029

Margin client receivables are repayable on demand, bear interest at prevailing market rates and are secured by clients' securities listed on The Stock Exchange of Hong Kong Limited with market value of approximately HK\$20,940,000 as at 30 June 2010 (31 December 2009: approximately HK\$18,720,000). No aging analysis is disclosed for margin client receivables as, in the opinion of the directors of the Company (the "Directors"), such aging analysis does not give additional value in view of the nature of business of securities margin financing and broking.

The settlement terms of other client receivables, broker receivables and amounts due from clearing houses are one to two days after the trade date or are repayable on demand. The age of these balances is within 30 days.

The Group generally grants credit periods of 90 to 120 days to its trade debtors.

The aging analysis of loan receivables, loan interest receivables and trade receivables – Lottery business as at 30 June 2010 is as follows:

	<b>At 30 June 2010 (Unaudited) HK\$'000</b>	At 31 December 2009 (Audited) HK\$'000
Three months or less	471,289	482,202
One year or less but over three months	182,034	180,271
Over one year	<u>5,609</u>	<u>6,892</u>
	<b><u>658,932</u></b>	<b><u>669,365</u></b>

#### 10. Cash and bank balances

	<b>At 30 June 2010 (Unaudited) HK\$'000</b>	At 31 December 2009 (Audited) HK\$'000
Pledged bank deposits	22,389	16,875
Short term bank deposit	–	77,800
Cash at banks		
– general accounts	188,442	229,936
– segregated accounts	18,554	27,029
Cash in hand	<u>2,126</u>	<u>1,518</u>
	<b><u>231,511</u></b>	<b><u>353,158</u></b>

## 11. Trade payables

	<b>At 30 June 2010 (Unaudited) HK\$'000</b>	At 31 December 2009 (Audited) HK\$'000
Margin client payables	4,082	4,863
Other client payables	17,599	28,515
Amounts due to clearing houses	–	71
Trade payables – Lottery business	54,216	60,809
Bills payables – Lottery business	22,389	16,875
	<u>98,286</u>	<u>111,133</u>

Margin client payables and other client payables are repayable on demand and bear interest at prevailing market rates. No aging analysis is disclosed for margin client payables, other client payables and amounts due to clearing houses as, in the opinion of the Directors, such aging analysis does not give additional value in view of the nature of business of securities margin financing and broking.

Trade payables – Lottery business are expected to be settled within one year or are repayable on demand.

The aging analysis of trade payables – Lottery business as at 30 June 2010 is as follows:

	<b>At 30 June 2010 (Unaudited) HK\$'000</b>	At 31 December 2009 (Audited) HK\$'000
Three months or less	43,400	52,023
One year or less but over three months	10,816	8,786
	<u>54,216</u>	<u>60,809</u>

12. Share capital

*Authorised:*

Ordinary shares of HK\$0.01 each

	Number of shares	Amount HK\$
At 31 December 2009 and at 30 June 2010	<u>20,000,000,000</u>	<u>200,000,000</u>

*Issued and fully paid:*

Ordinary shares of HK\$0.01 each

	Number of shares	Amount HK\$
At 31 December 2009	7,590,175,000	75,901,750
Issuance upon exercise of share options	<u>125,000,000</u>	<u>1,250,000</u>
<b>At 30 June 2010</b>	<b><u>7,715,175,000</u></b>	<b><u>77,151,750</u></b>

### 13. Commitments

As at 30 June 2010, the Group's future aggregate minimum lease payments under non-cancellable operating leases are payable as follows:

	<b>At 30 June 2010 (Unaudited) <i>HK\$'000</i></b>	At 31 December 2009 (Audited) <i>HK\$'000</i>
Land and buildings		
Within one year	<b>23,399</b>	17,132
In the second to fifth year inclusive	<b>21,133</b>	13,716
	<b>44,532</b>	30,848

The Group leases various office premises and warehouses under operating leases.

### 14. Contingent liabilities

The Group has no significant contingent liabilities as at 30 June 2010 (31 December 2009: Nil).

## **MANAGEMENT DISCUSSION AND ANALYSIS**

For the period under review, the Group was principally engaged in lottery system and games development business and distribution and marketing of lottery products in China.

The China Lottery Market comprises two lotteries, namely, the China Welfare Lottery and the China Sports Lottery. The Group provides services to both lotteries.

## **BUSINESS REVIEW AND PROSPECTS**

### **Lottery Business**

The Group's lottery business can be broadly divided into System and Games Development Business ("SGDB") and Distribution and Marketing Business ("DMB").

Turnover of the lottery business for the period increased by 42.3% to HK\$694,373,000 (2009: HK\$487,980,000), accounting for 99.3% of the total turnover. Profit before taxation arising from this segment recorded a growth of 116% to HK\$277,130,000 (2009: HK\$128,272,000).

### **China Lottery Market**

In the first half of 2010, China's Lottery market has demonstrated a strong momentum of growth with sales of RMB77.23 billion (2009: RMB62.77 billion), up 23% period-on-period.

During the period under review, China's total Welfare Lottery sales was RMB44.7 billion, accounting for about 58% of the total lottery sales in China. Welfare Computer Ticket Games ("CTG") accounted for about 77% of total welfare lottery sales; Welfare Scratch Cards was about 15% and Video Lottery Terminals ("VLT") took about 8%. Sales of Welfare CTG has increased in a stable and sustainable manner in the first half of 2010 registering an approximately 11% period-on-period growth. The VLT segment has registered significant improvement as a result of the re-opening of VLT gaming halls in the fourth quarter last year.

China's total Sports Lottery sales was RMB32.53 billion, accounting for about 42% of the total lottery sales in China in this period. Sports CTG and Sports Scratch Cards accounted for about 75% and 25% respectively. Sales of Sports CTG, including Single Match Games ("SMG"), increased by 25% period-on-period to approximately RMB24.45 billion. This growth was partially attributed to the extended roll out of SMG during the period and the

positive impacts received from the South Africa World Cup. SMG sales has reached RMB1.3 billion per month during the World Cup, which is very encouraging when compared with the full year sales of RMB130 million in last year.

### **System and Games Development Business**

The Group's SGDB Division has continued to deliver solid earnings during the period under review. Our SGDB Division is an active participant in the provision of systems and equipments for both CTG and Scratch Cards products in China.

### ***Welfare CTG Business***

For the first half of 2010, Welfare CTG registered a double-digit growth of 11% period-on-period. It remained the largest segment in the China lottery market. Given its respectable weight in the total lottery sales, we believe the stable growth of this segment will give positive contribution to the Group's revenue base.

Our Group's Welfare CTG business is principally conducted through Shenzhen Sinodata Technology Co Ltd ("Sinodata"), a non-wholly owned subsidiary of our Group. Sinodata is the leading system and equipment supplier for the Welfare CTG market. It provides services to 16 lottery provinces in China. During the period under review, the Group had successfully maintained its leading market positioning in Welfare CTG segment. In June 2010, the interest in Sinodata held by the Company has been increased to 89.84% through the acquisition of an additional 5.09% equity interest in Sinodata.

### ***Welfare Instant Lottery (Scratch Cards) Business***

Welfare Scratch Cards sales registered a very substantial growth in the first half of 2010, up 43% to RMB6.69 billion. The roll out of Welfare Scratch Cards with higher face value since the first quarter of 2010, coupled with the launch of other theme based tickets, had proven to be instrumental in pushing up the Scratch Cards sales.



The Group is the exclusive system and equipment supplier of Welfare Scratch Cards validation and system implementation in China through our 50%-owned Beijing Guard Libang Technology Co Ltd (“Guard Libang”). Guard Libang is a 50:50 joint venture with Scientific Games Corporation (“Scientific Games”), the world’s leading instant lottery system and validation company. Our strategic partnership with Scientific Games enables us to bring its expertise and technology know-how to the Scratch Cards market in China.

In addition, the Group has also been involved in Scratch Cards printing business since late 2008 and its printing facilities is located at Shijiazhuang, the Provincial Capital of Hebei Province. Through a cooperative venture with Shijiazhuang Offset Printing House, one of three entities authorized to print for the Welfare Scratch Cards programs, our Group is contributing to the development of Welfare Scratch Cards in China. During the period under review, the existing plant has run in its full gear.

### ***Sports CTG Business***

The Group’s Sports CTG business involved the sales of CTG machines to the Provincial Sports Lottery Centres across China. During the period under review, apart from the sales of CTG machines in servicing the needs of traditional Sports CTG business, the Group also focused on the development of high frequency games running on CTG based or electronic platforms and the deployment of system and equipment in support of the Single Match Games roll out in China. The Group is poised to capture the business opportunities in these areas as we believe they will make significant contribution to the success of the Group’s business in the future.

### **Distribution and Marketing Business**

Taking advantage of the successful performance attained in SGDB Division, the Group had commenced the DMB Division in late 2008. During the period under review, the DMB Division has demonstrated its strong growth potential and the Group has committed to consolidate its comprehensive distribution platform for the expanding spectrum of lottery products in China.

### ***Cooperation Distribution Business***

The Group has been dedicated to develop its cooperative distribution business model since late 2008. Under the cooperative model, we focus on with our distribution channel partners, entities and organizations that already had a widely diversified and recognized retail network. Our partners include China Post, PetroChina, Sinopec, China Resources, other major supermarket and convenience store chains.

During the period under review, we have further witnessed a significant improvement on the operation results which was mainly attributed to the successful establishment of the extensive distribution network spanning across China at prime locations with high traffic and minimum operating cost in the past 2 years. Building on a responsible and reliable distribution chain for scratch card lottery tickets, the Group has fortified its leading position in Chinese lottery distributions.

### ***Single Match Games Business***

In supporting the launch of SMG in China, the Group has been playing an active role in setting up dedicated franchised shops for SMG in selected provinces and supplying the equipment for the launch of SMG.

During the first half of this year, we have witnessed the enormous growth potential of SMG. Benefiting from the South Africa World Cup, SMG sales has increased substantially in this period with the sales recorded RMB1.3 billion per month during the World Cup versus RMB130 million full year sales in 2009.

During the period under review, the Group has continued to expand its footprint by setting up dedicated franchised SMG shops across key provinces in China. As at end of the period, the Group already has presence in 7 provinces. To capture the business opportunities presented to us during World Cup, the Group has established a 24-hour Call Center in Guangdong for our SMG customers in the second quarter this year. This newly launched Call Center services have received overwhelming response from customers which helped to boost member registration and the sales. The Group pledges to provide reliable and convenient services to enhance the lottery playing experience of our SMG customers through the local presence of physical stores complementary to our user-friendly Call Center.

### ***Mobile Lottery Business and the Electronic Lottery Platform***

Being the forerunner in the introduction of new technologies and systems for the smooth and reliable development of lottery equipments and risk management system and distribution channels in China, our Group has commenced cautiously the development of a comprehensive electronic distribution platform. It incorporates the use of new and leading technologies in formulating a paperless lottery platform utilizing modern distribution channels like cooperating distribution methods and mobile based channels (the “ELP”).

In strict adherence to the regulatory guidelines established by the supervising authorities, we started our mobile based lottery distribution operation in 2009. In the first half of 2010, we have focused on fortifying our position in mobile lottery business in the existing provinces on the one hand and expanding our business geographically on the other hand. Currently, we have signed contracts and have been authorized to roll out the mobile lottery platform in 7 provinces/regions in China and we have already completed in 5 of them. We expect the number of users to increase over time upon our expansion into different provinces/regions and deepening our penetration into existing provinces/regions. China Mobile is our major roll out partner for the mobile lottery operation.

### **Financial Business**

Turnover of the financial business for the period decreased by 58.4% to HK\$5,144,000 (2009: HK\$12,373,000), accounting for 0.7% of the total turnover and recorded segment loss of HK\$4,849,000 (2009: HK\$7,018,000). The Group will continue to divest from its non core business and focus on the promising core lottery operations. Active measures have been taken to look for opportunities in releasing further resources from this business segment.

### **Outlook**

Building on the solid foundation of our core lottery business, we have continued to make encouraging progress and record healthy growth in both revenue and earnings. The Group will deepen our penetration into the whole value chain of the China lottery industry from the lottery system architect upstream to distribution of lottery products downstream.

We expect the Group's DMB will bring a lot of synergies to the SGDB by building a comprehensive lottery distribution platform comprising of network of physical stores and electronic distribution channels. In the first half of 2010, we are gratifying to witness the encouraging performance of DMB division and its leading market position. The Group will continue its efforts to focus on the development of DMB.

As the Chinese lottery market continues to develop, it is envisaged that a well developed customer and risk management system is important for the smooth and reliable development of lottery distribution channels. The Group has committed to maintain its leading and unparalleled position in this dynamic industry by introducing new technologies and systems for serving this purpose. Being a herald of the industry, we have commenced the development of ELP since 2008. The ELP which we have developed can cover the mobile, telephone and web based lottery platforms as the regulations permit. Conceivably, we believe that ELP, will mark a new era for a reliable, convenient and cost-effective distribution and marketing channel of lottery tickets in China. Also, with the ELP in place, we are expecting to see more synergies will be generated amongst various lottery distribution platforms within the Group. We have already made significant progress in the development of the mobile and telephone lottery platforms and we are well positioned to participate in the launching of web/WAP based platforms depending on the regulatory developments in this regard. This development will have very positive effect on our DMB such that it will, in our view, further enhance the contributions of our DMB business significantly in the coming years and enables sustainable and good returns to be delivered in the longer term.

The development of the ELP, will also serve to provide great synergies to our cooperative distribution platform that we have developed with our valuable partners (like China Post, PetroChina, Sinopec, China Resources, other major supermarket and convenience store chains) in the past couple of years by bringing a new dimension to the distribution of lottery in China. It will enable our Group to fortify our leading position as a comprehensive lottery distributor in China. From time to time, we plan to co-operate with other leading distribution channel partners in China to deepen our penetration in the lottery market.

With respect to SMG, the growth potential is enormous in China, according to market estimates. The South Africa World Cup has proven to be a catalyst for the growth in SMG sales and enhanced its development in China. It is widely believed that as the market for SMG matures in the coming couple of years, SMG may become the single largest games category of all lottery products in China by lottery size and revenue generation.

Our Group will play an active role in supporting the development of SMG in China. The Group believes that SMG will be one of the key drivers to our revenue growth in the future as the SMG business segment takes shape and develops over the course of the coming few years.

In addition to the traditional lottery products such as CTG and Scratch Cards, it's widely expected that high frequency games will become a new growth driver for lottery sales in China in the future. With the Group's strong capabilities in high frequency games design and deployment, we believe that we're well positioned to take advantage of this opportunity. The Group will continue to extent its involvement in high frequency games' development geographically. Such a development is expected to bring a lot of synergies to our existing SGDB and DMB.

Looking ahead, our SGDB will continue to provide a solid foundation and stable recurrent income in supporting the business development of the Group, in particular the DMB development. In addition, given its resilience in nature, it will also enhance the Group's ability to weather through challenges ahead if any. As a major participant in China's Lottery industry, we are not only confident and optimistic about the future prospects of our Group, but are also confident that the Welfare and Sports Lotteries in China will continue to make significant contributions for the good causes which benefit the general public in China. The Group will continue its efforts in the furthering of such good causes in China through the careful and diligent execution of its planned strategies.

Keeping abreast of the favourable business environment and being market-oriented, we will timely adjust strategies to be conducive to its development and apply flexible and proactive marketing and investment strategies to maximize shareholder value.

## **FINANCIAL REVIEW**

### **Financial Results**

For the six months ended 30 June 2010, the Group achieved an encouraging result. During the period, the Group recorded a turnover of HK\$699,517,000 (2009: HK\$500,353,000), representing an increase of 39.8% over the last year. The increase was mainly attributable to the increase in turnover from the lottery business.

The unaudited profit attributable to shareholders was HK\$243,767,000 (2009: HK\$123,156,000). The earnings per share was 3.18 HK cents (2009: 1.66 HK cents). Fully diluted earnings per share was 3.17 HK cents (2009: 1.65 HK cents).

### **Liquidity, Financial Resources and Funding**

At 30 June 2010, the equity attributable to equity holders of the Company amounted to HK\$3,504,913,000 as compared to HK\$3,370,533,000 at the end of the previous year.

At 30 June 2010, the Group had cash reserves of approximately HK\$231,511,000 (31 December 2009: HK\$353,158,000), which included approximately HK\$18,554,000 (31 December 2009: HK\$27,029,000) of clients' funds that were kept in designated segregated bank accounts. Most of the cash reserves were placed with major banks in the PRC and Hong Kong.

The gearing ratio as at 30 June 2010 was 1.74% (31 December 2009: 2.33%). The gearing ratio was derived by dividing the aggregate of borrowings by the amount of shareholders' equity. The liquidity ratio of the Group, represented by a ratio between current assets over current liabilities, was 696% (31 December 2009: 601%), reflecting adequacy of financial resources.

The Group had outstanding bank borrowings of approximately HK\$61,920,000 as at 30 June 2010 (31 December 2009: approximately HK\$61,657,000). The bank borrowings were denominated in Renminbi and interest bearing at prevailing commercial lending rates. It is expected that all these borrowings will be repaid by internal generated funds.

Taking into account the financial resources available to the Group including internally generated funds and available banking facilities, the Group has sufficient working capital to meet its present requirements.

### **Pledge of Assets**

At 30 June 2010, the Group's land and building with total market value of approximately HK\$49,143,000 (31 December 2009: HK\$48,864,000) and the Group's bank deposits of HK\$22,389,000 (31 December 2009: HK\$16,875,000) were pledged to banks to secure the bank borrowings granted to the Group.

## **Share Capital**

125,000,000 new shares of HK\$0.01 each were issued and allotted during the period upon exercise of share options granted by the Company.

Save as the above, there was no change in the share capital structure of the Company during the period under review.

## **Exposure to Fluctuation in Exchange Rate Risk and Interest Rate Risk**

The Group's assets, liabilities and transactions are mainly denominated either in Hong Kong dollar or Renminbi. The Group did not enter into any foreign exchange forward contracts to hedge against exchange rates fluctuations. Foreign exchange risk arising from the normal course of operations is considered to be minimal and the management will closely monitor the fluctuation in the currency and take appropriate actions when condition arises.

In terms of the interest rate risk exposures, the Group does not have any significant interest rate risk as both the borrowings of the Group and the interest rates currently remain at low levels.

## **Material Acquisitions and Disposals of Subsidiaries**

The Group had no material acquisition and disposal of subsidiaries during the six months ended 30 June 2010.

## **Human Resources**

At 30 June 2010, the Group had 1,409 employees.

The Group remunerated its employees mainly based on the individual's performance and experience. Apart from the basic remuneration, discretionary bonus and share options may be granted to eligible employees by reference to the Group's performance as well as the individual's performance.

The Group will continue to emphasise on staff training and total quality management to better prepare its staff members for the upcoming changes and challenges in the market and industry.

## **INTERIM DIVIDEND**

The Board has declared an interim dividend of 0.35 HK cent per share for the six months ended 30 June 2010 (2009: 0.18 HK cent per share) payable to shareholders of the Company whose names appear on the Company's register of members on 19 October 2010. The interim dividend will be paid on or about 29 October 2010.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from Monday, 18 October 2010 to Tuesday, 19 October 2010, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificate(s) must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Standard Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 15 October 2010.

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

The Company and its subsidiaries have not purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2010.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2010.

## **AUDIT COMMITTEE**

The audit committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the review of the unaudited interim financial statements for the six months ended 30 June 2010.



## **CODE ON CORPORATE GOVERNANCE PRACTICES**

None of the Directors is aware of any information which would reasonably indicate that the Company is not, or was not, throughout the six months period, in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules, except that the Code Provision A.4.1 requires that non-executive directors should be appointed for a specific term, subject to re-election. Currently, the non-executive Directors are not appointed for a specific term, but are subject to retirement by rotation at the Company's annual general meeting as specified in the Company's bye-laws.

## **PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT**

The interim results announcement of the Group for the six months ended 30 June 2010 is published on the websites of The Stock Exchange of Hong Kong Limited (<http://www.hkexnews.hk>) and the Company (<http://finance.thestandard.com.hk/en/0555rexlot>) respectively. The 2010 interim report of the Company will be despatched to the shareholders of the Company and made available on the above websites in due course.

By order of the Board  
**Chan How Chung, Victor**  
*Executive Director*

Hong Kong, 30 August 2010

*As at the date of this announcement, the Board comprises two executive Directors namely Mr. Chan How Chung, Victor and Mr. Boo Chun Lon and three independent non-executive Directors namely Mr. Yuen Wai Ho, Mr. Chow Siu Ngor and Mr. Lee Ka Lun.*